Cross-border mergers and acquisitions from India – Motives and integration strategies of Indian acquirers

Melanie E. Hassett[1]*, Turku School of Economics, University of Turku, Turku, Finland*
Zsuzsanna Vincze, Umeå University, Sweden
Uma Urs, Oxford Brookes University, Oxford, U.K.
Duncan Angwin, Oxford Brookes University, Oxford, U.K.
Niina Nummela, Turku School of Economics, University of Turku, Turku, Finland
Peter Zettinig, Turku School of Economics, University of Turku, Turku, Finland

Abstract

Mergers and acquisitions (M&As) from emerging markets such as India have increased during the past decade, even during the years following the credit crunch when companies from Western countries were investing less. Our understanding of Indian M&As is limited, but prior literature argues that M&As by firms from emerging economies (EE) differ from deals made by Western firms. Not only does the starting point of the former's deals deviate from the mainstream, but their reliance on M&As as their primary internationalization strategy challenges traditional internationalization theories. In this chapter, we focus on Indian M&As, and the drivers and strategies related to Indian M&As. Our study draws from three illustrative cases of Indian acquisitions in three European countries (Finland, Sweden, and the UK) and three different industries (IT, textile industry, and pharmaceutical industry). Our main findings give support to an asymmetry-based viewpoint for explaining Indian M&As to developed markets and imply that Indian M&As adopt a preservation strategy in the post-M&A phase for very strategic reasons, which might also explain why Indian M&As are so successful and why they manage to create value despite limited integration.

Keywords *asymmetry, emerging economy, India, integration, internationalization, mergers and acquisitions,*

[1] *Corresponding author*

1. Introduction

India is an important player with regard to mergers and acquisitions (M&As) from emerging economies (EE) countries both in terms of inward and outward foreign direct investment (FDIs). After two consecutive years of decline, global M&A activity increased again in 2014. The gross value of cross-border M&A deals increased in 2014 by 34 per cent, reaching 900 billion USD. One key characteristic was the increasing amount of M&A deals with values larger than 1 billion USD (World Investment Report, 2015).Cross-border M&As from EE, especially from China and India, have increased dramatically during the past decade (e.g. Bhagat, Malhotra and Zhu, 2011; Sun, Peng, Ren and Yan, 2012; Nicholson and Salaber, 2013). In 2014, multinational enterprises (MNEs) from developing economies alone invested 468 billion USD abroad, which is a 23 per cent increase from the previous year. According to the World Investment Report (2015), for the first time, MNEs from developing Asia became the world's largest investing group. The largest home economies for foreign direct investment (FDI) in developing were China, Hong Kong (China), Singapore, Brazil, India, Chile, Indonesia, and the Russian Federation among others. In India, the FDI outflow increased fivefold to 10 billion USD in 2014 (World Investment Report, 2015).

Until 2008, India was the biggest acquirer among the BRIC countries. Indian companies have completed a number of high profile deals, including the acquisition of Corus by TATA Steel in 2006 and the acquisition of Jaguar and Land Rover by TATA in 2008. These acquisitions have been widely viewed as successful and have attracted a lot of international attention among both academics and practitioners. Since then, China has overtaken India in M&A activity (World Investment Report, 2015). However, as the Chinese economy shows signs of slowing down, India may soon again overtake China's M&A activity. As M&A activities from EE are increasing and becoming more significant, it is no wonder that this phenomenon is receiving increasing academic attention. For example, Lebedev, Peng, Xie, and Stevens (2014) conducted a literature review synthesizing the emerging literature on M&As in and out of EEs.

It has been argued that cross-border M&As from emerging markets would somehow be different from those from developed countries, and research suggests that the internationalization patterns and M&A strategies of firms from emerging economies would be very distinct (e.g. Madhok and Keyhani 2012). The literature indicates that M&As from EE such as India would be distinct in at least three ways. Firstly, M&As from EE differ in an important manner from Western M&As in terms of the lack of prior M&A experience, institutional factors (financial markets, stability and strength of institutions, privatization), and country characteristics (the comparative advantage of the nation) (cf. Lebedev et al., 2014). EE firms are based in countries which are characterized by low- to middle-income levels and a weak institutional environment. They do not possess proprietary advantages such as technology and brand, and they tend to be latecomers when entering markets in developed economies (Madhok and Keyhani, 2012, 26). Secondly, companies from emerging markets appear to have a distinct internationalization pattern and path, which is reflected in terms of both target countries and internationalization strategy. They usually enter developed economies and tend to favour M&As as their primary internationalization mode (Kumar, 2009; Madhok and Keyhani, 2012; Yamakava, Khavul, Peng and Deeds, 2013). It has been suggested that traditional internationalization theories such as Dunning's OLI[2] paradigm 1980; 1988; 1993) cannot fully explain the rise in M&As from emerging markets (Nicholson and Salaber 2013). The use of M&As as the first and primary way of internationalization also challenges the traditional internationalization process research, that is, the Uppsala model (cf. Johanson and Wiedersheim-Paul, 1975; Sun et al., 2012; Nicholson and Salaber, 2013), as the companies are leap-frogging when adopting a high-commitment and high-risk strategy very early (Kumar, 2009; Sun et al., 2012). Thirdly, the literature suggests that companies from EE would have M&A motives, which would be unique to the EE, such as national pride, institutions, and latecomer disadvantage (Lebedev et al. 2014).

Consequently, it has been suggested that due to these distinctions, there is a call for new explanations for EE internationalization, as the dominant theories in international business (IB)

[2] The OLI paradigm refers to ownership, location and internalization advantages

strongly reflect the experiences of firms from the US and Europe a few decades ago. Instead of adopting the traditional IB perspectives and focusing on advantageous resources, there is a need to focus on asymmetry as the starting point (Madhok and Keyhani, 2012). Miller (2003) defines asymmetries as inimitable differences between themselves and other firms that in their initial states could in no way be considered valuable. Asymmetries between emerging economies and developed economies stem from their historical and institutional differences. It has been argued that these asymmetries would be one explanation for M&As by EE firms in advanced economies, as acquisitions serve to overcome the 'liability of emergingness' (Madhok and Keyhani, 2012). In this chapter, we focus on asymmetries as drivers for Indian M&As towards developed countries.

Research on Indian M&As is scarce, and there are many research gaps. To start with, it has been argued that India has been under-researched as a result of scarcity of data; official data on Indian outward FDI is seldom available (Buckley et al., 2012). Next, the majority of Indian studies in this field are empirical with a quantitative research design (cf. Gubbi et al., 2010; Bhagat, Malhotra and Zhu, 2011; Buckley et al., 2012; Nicholson and Salaber, 2013), which gives a bird-eye-view but does not provide detailed information. Additionally, although India and China are very different in many respects, Indian and Chinese companies are often used in comparative studies and are often just referred to under the generic category of emerging markets (cf. De Beule and Duanmu, 2010; Sun et al., 2012; Amendolagine, Cozza and Rabellotti, 2015). However EEs are a very heterogeneous group of countries, and there can be important differences between EEs that influence acquisition strategies (Lebedev et al. 2013). In this chapter, we attempt to tap into two of these research gaps by focusing on India and forming a deeper understanding of what drives Indian M&As and what post-M&A strategies they adopt through three qualitative case studies.

The success of Indian multinationals in advanced economics has attracted the attention of researchers from diverse fields such as economics and IB. Researchers have been particularly interested in understanding whether there is a distinctively 'Indian' way to manage acquisitions (Pugsley 2008, Kripalani and Ihlwan 2008, Kumar 2009). It has been suggested that Indian acquirers can create value from M&As more easily than companies from developed countries can (cf. Kumar

2009; Athreye and Kapur 2009; Gubbi et al. 2010). For instance, a study of foreign acquisitions by Indian multinationals during the 2000–2007 period shows that using acquisitions to enter advanced economies produced larger-than-expected positive benefits (Gubbi et al. 2010). Practitioners have also suggested that Indian acquirers might perform post-acquisition integration in a different way from other non-Indian acquirers; that is, they may have a softer approach to post-M&A integration (Dobbs and Gupta 2009), but this suggestion has yet to be properly investigated.

In sum, to address the above-mentioned points, this chapter focuses on the following research questions: *What are the drivers for Indian M&As towards developed countries*, and *What are the Indian post-M&As strategies?* Answering these questions lies at the heart of this chapter. We start with a literature review of M&A motives and post-M&A strategies. Next, we highlight the key characteristics of Indian M&As through three illustrative cases of Indian companies in three European countries. The study concludes with our findings, which indicate that the success of and value creation in Indian M&As can be at least partially explained through their clear motives and slower integration processes. Our case studies give support to the asymmetry-based view when analysing M&As from EE firms (cf. Madhok and Keyhani 2012).

2. M&A motives and the key drivers behind Indian M&As

Cross-border M&As represent many lucrative opportunities. The main motives for cross-border M&As are access to new markets; market expansion, new knowledge, capabilities and technology; and complementary resources and increasing market power (e.g. Pablo & Javidan, 2004). However, it has been suggested that the motives of firms from emerging economies to expand abroad are fundamentally different from those of developed economy firms (e.g. Madhok and Keyhani, 2012). The main motives for emerging firms to undertake acquisitions include faster access to markets, entering a new market, and gaining access to technology and brands (i.e. asset seeking) (Buckley, Forsans and Munjal, 2012). These motives were behind a number of recent deals, including Tata Motors' acquisition of Jaguar and Land Rover; Lenovo's acquisition of IBM's PC business; and Nanging, which acquired MG Rover. This challenges the predominant theoretical view of FDI in the

literature, which is an asset-exploitation perspective in contrast to an asset seeking perspective (Gubbi et al., 2010; Nicholson and Salaber, 2013). Other motives driving Indian cross-border M&As are fast entry, lower liability of foreignness, and comparative ownership advantage (e.g. Sun et al. 2012).

In terms of the motive for using cross-border M&As as an international growth strategy, Indian companies may have a slightly different starting point than other firms. India, which is a member of the Commonwealth and a former British colony, may have easier access to global markets than companies from other EE countries due to a common language and shared history (Buckley et al. 2012; Nicholson and Salaber 2013). Therefore, although a fast entry into markets is probably also a significant driver for Indian cross-border M&As, these deals tend to have a more global reach compared to other firms from EE. Global does not mean that the investments of Indian companies would be widely spread; on the contrary, they are heavily concentrated on the UK and the US markets, which account for 60 per cent of all transactions (Sun et al. 2012).

Sun et al. (2012) propose a comparative ownership advantage framework to explain the motivation behind the cross-border M&As of firms from EE. They identify five forces driving Indian cross-border M&As: (1) national-industrial factor endowments, (2) dynamic learning, (3) value creation, (4) reconfiguration of the value chain, and (5) institutional facilitation and constraints. National-industrial factor endowments refer to the suggestions that M&A tend to occur in industries in which the investing company has a comparative advantage. In order to be successful, cross-border M&As require dynamic learning from, for example, previous M&As. Moreover, to create a comparative ownership advantage with the target's complementary assets, it is recommended that companies from emerging markets integrate resources in different regions. These new combinations in different geographic regions may create value. Moreover, based on the comparative ownership advantage framework, cross-border M&As are used to enhance international competitive advantage through strategic asset seeking and to enable firms from emerging markets to optimise their position in the value chain. Finally, the institutions may play the dual function of both facilitating and constraining the comparative ownership advantage (Sun et al. 2012). This dual function of institutions

is closely linked to the asymmetries between Indian and Western firms, which are believed to be an important driver behind Indian M&As (Madhok and Keyhani, 2012).

Prior research suggests that M&As are particularly well fitted to the asymmetries that characterize EE firms, that is, asymmetries regarding location (i.e. being from an emerging economy) and resources (i.e. firms possess mainly ordinary resources) (Madhok and Keyhani, 2012). Hence, it has been suggested that cross-border M&As serve as a way to overcome these asymmetries. First, M&As help to overcome the 'liability of emergingness' (LOE), which is a disadvantage EE firms tend to suffer from simply by being from an emerging economy. While 'liability of foreigness' (LOF), a term which has been long accepted in IB, and 'liability of outsidership'[3] (LOO) relate to the handicap emerging because of where the acquirer is not from (Johanson and Vahlne, 2009), LOE occurs because of where the acquirers are from. Second, M&As represent opportunities and a search for advantage creation through strategic entrepreneurship when firms possess mainly ordinary resources. Consequently, even though EE firms do not typically possess resources that would give them firm-specific advantages, they are able to see potential where it has not yet been realized and use M&As as a way to tap into an opportunity (Madhok and Keyhani 2012, 28). Low cost production advantages (Kumar 2008), and India's institutional support structure (Taylor and Nolke 2008) and comparative ownership advantage (Sun et al. 2012) also provide explanations for factors that favour Indian acquirers.

In sum, it has been suggested that Indian M&As would be motivated by asymmetries. In other words, M&As serve as a way to overcome distinctive challenges such as liability of emergingness (Madhok and Keyhani, 2012). M&As also serve as a way to penetrate existing networks and become an 'insider', hence overcoming the liability of outsidership (cf. Johanson and Vahlne, 2009). M&As not only enable Indian firms to confront and overcome the disadvantages linked to asymmetries but also enable them to harness potential advantages. M&As serve as both a resource and an opportunity,

[3] The concept of 'liability of outsidership' was introduced by Johanson and Vahlne (2009) and refers to firms that do not have a position in a relevant network and hence are outsiders. A firm attempting to enter a foreign market where it has no relevant network position will suffer from the liability of outsidership and foreignness (Johanson and Vahlne, 2009).

where the availability of the target firm defines the opportunities, and the opportunities define the M&A as a resource as well (Madhoc and Keyhani, 2012). Consequently, understanding motives of M&As from EE countries requires contextualizing and challenging existing motive theories (cf. Trautwein, 1990; Häkkinen et al., 2009).

3. Post-acquisition strategies in Indian M&As

While it has been argued that acquisitions offer a great way to overcome challenges related to the asymmetries EE firms face, acquisitions have some disadvantages. One of the key downsides of acquisitions is related to post-M&A integration problems (Madhok and Keyhani, 2012). The growing body of literature on post-acquisition integration focusing on the human side argues that M&A failure is largely down to sociocultural challenges such as change resistance and acculturation stress. (e.g. Buono & Bowditch 1989; Cartwright & Cooper 1993; Very, Lubatkin & Calori 1996; Birkinshaw, Bresman & Håkanson 2000; Stahl & Voigt 2008). In other words, M&A success and value creation depends largely how the post-M&A phase is managed.

The post-M&A phase has been referred to in a number of ways: the post-acquisition integration phase, the post-merger integration phase, or the post-acquisition implementation phase (Teerikangas and Joseph, 2012). The integration process can be analysed on different levels and in relation to, for example, human resource integration, task integration, or cultural integration, that is, the acculturation process (see, e.g. Nahavandi and Malekzadeh 1988; Cartwright and Cooper 1993; Birkinshaw et al. 2000; Teerikangas and Very 2006). Task integration represents the 'hard side', as it refers to operational and functional integration, such as assets, processes, practices and systems, while human resource and cultural integration represent the 'soft side', such as the integration of organisational cultures and values.

Integration strategies reflect the different degrees to which the acquired firm can be integrated into the buying firm. Several typologies of post-M&A integration strategies have been proposed. One of the most quoted ones is the typology proposed by Haspeslagh and Jemison (1991) (cited in

Teerikangas and Joseph, 2012), according to which there are four possible integration strategies: preservation, holding, symbiosis, and absorption (Haspeslagh and Jemison, 1991). These integration strategies vary in respect to the desired degree of 1) acquiring firm-target firm strategic interdependence and 2) target firm autonomy (Teerikangas and Joseph, 2012). In 'holding' acquisitions, the acquirer does not seek to integrate the target, while in the 'preservation' mode, there is a limited level of integration, but the target firm retains autonomy. In 'absorption' acquisitions, the aim is to explicitly absorb the acquired firm into the acquiring firm. Finally, in 'symbiotic' acquisitions, the aim is to ensure a balance between the target firm's autonomy and its integration into the acquiring firm (Teerikangas and Joseph, 2012). Since then, a fifth strategy has been identified, namely 'reorientation' and 'holding', which has been renamed as 'intensive care'. In contrast to holding strategy, intensive care refers to rapid intervention and strict financial controls imposed on the target company by the parent company. In the reorientation M&As, the targets are in good financial conditions and are well-managed. In these acquisitions, distinctive areas of the firm are deliberately left independent (Angwin and Meadows, 2015). Accordingly, the level of post-acquisition integration may vary from wholly independent to fully merged (Lees, 2003, 116). The desired level of integration depends highly on the type of acquisition; hence, complete integration is not always desirable and the acquired organisation may be left relatively autonomous (e.g. Haspeslagh and Jemison, 1991; Lees, 2003; Angwin and Meadows, 2015). The successful integration of acquisitions includes effective communication, retention of top managers, and active human resource management within the post-acquisition period (Haspeslagh and Jemison, 1991; Jemison and Sitkin, 1986; Shrivastava, 1986).

While academic research has focused on the performance of Indian cross-border acquisitions (e.g. Bhaumik and Serlaka, 2012; Kohli and Mann, 2012; Nicholson and Salaber, 2013; Buckley et al., 2014), research on the post-acquisition strategies of Indian M&As is scarce. However, a recent study found that, unlike firms from advanced economies, more than 50 per cent of Asian acquirers do not integrate their target to any significant extent (Madhok and Keyhani, 2012; Cogman and Tan, 2010). Moreover Buckley et al. (2014) suggest that EE firms usually absorb, rather than transfer, technical and marketing knowledge from target firms located in developed countries. In this study, we

investigate the motives and integration strategies in three qualitative case studies, where an Indian acquirer has acquired a firm in Europe. Practitioners have also suggested that Indian acquirers tend to have a softer approach to post-M&A integration than firms from developed economies (Dobbs and Gupta 2009), but this has not been properly investigated yet. We hope to be able to shed more light on Indian post-M&A strategies through these case studies.

4. Illustrative case examples of acquisitions from India

Next, to provide a more detailed view of Indian cross-border M&As, we describe three illustrative cases of M&As by Indian companies in three European countries. Data for the case descriptions were collected by the authors primarily through face-to-face interviews. However, this data was also supported with secondary data that was publicly available, such as websites, annual reports, and press releases. The three cases had in common the home country (i.e. the acquirer was Indian in all three cases), but otherwise we strived for heterogeneity in terms of the background of the companies. That is, all three cases represented different industries. This was done in order to obtain as versatile a view of the phenomenon as possible. The three cases were based in different contexts both in terms of industry (IT, pharmaceutical, textile) and institutional context (Finland, Sweden, UK), which provided an interesting variation for the purposes of this study. These cases were more specifically an Indian–Finnish M&A in the IT field, an Indian–Swedish M&A in the textile industry, and finally an Indian serial acquirer in the pharmaceutical industry.

5.1. An Indian-Finnish acquisition in the IT field

5.1.1. The acquisition - Background

Indian Sasken Communication Technologies acquired the Finnish company Botnia Hightech Oy (henceforth Botnia) in July 2006. This acquisition can be defined as a friendly, concentric acquisition, as both companies operated in the same field but in complementary business fields (cf. Cartwright and

Cooper 1992). The acquiring company and the target company had a rather similar company history and shared the same values to a large extent; for example, both Sasken and Botnia were established in 1989, and in both companies, the founders were still actively involved in strategic decision-making. Moreover, both companies valued social responsibility and wanted to give back to the local community. In addition, both companies had similar goals regarding the M&A, namely, to grow, internationalize, and expand their customer base.

The acquiring company Sasken Communication Technologies employed over 2,800 people at the time of the acquisition and had offices in India, China, Germany, Japan, Mexico, Sweden, the UK, and the U.S. Among Indian companies, it could be considered medium-sized. Sasken was established in 1989 in California, and it moved its headquarters from the States to Bangalore in India in 1991. It is listed in the Bombay Stock Exchange and Indian National Stock Exchange. The company is a global provider of software and support services for the communications industry, and it works with Network OEMs, semiconductor vendors, Terminal Devices OEMs, and Operators across the world.

The acquired company, Botnia Hightech, was a sub-contractor in the field of telecommunication. It was a globally operating wireless technology company employing around 250 workers at the time of the acquisition. The core business areas were hardware, software, and mechanical design and testing. Botnia had grown through smaller acquisitions and as a result, it was geographically spread over six cities and had a strong presence in two main sites, one in a smaller town rural area, the other in a city. Additionally, smaller sites were located close to or within the premises of key account customers in a number of cities to allow the employees to be closely involved with customers' projects. Both main sites had strong, distinct identities, and the cultural differences between the organisations were substantial, even though both companies operated within the same country. Thus, the target company had employees with multiple organisational identities. The integration of the last acquisition (a fast-growing software engineering company) was still on-going at the time of Botnia acquisition by Sasken.

5.1.2. Acquisition motives

The main motives behind the Botnia M&A were knowledge and capabilities, market entry, and new customers. More specifically, Sasken acquired complementary capabilities, and hence the main motive could be described as *asset seeking* (Kumar 2009; Gubbi et al. 2010; Nicholson & Salaber 2013). While Sasken was very strong in software engineering and wireless technology, the acquired Finnish company brought valuable new competences in the area of hardware engineering, enabling the acquiring Indian company to better serve its customers. In addition, having a European presence was seen as very important and was highlighted on several occasions. The quote below describes the motives of Sasken very well:

> *…The second acquisition was that of Botnia Hightech and its subsidiaries, based in Finland. This was an all cash deal for Euro 35 Million, to acquire 100% stake in Botnia and all its subsidiaries. The acquisition gives us skills in the area of Hardware and Mechanical Design, RF Design and Testing, apart from a strategic proximity center in Europe. Botnia also helps us scale a key Tier 1 customer significantly. Botnia's European presence and their expertise combined with Sasken's global reach and India based development centers will enable us to offer a compelling portfolio of value added solutions to our customers across the globe. (Sasken Annual Report 2006–2007, p. 13)*

This deal was very important for the target company, Botnia. One of the most important motives for the acquired Finnish company was the need to grow. In fact, they had been looking actively for a partner for quite a while. The market was extremely competitive, and organic growth in the European market was becoming ever more difficult to attain. Moreover, the acquired Finnish company was very dependent on their key customer. They did not want to do anything to jeopardize this customer relationship, so finding a suitable partner from their key account perspective was important. Their key account put pressure on its suppliers by requiring growth, a global footprint, the reduction of costs, as well as proximity centres, especially in India and China. At the same time, their key account was also diminishing its number of suppliers and emphasizing the bigger ones.

Consequently, it was important for Botnia to internationalize and grow to meet these demands, but it became crucial to also expand their customer base. As this was impossible through organic growth, selling the company became a viable option. Sasken was identified as a potential buyer with the help of investment bankers, and it was chosen mainly for its reasonable size compared to Botnia and its similar values regarding, for example, social responsibility and human resource management (Sasken has a People First value which ensures certain benefits to employees). To sum up, for the acquired company, the main motives for selling their company to an Indian acquirer were related to the changing requirements set by the IT industry (cf. World Investment Report 2015).

In sum, Sasken had very clear motives, which were of an asset-seeking nature. Moreover, Sasken used comparative ownership advantage, as India's cheap labour force was vital for Botnia, which was struggling in the highly competitive Finnish IT sector. IT companies were increasingly forced to find ways to outsource some or all functions to low-cost countries. In this case, institutions played an important role in facilitating the comparative ownership advantage, as Sasken was able to use the low-cost aspect as a competitive advantage (Sun et al., 2012). Consequently, this deal seemed ideal and a win-win situation for both parties. Additionally, its potential for joint value creation was considerable. An Indian acquirer from a related business field offered the acquired Finnish company all the prerequisites needed for international growth: financial security, an enlarged and international customer base, low-cost advantage, and a chance to diversify the customer portfolio. On the other hand, for the acquiring company, the deal provided an extension of their knowledge base, an enlargement of their customer base, and a foothold in Europe.

5.1.3. Post-acquisition integration strategy

The former owners of the acquired company had expressed their wish for a slow and gentle integration approach. The new owner, Sasken, was viewed positively and most employees were keen to adopt the new post-M&A identity. Sasken respected this wish and did their best to respect the local culture of their Finnish subsidiary. Moreover, Sasken Communication Technologies wanted to secure

a successful business, and consequently, the acquired company was left relatively independent at first. It became a business unit within Sasken with the mandate to do business with its former key account. This quote from the Annual Report reveals how Sasken wanted to truly bring the two companies together, but at the same time how challenging this could be:

> *…Integration efforts aimed towards bringing the two companies together culturally and in all aspects of the business are currently underway, and progressing satisfactorily. The subsidiaries of Botnia Hightech have been merged with the holding company and the combined entity has been renamed as Sasken Finland Oy. This acquisition furthered the vision of Sasken towards becoming a truly global company. (Sasken Annual Report 2006–2007, p. 13)*

The integration process was characterized by a couple of organisational changes at Sasken, and by a relatively slow approach, where the focus was more on financial and operational issues than HR and cultural issues. While this allowed Sasken to learn more about the acquired company and to protect the special relationship with the key account, it also yielded feelings of frustration. Employees in Botnia were expecting more visible changes and tighter business integration that allowed them to work for new international customers and in India-Finland mixed project teams. It came slightly as a surprise that the acquirer, Sasken, just wanted them to carry on as they always had. The cultural differences between India and Finland obviously raised some challenges in the integration phase, although in general, both parties were very culturally sensitive from the very beginning. However, as the integration process progressed and the interaction between the acquirer and the acquired company increased, the cultural differences became more obvious and differences in organisational and national cultures sometimes resulted in frustration.

In sum, as the acquired company was performing very well and growing rapidly, Sasken chose not want to disturb the target company with intense integration but instead decided to adopt a *preservation strategy* (Haspeslagh & Jemison 1991). The acquired company was left relatively autonomous, but as Sasken was a public company, certain key functions such as finance were closely integrated with Sasken. Although this was regarded as the best approach at first, tighter integration

was expected two years after the deal, and the integration process was revived. We can conclude that the acquisition of Botnia has been successful, as after 10 years Botnia is now Sasken, and Sasken has managed to have a strong presence in Finland, despite the turbulence experienced in the market following the Microsoft and Nokia M&A.

5.2. An Indian-Swedish acquisition in the textile industry

5.2.1. The acquisition - Background

In Spring 2011, the Aditya Birla Group acquired Domsjö Fabriker (DF), a leading Swedish Specialty Pulp Manufacturer, through its global companies Thai Rayon Public Company Limited (Thailand) and Indo Bharat Rayon (Indonesia), for the sum of US $ 340 million from a Swedish consortium. At the time, this was the 27th acquisition in the series the Birla Group had contemplated since the mid-1990s.

The acquiring company, the Aditya Birla Group, is a sixth-generation industrial conglomerate, one of the three largest family business houses in India (the other two are Tata Group est.: 1868, Reliance Group est.: 1966). Aditya Birla's origin was in a Marwari village in the region of Rajasthan, where Seth Shiv Narayan Birla started cotton trading operations in 1857 (Som, 2006). The business principles of the Marwaris of yesteryears are still alive:

> *[W]atch the money, delegate but monitor, plan but have a style and system, lead to expand and do not let the system inhibit growth, the right corporate culture, do not get blown away by fads and do not miss new developments*. (Timberg, 2014)

Since 1995, the chairman of the group has been Kumar Mangalam Birla (K. M. Birla). He inherited the family business at the age of 28. The strategy of the Group since then has been to increase cost competitiveness with vertical integration (i.e., improve returns in value businesses) and use its cash flow to expand into growth sectors (Subramanian, 2010). Under K. M. Birla's leadership, the group redesigned itself from a family-owned diversified organisation to a Fortune 500 global

business group. The Group interests itself in sectors such as fibres, chemicals, cement, metals, yarns and textiles, branded apparel, fertilizer, carbon black, telecommunication, financial services, information technology, life insurance, and asset management businesses. It is the world's largest producer of viscose staple fibre (VSF), and in its other businesses too, the focus is on being/becoming number one or being/becoming one of the biggest players in the world. The Group's revenues have increased more than 20 times, from 2 billion USD in 1995 to 45 billion USD by 2014, with a target of US 65 billion USD by 2016 (CNBC-TV18). It is now one of India's most globalized conglomerates, operating in 36 countries on five continents and employing 136,000 people around the world. Over 60 per cent of the revenues come from overseas. (McKinsey and Company, 2013). Its three flagship companies – Grasim Industries, Hindalco Industries and Aditya Birla Nuvo – are separately listed despite their close collaboration. The Group sponsors hundreds of schools and temples, and tens of hospitals around the country. Virtually every Indian recognizes the Birla name.

The target company, DF, is in Örnsköldsvik, in the North Eastern coastline of Sweden. The main product of DF is speciality cellulose for viscose textiles. DF is one of the world's leading manufacturers of this product, with a 70% share in the world market. DF's speciality cellulose, a very strong brand, provides the highest quality viscose, which is primarily used in the fashion industry and in sanitary products, which have a Total Chlorine Free requirement. The company had 400 employees in Sweden and in the Baltic countries. The annual revenue was in the order of 177 million USD. It has a long history stretching over 150 years of industrial and technological changes that have changed the Chandlerian paper & pulp conglomerate into an evolving bio-refinery cluster of which Aditya Birla DF is an active part today. DF's recent success story took off after a Finnish paper & pulp multinational divested from it in 2003. DF moved forward with investments aimed at increasing production capacity for speciality cellulose, wood room, lignin dryers, and large-scale demonstration plant for biofuels. With these investments, DF consolidated its role in Sweden's first bio-refinery clusters, which are considered to be among the most advanced in the world (Johard, 2011). Additionally, despite the setback during the financial crises from 2008 onwards, the viscose market

recovered relatively fast. Viscose is a natural alternative to cotton production, and in certain products, it can replace the oil-based product of polyester.

Whatever the prospects were in 2009, DF had a weak balance sheet, and it did not have enough financial strength to expand upwards on the value chain and survive the volatility of the market. Preparations started to take the firm (DF) public, but the plan changed when the Aditya Birla Group made a winning bit to take over the firm. DF got investment funds from Birla, whose balance sheet was strong and could pay the price, which included further investments for increasing capacity. Both the owners and the management of DF agreed to accept Aditya Birla's offer, and there were no other alternatives considered. It was a friendly acquisition.

5.2.2. Acquisition motives

Birla's strategy has been continuous consolidation and diversification since many decades, and its primary mode of internationalization has been M&As, because organic growth is not possible at the necessary speed. The M&A motives behind the DF deal are reflected in the Chairman's comment below:

> *The acquisition of Domsjö Fabriker, a world-class company, with the most environmentally-friendly technology marks a significant milestone for our Pulp & Fibre business. Its cutting edge technology and production process coupled with a state-of-the-art bio-refinery, add significant value to our Pulp & Fibre operations. Its high quality pulp will enable us enhance the supply of top quality premium VSF to our customers. The Pulp & Fibre business is a core business of the Aditya Birla Group. Domsjö has a highly professional management team and a committed staff. I most warmly welcome them to the Aditya Birla Group.* (Press Release, 9 April, 2011).

Aditya Birla's main motive was capacity building and guaranteed long-term uninterrupted supply of pulp, as over 70% of the Swedish affiliate's production is for internal use. Since, in India, a

company cannot own forests, Birla had to import the necessary raw material. The captive raw material source through DF minimises the uncertainties:

> *Gaining control of critical raw material is in line with our strategic objective. For natural resources like pulp, there is pressure from Chinese companies and the race is only heating up. We will look at all geographies for resources, technologies and cutting-edge capabilities.* (Group Executive President, Times of India, 2011).

Indeed, buying out suppliers to meet long-term objectives is not unusual (Johnson et al, 2014). DF continued to sell 25% of its production to high profile medical companies even after the takeover. For the Aditya Birla group, the cutting-edge technology and the clientele was equally important, as was securing global legitimacy (Piscitello et al, 2014). The acquisition was also positively commented by DF's CEO at the time:

> *For Domsjö, this is great news. Aditya Birla brings a strong financial base and global presence to our operations and strengthens our position in the entire value chain (textile). With a commitment to continue to expand our production facilities and invest further in research and development, Aditya Birla is the perfect owner of Domsjö (CEO of DF, Raffinerat in Internal newsletter, 2011)*

The M&A motives of Birla were clearly strategic. It wanted to improve its global competitive advantage, with international (global) extension geography, both product and market wise. Similarly as other Indian conglomerates, as well as Chinese ones, it was active in large-scale acquisitions in order to secure the material resources needed for growth and for accessing Western technologies. Innovation became the focus more recently, and K. M. Birla admitted that while development is on a high level at Birla, acquisition of research capacities is urgently needed. Beyond the motive of securing raw material, DF, with its proven technology for speciality pulp and bio-refinery, is one example. For the Birla Group, shareholders' interests came first. As acquisitions represent means to achieve long-term growth targets, the Birla Group made acquisitions during the global recession as well:

We have expanded internationally for many reasons—sometimes to spread our bets, sometimes because we found it impossible to open a plant in India as fast and as cheaply as we could abroad. In each case, we've based our decision on whether or not the deal would increase shareholder value. (K.M. Birla, McKinsey&Co, 2013).

5.2.3. Post-acquisition integration strategy

On the one hand, the key criterion was the extent of strategic interdependence – the need for transfer or sharing of capabilities (technology) and resources (manufacturing facility) in order to capture value. This value, in the case of the DF acquisition, could be captured almost purely through the ownership of assets and integration in terms of financial systems. On the other hand, there was a need for organizational autonomy because the acquired firm had a distinct culture, geographical distance, language, and management practices, and because it performed on a high level. DF was indeed a distinctive company. As the organizational fit was/is low, Birla chose a lengthier integration process and kept the acquired management. Similar to the Tata Group, the Birla Group did not insist on tight integration. Whether the preservation strategy towards DF was to develop towards symbiosis through learning (c.f. Haspeslagh and Jemison, 1991), the future will tell.

5.3. An Indian serial acquirer in the pharmaceutical industry

Zgenet Pharma[4] is a publicly traded Indian pharmaceutical firm headquartered in Mumbai. With a long history of local presence, Zgenet Pharma has pursued internationalization with a series of overseas acquisitions. It has also played a key role in domestic market consolidation through local acquisitions. This case reviews serial acquisition strategy and how that has impacted the competitiveness of Zgenet Pharma.

[4] Zgenet Pharma uses a code name in order to protect the anonymity of the company

5.3.1. The acquisition - Background

The Indian Patent Act (1970) is hailed as a landmark legislation that invigorated the Indian pharmaceutical industry. This act, together with the growing population of skilled chemists, pharmacists, and other skilled workers, made lifesaving drugs affordable by abolishing patents on pharmaceutical products. Nearly two decades later, domestic firms started dominating the Indian pharmaceutical scene by reverse engineering the products that started the generic drug market, and the leading domestic firms (e.g. Ranbaxy) began to explore markets in Asia and Africa. The 1990s witnessed stellar growth, with domestic firms growing at the rate of 15%, and currently India's pharmaceutical industry accounts for about 1.4 per cent of the global pharmaceutical industry in value terms and 10 per cent in volume terms. India is among the top six global pharmaceutical producers in the world, and it exported 15 billion USD worth of pharmaceutical products in 2013–2014.

New drug discovery and commercialization is a long process that lasts 15 to 20 years on an average and involves clinical trials, drug delivery, regulatory approvals, and marketing once the new drug has been formulated. With the passing of the Indian Patent Act (1970), Indian firms gained their ground in the middle stages, where a drug is manufactured and marketed, but they lacked other capabilities in new drug development. On the other hand, the reverse-engineering abilities of Indian firms lowered the production costs of generics, and with US being the single largest market for generics, foreign multinationals noted the advantages of collaboration with Indian firms, resulting in outsourcing of manufacturing (Ramani 2002; Ramani and Maria 2005; Ramani and Putz 2001). For the Indian firms, the generic markets in US and Europe provided the internationalization option, resulting in M&A activity.

Zgenet Pharma started as a small pharmaceutical distribution firm in the 1960s, and only in the early 1990s did it delve into biotechnology research, investing nearly 20 % to 30% of its revenue on R&D. It focused not only on drug delivery but also on drug development. During the 1970s and 1980s, it diversified into agribusiness, hospitals, and life sciences, and many years later, it split the

business to separate pharmaceuticals from the rest. This restructuring allowed Zgenet Pharma to focus primarily on pharmaceuticals and allowed the firm to expand its market.

In the late 1990s, Zgenet Pharma embarked on an inorganic growth strategy through friendly acquisitions at home and across borders. By then, Indian generics had already made a name in the international markets. Zgenet Pharma made two local acquisitions and followed this up with five cross-border acquisitions in the UK, Ireland, Germany, France, and US. In addition to leveraging the acquired firm's R&D and regulatory capabilities, Zgenet Pharma stated that the main objective of acquisition was to leverage the marketing and distribution channels to launch its products in international markets. Zgenet Pharma aimed at acquiring technological expertise in order to gain a domestic market advantage through its internationalization strategy powered by a series of both local and cross-border acquisitions.

After acquiring seven firms in the span of 10 years, Zgenet Pharma was cash strapped. Then, the global economic crisis resulted in a credit crisis, and Zgenet Pharma defaulted in its debt repayments, which led to expensive lawsuits. This resulted in changes to the top leadership, organization structure, and asset divesture of the group. While integrations were further delayed, the firm embarked on a cost leadership program to streamline businesses under new leadership. Overexposure in European markets, the fall of the Euro, and an increase in domestic competition resulted in Zgenet Pharma losing its dominant position in the domestic market.

Rapid and intense restructuring during 2009–2011, followed by a disciplined approach to business management, led to Zgenet Pharma reducing its debt leverage, and it is now sitting on a cash pile. It has only recently consolidated its European operations and has integrated its local acquisitions. This has resulted in Zgenet Pharma becoming an acquisition target for other MNCs trying to enter and establish themselves in the Indian market.

Zgenet Pharma's ambitious acquisition strategy was funded using a combination of cash, loans, and foreign currency convertible bonds (FCCBs). It raised more than 100 million USD through FCCBs at almost 50% premium to the prevailing market rate at that point in time (late 1990s and early

2000). Market observers and analysts commented that Zgenet Pharma was getting carried away with its aggressive acquisition strategy and losing sight of the domestic market. Zgenet Pharma stressed its investment on R&D, unveiled the country's largest R&D facility, and embarked on building large capacities following a consolidation of its manufacturing plants. Zgenet Pharma justified its cross-border acquisition strategy as the only way to overcome the regulatory hurdles for new market expansions. The sales director of Zgenet Pharma US said,

> *M&As are the only way to pursue internationalization in a highly regulated industry such as pharmaceuticals. We are pursuing joint ventures (JVs) and partnerships in markets such as Mexico where we find that JVs deliver better value than 100% ownership.*

5.3.2. Post-acquisition integration strategy

Zgenet Pharma planned a detailed acquisition strategy that included only administrative integration plans. Instead of embarking on full integration immediately following the acquisition, Zgenet Pharma decided to run an acquired firm without making any further changes following the acquisition, apart from those that were needed to change the ownership and meet the regulatory requirements. As the objective of the acquisition was to harness the synergies, lack of integration meant that existing drugs could not be launched in new markets harnessing acquired firms' infrastructure:

> *We were forced to launch our drugs in new markets but without adequate infrastructure. This resulted in temporary and adhoc processes and systems resulting in not only errors but also additional cost* (Operations Manager, Zgenet Pharma).

Acquired firms, on the other hand, were surprised at the lack of involvement of acquiring firms in the day-to-day running of the firm:

> *We were expecting Indians to march in and tell us what needs to be done. On the contrary, we did not see anyone for many months. And, when they turned up, they just listened to what we*

were doing.[…] It was not until a few years that there was consolidation in phases that too and some changes to how we did things. (Regional Operations Director of the acquired firm)

Zgenet Pharma set up an integration team, but the team's charter was to ensure a smooth and seamless functioning of acquired firms with only minimum changes that were needed to meet regulatory requirements. The integration team was also tasked to detail the gaps and provide recommendations for future integration that included consolidation of manufacturing and R&D facilities.

6. Discussion and conclusion

This chapter focused on the following research questions: *What are the drivers for Indian M&As towards developed countries,* and *What are the Indian post-M&As strategies?* To shed more light on what really drives Indian M&As and what post-M&A integration strategies are employed, we used three cases from three different industries to illustrate the key characteristics. The cases represented Indian cross-border acquisitions in three different industries, namely, IT, the textile industry, and the pharmaceutical industry. Table 1 summarizes these three cases.

Table 1 Case M&A summary

	An Indian - Finnish M&A in the IT field	An Indian - Swedish M&A in the textile industry	An Indian serial acquirer in the pharmaceutical industry
Acquisition:	Sasken Communication Technologies acquired Botnia Hightech in 2006	Aditya Birla Group acquired Domsjö Fabriker 2011	Serial acquirer Zgenet Pharma
Acquirer:	Indian medium-sized company, strong, long-term CEO, family firm feel	traditional Indian family owned company, business very diversified (chemicals, cement, metals, fertilizers, telecommunication, financial services, IT etc.)	Publicly traded, well established Indian Pharameceutical firm headquarterd in Mumbai
Acquired:	A Finnish medium-sized company (300)	A Swedish company focusing on viscose textiles	2 local acquisitions followed by 5 cross border acquisitions in UK, USA, France, Ireland and Germany
M&A type:	Concentric, friendly acquisition	friendly acquisition	Friendly acquisitions
M&A motives:	Foothold to Europe (market entry), 1st tier customer (acquiring business relationship), and knowledge and skill acquisition (hardware tech)	Environmentally friendly technology, guaranteed longterm, uninterrupted supply of pulp, captive raw material source, cutting edge technology, clientele, global leadership	internationalization in a highly regulated industry
Integration strategy:	Slow, SCT respected target's wish of slow integration, name changed after 9months from the target's initiative, target became frustrated with slow integration, more significant changes only 2 years after. BH had grown very fast and been very successful, customer dependency 90%, cultural diferences and distance > left autonomous,	Strategic fit, but not organisational fit. Left target autonomous, ownership of assetts, financial integration. Need for organisational autonomy > cultural and geographical distance, distance in management practices.	only administrative acquisition plans → no further changes. Apart what needed to change ownership and to meet regulatory requirements.

All three cases had their distinct motives. Both the Sasken Communication Technologies acquisition in the Finnish ICT industry and the Aditya Birla acquisition in the textile industry were motivated by strategic asset seeking. Gaining access to complementary resources and capabilities and obtaining a foothold in the market was critical. In the Sasken case, the main motives were to enter the European market, to obtain new key customers, and to gain knowledge and skills; and in the Aditya Birla case, the immediate motives were to obtain an uninterrupted supply of pulp (high-quality intermediate material) and, technology. On the other hand, the acquisitions by the serial acquirer Zgenet Pharma in the pharmaceutical industry were motivated by comparative ownership advantages and, more specifically, by restrictions within the industry. In other words, Zgenet Pharma's drivers were institutional; it justified its cross-border acquisition strategy as the only way to overcome the regulatory hurdles for new market expansions (Sun et al., 2012). While the firm tried to harness early mover advantage following the liberalization of the Indian Pharmaceutical Industry in the 1980s, the

continuous acquisition spree of seven acquisitions with short windows of less than a year between each acquisition meant that there was limited opportunity for learning from past acquisition experiences. In line with Laamanen and Keil (2008), this case highlights the importance of acquisition program management for serial acquisitions. This case also demonstrates the difficulties faced by firms from emerging market during the early stages of internationalization, in line with Ramamurti and Singh (2009), where they argue about gaps in IB strategy with respect to early internationalization strategies of firms.

In all three cases asymmetries played an important role in the M&A. Liability of emergingness seemed to explain why Sasken and Zgenet Pharma relied on M&A as a primary mode of internationalization. Sasken was able to turn this into an advantage, as its low-cost position was seen as a competitive advantage in IT sector firms coming from developed economies (see Miller 2003). In the Sasken deal, Botnia needed connections to India to lower its cost structure, and being acquired by Sasken was strategically important. (Madhok and Keyhani, 2012.) In case of Zgenet Pharma, liability of emergingness could be observed in the speed to acquire and establish a global footprint. Being a late mover, Zgenet Pharma felt the need to not only scale its domestic operations and build on its technological know-how, it also had to acquire new markets to stay ahead of its domestic competitors. Lack of experimental learning in the target market and having to conform to local institutional practices in the target firm were also cited as reasons for delayed integration and these can be attributed to liability of emergingness (Ramachandran and Pant 2010). However, the liability of emergingness was not an issue in the Birla case; Birla was a Fortune 500 global company, which has successfully acquired over 30 companies all over the world. The challenge in terms of asymmetries lied in the asymmetries between the Birla and DF, and Birla's capability to create value from DF's research capacity and frontline sustainable development in the long term.

Regarding the post-acquisition integration strategies, all companies used a soft approach towards integration (Dobbs and Gupta 2009). These cases had in common the lack of or slow post-M&A integration, which might have resulted from the fact that Indian acquirers were very well aware of the liability of emergingness and preferred to reserve time to learn more about the target company.

This would be in line with an asset-seeking strategy, where the main purpose is to integrate the complementary assets into the business (Madhok and Keyhani, 2012). In the Sasken case, Sasken was happy to let Botnia carry on as it always had, as it was growing fast and had a good relationship with their key account. Sasken did not want to interfere too much or to disturb the business. This, however, led eventually to uncertainties and dissatisfaction among former Botnia employees who were eager to see tighter integration. The integration process was reactivated two years after the M&A to complete the integration, which follows Birkinshaw's et al. (2000) idea of a second wave in the post-M&A integration phase. In the Birla case, it was similarly accepted that there was a need for a certain level of autonomy. In Birla Group's cross-border acquisitions, the strategic fit was always rather clear, and target firms strengthened and complemented Birla. However, when the Birla Group acquired companies in other continents (North and Latin America, Europe) it did not expect good organizational fit. The extent of integration was carefully thought out; the idea was to seemingly let the acquired company function autonomously. While strategic fit was critical for the Birla Group, organizational fit was managed through ownership rights rather than forced integration. The Birla Group found success by making parallel strategic, organisational, and managerial changes in order to respond to changing environments (cf. Som 2006). In case of Zgenet Pharma, the ambitious serial acquisitions meant that integration strategy was focused on only administrative integration that was necessary to meet the regulatory needs of the target firm's country. While the acquisition motive was clear, immediate synergy realization was not the focus of the integration strategy drawing similarities with preservation focus following acquisition.

To conclude, our main findings give support to understanding the relevance of asymmetries (Miller 2003) in explaining Indian M&As to developed markets and imply that Indian M&As adopt a preservation strategy in the post-M&A phase for very strategic reasons, which might also explain why Indian M&As are so successful and manage to create value despite limited integration (cf. Madhok and Keyhani 2012). Asymmetries may stem from the institutional context and simply in location. The institutional context, such as the pharmaceutical industry, may have restrictions that drive the companies to acquire rather than look for other internationalization opportunities. According to the

comparative ownership advantage framework (cf. Sun et al. 2012) institutions may play the dual function of both facilitating and constraining M&As. Liability of emergingness as well as liability of outsidership (cf. Johanson and Vahlne, 2009; Madhok and Keyhani, 2012) seem to be important in explaining why companies from EE chose M&As as their primary mode of internationalization. Asymmetry based view emphasises that it is important to embed asymmetries within organisational design and leverage them across various marketing opportunities in order to turn asymmetries into sustainable advantages (Miller, 2003). While the firms discussed in this chapter embarked on preservation strategy to harness value from asymmetries, it is not clear if they have done so out of fear of failure of integration or to truly understand the asymmetries over time and then leverage them. It is evident that this topic needs further investigation, particularly in terms of understanding what internationalization theories can be applied to M&As from EE. Moreover, as Lebedev et al. (2013) point out, there can be important differences between EE influencing acquisition strategies. Hence, we encourage more comparative research in this area in order to understand not only how M&As from EE firm differ from M&As from western countries, but also how M&As from for example India differ from M&As from China. Comparative research would reveal whether there is an 'Indian' way to manage M&As, and what makes them so successful (cf. Pugsley 2008, Kripalani and Ihlwan 2008, Kumar 2009).

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