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Value Creation through Cross-Border Mergers and Acquisitions: Evidence from Selected Indian Companies

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Abstract:

Cross-border mergers and acquisitions (M&As) have become one of the key options for Indian firms to expand abroad, gain access to technology and markets. The purpose of this research paper is to investigate the evidence of value creation in cross-border M&As by the Indian firms, both in the short-term and in the long-term in terms of shareholder value. After an exhaustive literature search of empirical studies of the period 2000-2026, the paper is able to synthesize the results of various methods of measurement such as event studies and accounting based performance measures. The evidence is mixed: some studies show that the cross-border acquisitions by Indian firms generate substantial shareholder value, especially in technology-intensive industries and acquisitions in the developed markets, while others studies failed to report any statistically significant value creation. Some factors affecting the value creation are: cultural distance, size of the deal, the nature of the target industry and the acquirer's strategic goals. Pharmaceuticals and information technology are clear examples of sectors where the cross-border M&As have helped to expand R&D capabilities and to gain market share globally. The paper suggests that value creation by cross-border M&As of Indian firms depends on the deal-specific factors and strategic orientation of the deal and not automatically and has implications for managers and policymakers.

Keywords: Cross-border mergers and acquisitions, value creation, Indian companies, shareholder wealth, emerging markets, event study.

1. Introduction

In the last 20 years, the global competitive landscape has dramatically changed, with emerging-market multinationals (EMNEs) now playing a major role in cross-border mergers and acquisitions (M&As) as a key means of internationalisation. India has become an important emerging market economy in cross-border mergers and acquisitions, with Indian companies involved in 812 foreign acquisitions just in the last ten years of the 21st century (UNCTAD, 2010). India's total M&A deal value rose by 18% to USD 123.8 billion in 2025, compared with 2024, while the value of cross-border deals increased from USD 5.1 billion to USD 13.7 billion.

Strategic value of cross-border M&As for Indian companies is that they can generate value through various channels – access to new markets, sourcing of strategic resources and capabilities, technology acquisition, brand acquisition and economies of scale. So far, the evidence of whether or not these acquisitions generate value for the acquiring company's shareholders is mixed and situation-specific.

This research paper would try to explore the evidence of value creation through cross border M&As by Indian companies systematically. S. specifically focuses on the following research questions: (1) Is cross-border M&As by Indian firms value creating for the shareholder of the acquired firm? (2) What is the impact of cross-border M&As on the efficiency of Indian firms? (2) What are some important factors that influence value creation in these deals? What are the implications for value creation outcomes of the characteristics of the sectors, notably in the pharmaceuticals and technology sectors? and What are the reasons for the differences in performance in the various deals?

The paper joins the wave of literature on the internationalization strategies of EMNEs by drawing together empirical evidence from several studies on the M&As of Indian firms in the international arena. It offers a detailed study of the short-term wealth effects and long-term firm performance, to help managers, investors and policy makers.

2. Theoretical Framework

2.1. Theories of value creation in Cross-Border M&A.

There are a number of theories to understand why value can be created through cross-border M&As. The internalization theory is a theory that is based on the work of Buckley and Casson (1998) and Dunning (1973) which assumes that a firm with superior intangible assets expands internationally for the purpose of optimizing these assets in more than one market. Morck and Yeung (1991, 1992) were able to establish that foreign acquisitions do produce strong announcement returns when firms expand overseas by internalizing intangible assets, which are then transferred efficiently to the border.

The international diversification hypothesis suggests that international acquisitions can be used to take advantage of market imperfections in different countries to lower the earnings variability of firms and create monopoly profits (Hymer, 1976; Kindleberger, 1969). Capital markets that are not fully integrated give multinational corporations the opportunity to provide individual investors with international diversification, thereby adding value through risk reduction.

According to exchange rate hypothesis, valuations of currencies can affect value creation in cross-border acquisitions and acquisitions are cheaper for target country acquirers if the target country currency is weak (Froot & Stein, 1991).

Further, the resource-based view (Barney, 1991) offers some ideas on the ways firms use strategic resources in cross-border acquisitions. The major reasons for their cross-border acquisitions are to take over the resources and capabilities they lack in their own markets, such as advanced technologies, brands, or distribution networks, which are in their target markets.

2.2. New applications are accepted at EMF. [Emerging Market Firms]

Scholarly discussion has been raised on the applicability of these theories in the case of firms operating in emerging markets, such as firms in India. Traditional theories of internationalization have been created for the majority of developed-country based multinationals, which have ownership advantages to secure overseas (Dunning, 2001). But, the EMNEs tend to internationalize when they are seeking to gain strategic assets, rather than taking advantage of available advantages, which is known as the "springboard" internationalization (Luo & Tung, 2007).

Gubbi et al. (2010) and others have contended that cross-border acquisitions enable EMNEs to diffuse market restrictions, to gain access to technology and brands, and to become competitive in the global market. The EMNEs are different from their developed counterpart in that they have a strategic asset-seeking motivation, which has implications for value creation outcomes.

3. Evidence from practice in value creation

3.1. Shareholder Wealth Effects

Studies on the impact of cross-border M&As on shareholder value of Indian companies show mixed results. Studies by Gubbi et al. (2010) and others have reported positive announcement returns experienced by the Indian acquirers in cross-border deals. Research, which looked at 268 acquisitions (202 cross-border and 66 domestic), revealed that cross-border acquisitions generated substantially greater wealth gains than domestic acquisitions, especially for firms in technology sectors.

But more recent evidence indicates that positive returns are not consistent. A research paper that looks at 58 cross-border and 34 domestic M&As over the period 2004-2019, found that cross-border M&As were not generating positive returns to shareholders and the cumulative abnormal returns (CAAR) for the window period [-10, +10] were -0.62% (t-stat = -0.318). This implies that the wealth effects could differ from one-time period to another and from one deal to another.

Comparative studies of the Chinese and Indian cross-border acquirors over 2000-2010 showed that shareholders of acquisitions in small cultural distance countries were more likely to see a benefit from the acquisition than did the shareholders in acquisitions into developed countries. The study validated that Indian firms undertaking cross-border acquisitions created substantial value for shareholders, which was found to depend on the characteristics of the deal and the firms.

3.2. Accounting-Based Performance Measures

In addition to market-based performance measures, accounting-based performance indicators help to gauge operational improvements after cross-border M&As. Srivastava and Prakash 2014 analysed 30 cross-border M&As (CB M&As) transactions by the Indian pharmaceutical companies with accounting ratios like PAT (after tax) as a percentage of net worth, PAT as a percentage of capital employed, and R&D expenses as a percentage of operating expenses. The results showed no statistically significant difference in mean values of profit measures before and after M&A event. Pharmaceutical companies, however, experienced a marked rise in the R&D spending on proportion of operating expenses, indicating that the companies' R&D spending was geared towards strengthening their own research and development processes, particularly after the advent of the Product Patent Act, 2005.

A study conducted on the value creation in long run mergers and acquisitions in the cross-border arena by Indian firms from 1998 to 2009 came up with more evidence of the persistence in performance. The results indicated that short-term market performance results may be positive but long-term performance results depend on the effectiveness of integration and strategic fit.

3.3. The strategy's data is derived from the sectoral evidence.

The Indian pharmaceutical industry has seen a lot of cross-border M&A deals since 2005, as the need to adapt to the Product Patent Act (PAT) has brought in the requirement to invest in research and development or technology acquisition through acquisitions. Srivastava and Prakash (2014) derived the conclusion that profit-oriented measures did not yield any significant difference after acquisition but a greater R&D intensity suggested that firms were adopting acquisitions as a strategy to address their technological challenges and knowledge transfer needs.

The pharmaceutical industry is a good example of strategies of cross-border M&A that do not just focus on short-term financial gains but also on strategic objectives. Acquisitions can bring in tacit knowledge, proven R&D pipelines and regulatory knowledge in developed markets. Given the strategic significance of cross-border mergers and acquisitions in the pharmaceutical industry, as highlighted by the recent industry developments, the USD 11.75 billion bid by Sun Pharma for Organon in early 2026 marks the largest overseas acquisition by an Indian firm in the past 20 years or so.

3.4. The Current situation and Recent Trends.

The latest data suggests that Indian companies are not just buying their way into global aspirations but doing so for strategic and operational purposes. A total of USD 18,000 million were allocated to outbound acquisitions by 162 Indian companies during 2025, representing a 34% rise from 2024. The factors that motivate include access to markets, brands, technology capabilities, R&D capabilities, and existing distribution networks.

Industries making outbound acquisitions span the automotive industry, with Tata Motors acquiring Iveco's commercial vehicle business, the IT industry with Tata Coforge acquiring US-based digital engineering firm Encora, and the pharmaceutical industry with CiTi acquiring the business and assets of drug maker Aurobindo Pharma. The deals suggest that Indian corporate groups are coming after Western assets not just as trophies of the world, but as strategic capabilities to build.

4 Determinants of Value Creation

4.1. Cultural and Institutional Distance

Cultural distance has been found to be a strong predictor of the performance of cross-border M&As for Indian firms. Research suggests that Indian investors do better on countries that have a smaller cultural distance from the country of acquisition, indicating that cultural familiarity aids post-acquisition integration and value creation. However, this is not consistent -- a study of 433 deals from 2000-2014 determined that cultural distance and M&A performance were not significantly related for Indian acquirers, nor was institutional distance.

4.2. Deal Size and Relative Size.

Value creation outcomes are dependent on the relative size of the target company. An analysis of relative size and M&A performance for Indian acquirers has revealed a U-shaped relationship: very small or very large targets, but not medium-sized ones, appear to add value for the acquirers. This dis-linear relationship could be the complexity of incorporating medium sized targets that are not large enough to provide transformative strategic benefits but is large enough to cause integration challenges.

4.3. This chart reflects the sector and technology intensity.

The characteristics of the sector have a strong impact on value creation. Acquisitions in technologically intensive industries involve greater wealth gains, especially those involving two companies in technologically intensive industries. This discovery lends credence to the internalization hypothesis: a technology-rich acquisition will help companies to merge and leverage intangible resources more effectively on a geographic basis. The pharmaceutical sector with its investments in R&D-driven mergers and acquisitions is a classic illustration of this.

4.4. Target Location and Developed Markets

Indian shareholders' returns from the acquisition of developed markets are higher than the returns in other emerging markets. This might be a reflection of the strategic benefits of accessing advanced technology, established brands and developed markets distribution networks. These assets can be acquired, and would otherwise take years to develop organically, and are immediately valuable to the acquirers.

4.5. Advisory Services and Deal Characteristics

The findings from the studies on the role of advisory services in cross-border M&As have been conflicting. In India, a study on the wealth effects of cross-border M&As revealed that adding top advisor services to the M&As process had no effect on the wealth of the acquiring firm. This is in contrast to results from the developed world where advisory services have been found to generate value, which may lead to different implications for the developed and emerging world contexts.

5. Discussion and Implications

5.1. Synthesis of Findings

The findings on value creation to cross-border M&As by Indian firms are mixed. Some studies have shown that shareholder value creation is significant, and some have shown that it is not significant. This difference may be attributed to any of the following factors:

First, time period effects: Studies conducted of varying time periods can show differing market conditions, regulations and the evolving capabilities of Indian acquirers. The post-2005 era, especially in pharmaceuticals, was a unique period that required strategic acquisitions due to regulatory changes.

Second methodological differences: The length of the event window and the estimation period differ across the event study designs, and the accounting-based measures have different time horizons. The methodological differences contribute to variability in the results. Third, heterogeneity of deals: Average effects may mask considerable variation across deals because of the diversity in characteristics of these deals (target location, sector, size of the deal, payment method, and strategic motivation).

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5.2. Implications for Managers

Based on the evidence, it can be concluded that, for managers who are thinking of cross-border M&As, there are some things to consider:

The importance of strategic alignment: acquisitions that are based on a clear strategic goal, such as product or technology, market access, and brand acquisition, have greater value creation potential.

2. Sector matters: Technology-related acquisitions in related sectors are likely to be more successful in consolidating intangible assets.

3. Cultural considerations: Cultural distance must be thoroughly evaluated and integration plans should be created which takes into account cultural differences.

4. Integration capability: Although there is evidence of significant performance improvement in accounting-based performance measures, the evidence suggests that there are significant integration challenges that could undermine potential value creation.

5.3. Policy Implications

The rise of Indian companies going on a cross-border M&A spree brings opportunities and challenges for policy makers. Strategic asset-seeking acquisitions can help India's technological prowess and competitiveness in the world. But the flow of funds and mixed messages on value creation imply the need to continue to have policy support for domestic investment and capability building. The fact that despite the efforts of the government to encourage domestic investment, the Indian companies are also increasingly eyeing investments abroad in recent years makes one question the investment climate in India.

5.4. This discussion highlights the limitations of the study and outlines future research directions.

The available literature on cross-border M&As by Indian business firms has some shortcomings. Firstly, most of the studies are short-term studies of announcement returns instead of long-term performance results. Second, the absence of control groups of firms that value domestic M&As or do not value MAs makes it difficult to draw causal inferences. Third, empirical studies on the mechanisms of postacquisition integration and their effect on value creation are still limited.

Future studies would need to fill these gaps by conducting longer-term studies of performance, analysis of other studies that control for selection issues, and qualitative studies that explore such issues as integration processes and how they contribute to value realization.

6. Conclusion

This research paper has studied the evidence related to value creation in Cross Border M&As of Indian companies. This indicates that certain types of cross-border M&As such as strategic motives, technology motives, and addressing developed markets can generate value for Indian acquirers. But it is not a foregone conclusion that the value will flow, it requires deal-specific attributes, the ability of the acquirer, and integration processes.

The pharmaceutical business is a great example of how cross-border M&As can be used strategically for purposes other than the short-term financial gains, such as the creation of a better research and development team and acquiring technology. More generally, the current spate of outbound acquisitions by Indian companies is a sign of a strategy shift in building capabilities in technology, brands and distribution networks.

Smart deal selection, thorough due diligence, cultural savvy, and integration will all remain key factors in creating value through cross-border M&As as Indian companies continue to expand on an international level. The ambiguous results of the value creation debate highlight the significance of these issues, and indicate that cross-border M&As should not be considered an end unto themselves, but rather be integrated into a strategic plan.

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