Resource Deepening Vs. Resource Extension

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Resource Deepening Vs. Resource Extension: Impact on Asset-Seeking Acquisition Performance

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Abstract   Seeking critical assets is known to be a key motivation for emerging economy firms to make acquisitions in foreign markets, especially those in developed economies. In this study, we probe this motivation further by identifying two categories of asset-seeking acquisitions: resource deepening and resource extension. Using a sample of 1004 cross-border acquisitions conducted by Indian firms during the period 2000–2010, we find support for the hypothesis that the type of resources sought and their intended utility impacts acquisition performance. Additionally, for resource extension acquisitions, we find that acquisition performance outcomes vary by the assimilative capacity of the firm and the extent of experience in acquisitions at the firm and business group level.

Keywords   Cross-border acquisition performance · Asset-seeking · Resource configuration · Emerging economy · Business groups · Assimilative capacity

1 Introduction

The use of acquisitions to obtain desired or missing resources is a well-documented argument in foreign direct investment (FDI) literature. According to Makino et al. (2002, p. 406), "…firms invest in foreign countries not only to exploit but also to develop their firm-specific advantages or acquire necessary strategic assets in a host country", thus suggesting that firm-specific advantages can be created through

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acquisition of assets owned by other firms. In support, Dunning (1998, p. 50) reports that "...the most significant change in the motives for FDI...has been the rapid growth of strategic-asset seeking FDI" particularly by means of mergers and acquisitions.

Although the use of foreign direct investments (FDI) to acquire critical capabilities, mostly in the high technology industries, has been witnessed across many contexts (e.g., see Chung and Yeaple 2008), asset-seeking cross-border acquisitions have become the preferred choice for firms from emerging economies across a wide spectrum of industries. By definition, emerging economies are those who have undergone survival-threatening institutional changes due to a shift from state control to a free market economy (Hoskisson et al. 2000; Newman 2000). As a consequence of the underdeveloped nature of factor and product markets (Khanna and Rivkin 2001), difficult and constantly evolving home market conditions (Cuervo-Cazurra and Genc 2008; Elango and Pattnaik 2007; Peng 2003), and timeliness of obtaining competitive capabilities when global companies are ramping up in their backyard (Dierickx and Cool 1989; Dawar and Frost 1999), the market for firms has become more efficient than the market for resources (Capron et al. 1998). Moreover, acquisitions can be a valuable instrument to either fill persistent gaps near the firm's existing products or to extend the enterprise in a new direction (Lee and Lieberman 2010). As the desired strategic assets are hard to obtain locally, emerging economy firms often resort to cross-border acquisitions and internationalize in the process (Luo and Tung 2007; Mathews 2006).

Cross-border acquisitions of targets with complementary or advanced capabilities, especially those located in industrially-advanced countries, not only help meet the immediate objectives of the indigenous firms in the post-reform period (strategic asset-seeking motive) (Gubbi et al. 2010), and equally important, acquisitions help overcome the latecomer status in global markets and the associated liabilities of newness and foreignness (Luo and Tung 2007). Several recent studies on acquisitive behaviors of emerging economy firms have provided empirical support for the above conjecture (see Rui and Yip 2008; Gubbi et al. 2010). We extend this stream of research further, both theoretically and empirically, by investigating the conditions when these asset-seeking acquisitions[1] create more value for the investors. This aspect of acquisitions in addition to the relative importance of influential factors requires more clarity and better understanding [see Haleblian et al. (2009) for a comprehensive review].

We build our theory on the premise that acquiring firms can select between adding resources and capabilities which strengthen the existing portfolio, i.e., resource deepening, or adding resources and capabilities which extend the existing portfolio, i.e., resource extension (Karim and Mitchell 2000; Lee and Lieberman 2010). For example, firms may acquire resources critical for their short-term survival as well as those in the immediate vicinity of an existing knowledge base or

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[1] Under asset-seeking acquisitions, we include both upstream and downstream assets, since when firms from emerging markets "...acquire companies abroad, they may appear to be engaging in market-seeking internationalization when, in fact, they are engaging in strategic asset seeking." (Ramamurti 2012, p. 43).

to fill known gaps in the existing resource portfolio. Such resources and capabilities have greater clarity in terms of end usage and are more readily integrated. We term these as resource deepening acquisitions. On the other hand, a firm can choose to acquire advanced or new capabilities, which are more distant from the current knowledge base and more critical for long-term sustainability of competitive advantage. In such instances, there are greater challenges with respect to organizational time and effort necessary to integrate and, more importantly, greater commitments and risks since there is greater causal ambiguity in integrating and deploying such resources. We term these as resource extension acquisitions.[2]

Combining both types of acquisitions into a single group may obfuscate the true relationship between acquisitions and performance. This distinction is critical in the context of emerging economy acquirers since these firms are engaging in output catch-up, i.e. "…acquiring technologies and skills that are directly related to the currently observable product or service" (Awate et al. 2012, p. 206), whereas resource extension capabilities "…are the technologies and skills relating to developing and enhancing the observable product or service. Therefore, they go beyond smaller adaptations and adjustments of the product and, rather, describe firms' ability to develop the 'next generation' of the product". (Awate et al. 2012, p. 208). We propose that, depending on whether the acquisition is aimed at resource deepening or resource extension, acquisition performance in the context of emerging economies is likely to be different.

Our core proposition hinges on the argument that firms in emerging economies have a greater awareness of what is necessary in the short run to survive, but may not have the required visibility and knowledge to estimate what might work in the long run. This is due to the evolving nature of the institutional market and the related instability in home market conditions. Therefore, resource deepening acquisitions are likely to lead to positive outcomes for these firms. In contrast, resource extension acquisitions deal with advanced and complex capabilities, which have a longer gestation period in terms of utility and hence carry greater uncertainty in terms of acquisition outcomes. Therefore, acquisition performance in this case is more difficult to predict. However, using rationalizations from the resource-based view of the firm, we identify two factors related to a firm's ability to benefit from resource extension acquisitions: assimilative capability of the firm and the experience gained from previous acquisitions. We propose that the greater a firm's assimilative capability and/or experience with acquisitions is, both at the firm and business group level, the better its chances of positive outcomes even with resource extension acquisitions.

Our theoretical model finds support in a sample of 1004 cross-border acquisitions undertaken by Indian firms over the period 2000–2010. This study extends existing

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[2] Generally, when firms make acquisitions, they diversify operations. Diversification can be viewed from the output side as inter- or intra-industry diversification and from the input or process side in terms of resource or functional relatedness (Li and Greenwood 2004; Tanriverdi and Venkatraman 2005). Given the context of emerging economies in the post-reform period, our interest is mainly in the notion of relatedness on the input or process side. Hence, both resource deepening and resource extension acquisitions mainly conform to related acquisitions with a varying degree of relatedness between the acquirer and target resource profiles.

knowledge on emerging economy firm acquisitions in several ways. First, it differentiates acquisitions using specific motivations of acquiring firms and shows that performance outcomes vary by the fitment and utility of the resource sought by the firm in the transaction. Therefore, it is not just the nature of the resource sought that matters (i.e., whether tangible or intangible), but how the resource matters to the overall resource profile and the outlook of the key decision makers should also be factored in while trying to explicate related performance outcomes. Second, while we find that results for resource extension acquisitions are not positive to performance, this study offers important insights using the resource-based view of the firm to show how one could address this disappointing outcome favorably. Specifically, this study brings in the need for firms to develop assimilative capacity by investing in research and development and by increasing international market exposure to attenuate the performance risk in resource extension acquisitions. Additionally, this study highlights the fact that all forms of acquisition experience may not be equally important for firms involved in resource extension. Business group level acquisition experience, which offers greater variation in knowledge and routine, seems to facilitate resource extension acquisitions, resulting in greater benefits, while firm level experience, which is much narrower, seems to hinder positive performance outcomes. In the following sections, we review the literature and build our theoretical model, detail our sample collection and analysis procedure, report our results and discuss the findings.

2 Theory and Hypotheses

The basic tenets of the resource-based view of the firm stipulate that resources need to be both rare and valuable in order to produce competitive advantage (Barney 1991). Whether a particular resource is valuable is determined by "…*market environment*, through opportunities and threats,…[a]s the competitive environment changes, resources may change."(Priem and Butler 2001, p. 29–30, italics in the original) A defining feature of emerging economies is that, in the post-reform period, the indigenous firms had to simultaneously grapple with swift changes in the institutional environment while the existing stock of resources and capabilities, built over a period prior to the initiation of reforms, were either rendered useless or had little role to play in the changed circumstances (Newman 2000; Uhlenbruck et al. 2003; Peng 2003). Hence, "[f]irms in emerging economies may face resource scarcities and obsolescence where resources that were valuable under a former institutional regime become less valuable under more market oriented institutions." (Wright et al. 2005, p. 3) Therefore, many of these firms resorted to resource leverage and/or acquiring and assimilating resources and capabilities more suited to the changed business environment (Hoskisson et al. 2000; Uhlenbruck et al. 2003).

Not adapting to a changed institutional environment was not an option for these firms. These emerging economies are "rapid-growth countries" (Hoskisson et al. 2000) and, therefore, highly attractive markets to foreign competitors. Often, foreign firms entering the local markets were globally competitive firms with well-developed resources and capabilities and posed a big challenge to the local players

(Dawar and Frost 1999). For the many indigenous firms in these contexts, survival was at stake unless transformational measures were adopted to overcome organizational rigidities and liabilities and to acquire, replace, reconfigure and redeploy their stock of capabilities and resources (Hoskisson et al. 2000; Uhlenbruck et al. 2003; Wright et al. 2005).

Research suggests that, under such conditions and, due to the underdeveloped nature of factor and product markets (Khanna and Rivkin 2001), the indigenous firms will attempt to access, link and leverage resources wherever available and develop globally competitive capabilities (Makino et al. 2002; Mathews 2006; Mathews and Zander 2007). Home-market compulsions and the opportunities offered by an increasingly integrated and interconnected global economy necessitated pursuing innovative strategies which are less path-dependent from previous strategies and involved greater risks (Mathews 2006; Luo and Tung 2007). As articulated by many scholars (Luo and Tung 2007; Mathews 2006; Ramamurti 2012; Awate et al. 2012), emerging economy acquirers are essentially pursuing an "asset-augmentation" strategy in order to overcome deficiencies in their factor and product markets at home as well as to "catch-up" with their global peers. Ramamurti (2012) explains the underlying rationale for this behavior by pointing out that firms from emerging economies have strategic options and that this was not the case for firms from developed markets. He highlights that these firms seek to bring back technologies to their home market and seek to exploit differential endowments and strengths rather than similarities across markets, as commonly alluded to in the literature.

In this regard, cross-border acquisitions as the "springboard" (Luo and Tung 2007) to repeatedly fill critical gaps in a firm's knowledge base and to augment their resource portfolio has been found to be most appropriate. These acquisitions serve as an effective agent for transformation by offering indigenous firms highly desired strategic assets embedded in other firms (Capron et al. 1998; Coff 1999; Wernerfelt 1984) and the benefits of time compression economies (Dierickx and Cool 1989). Such acquisitions allow these firms to escape the constraints of the local institutional environment (Cuervo-Cazurra and Genc 2008; Luo and Tung 2007) and secure much-needed resources and competencies that redress their competitive deficiencies (Rui and Yip 2008). The upstream and downstream assets sought by these firms "…include technology, know-how, R&D facilities, human capital, brands, consumer bases, distribution channels, managerial expertise, and natural resources." (Luo and Tung 2007, p. 487).

Above conjecture on the many advantages of using cross-border acquisitions and the related expectations of performance has found mixed empirical support. For example, using a diversified sample of 58 emerging economy firms' acquisitions, Aybar and Ficici (2009) report that higher stakes and cultural distance enhanced positive returns, but this was not the case for international experience and corporate governance. Gubbi et al. (2010) investigate the impact of international acquisitions of 425 Indian firms and report that cross-border acquisitions enhance the investor's wealth by providing access to strategic assets of the target firm and by enhancing scope for cross-market complementarities, especially when the targets are located in the developed markets. More recently, Buckley et al. (2014) investigate 79 firm

transactions from BRIC nations and claim that the payoffs to international acquisitions are contingent on the type of resource and experience held by the acquiring firm.

From a research perspective, given the mixed empirical evidence related to acquisition performance, it is likely that a subgroup of firms or acquisitions do create more value than the rest and hence the conditions or criteria for identifying these subgroups become more salient (King et al. 2004). In this paper, we further probe asset-seeking acquisitions and provide a more nuanced understanding of the underlying factors driving these acquisitions. In the process, we unravel the distinction between two categories of asset-seeking acquisitions and the conditions when they are more valuable to the acquiring firm.

We begin with the proposition that, in the context of emerging economy firms making acquisitions to catch up with competition, the type of resources sought could be contingent on the fact that they are leading or lagging firms (Kumaraswamy et al. 2012). In some instances, the firms could be seeking to close gaps in the current product market domain and be more concerned with short run survival and profitability, while in other instances they may be looking beyond the current product market domain and seeking distinctive resources and capabilities from what is already owned. Given the differences in the nature of resources sought from the target firm and the implications of transferring and utilizing them across firms, we propose that the outcome of an acquisition is likely to be impacted by the intended utility and deployment of acquired resources and capabilities. This is critical, as there is an assumption that the acquiring firm can effectively and efficiently transfer all kinds of knowledge in such acquisitions, leading to favorable outcomes in resource and product markets (Kim and Finkelstein 2009). However, this assumption may be premature in the unique context of emerging economies. While firms acquire other firms to secure resources that are more difficult to replicate given the interplay of historical conditions, social complexity and causal ambiguity in the creation of such resources, the ability to generate synergies post-acquisition is not straightforward and needs careful consideration (Barney 1991; Wernerfelt 1984; Capron et al. 1998).

2.1 Resource Deepening Acquisitions

Acquisitions with the goal of securing resources and capabilities that fill critical gaps in existing resource portfolios and catching up with the competition are termed resource deepening acquisitions. The acquired resources and capabilities are aimed at plugging the gaps in an existing resource profile in order to remain competitive in the near future. For instance, Ranbaxy Laboratories Ltd. acquired the Spanish pharmaceuticals company EFARMES to augment their existing portfolio and to access the Spanish market (source: company web site). The main advantage of a resource deepening acquisition is that the desired resources and capabilities are either familiar or known to the acquirer but not available in the home market or are competencies with greater visibility and awareness in terms of intended use. Therefore, the acquiring firm is likely to face fewer problems in the process of

identifying, acquiring, integrating, reconfiguring, and redeployment of the resource bundles of the two firms.

Mitchell and Shaver (2002) argue that this is likely to be true in the case of resource deepening acquisitions for two reasons. First, the acquiring firm has the "capacity for aggregation" (Grant 1996), which is critical to add additional knowledge to existing knowledge. Second, acquiring target firms which operate close to the existing knowledge domain and have greater commonality of resources and knowledge with the acquirer facilitates knowledge transfer. For example, a firm with strong marketing and distribution channels for a product is more informed about the upstream product development capabilities or has a better knowledge of the market segment or the class of customers it caters to. Therefore, for such a firm, a resource deepening acquisition would mean either acquiring upstream product development capabilities it currently lacks or acquiring a target firm having a complementary product portfolio which it can then sell through existing distribution channels. In such instances, bridging gaps in a firm's portfolio of existing resources and capabilities through resource deepening with superior attributes derived externally will enhance firm performance. Firms making acquisitions close to existing competencies can secure increasing returns in certain circumstances due to externalities, complementary assets, supporting infrastructure, learning by doing and scale economies in production and distribution (Teece et al. 1997). Firms who are efficient and effective in carrying out these processes are more likely to derive positive outcomes from such acquisitions (Capron and Pistre 2002). Accordingly, we propose that,

> Hypothesis 1: Cross-border resource deepening acquisitions create positive returns for the acquiring firm from the emerging economies.

2.2 Resource Extension Acquisitions

Resource extension acquisitions, by definition, seek resources and capabilities which are relatively distinct or different from the current resource bundle. Such acquisitions are often aimed at creating "technical diversity" (Chung and Yeaple 2008, p. 1208) by combining knowledge created in one country with the knowledge created in another country. Moreover, with greater differences in the resource pool of the acquirer and the target, but serving similar market needs, greater are the asymmetries created within the combined entity. According to Miller (2003), by discovering and reconceptualizing these asymmetries, embedding them within a complementary organizational design, and leveraging them across appropriate market opportunities, many firms can turn asymmetries into sustainable capabilities.

In the context of resource extension acquisitions by emerging economy firms, there is an immense potential to create hybrid properties, especially when the target firm is located in advanced economies (Madhok and Keyhani 2012; Gubbi et al. 2010). For instance, firms in emerging economies possess several firm-specific resources well suited to the local context (Ramamurti 2012). Typically, resources held by these firms are centered more on exploiting country-specific advantages, internal and external network relationships, adapting products and services suited to

the local context, achieving excellence in operations/production, gaining advantaged access to local resources and markets, and strengthening an ability to operate in an adverse environment (Cuervo-Cazurra and Genc 2008; Elango and Pattnaik 2007; Ramamurti 2012). By contrast, firms located in advanced economies can directly tap into all of the country-specific advantages of that country such as technology and skilled human resources, are more adept at dealing with a stable but highly competitive business environment, have a better understanding of serving the high-end or premium market segments, and so on. A combination of resource pools with such diversity can allow the development of hard to imitate and complex bundles of resources and capabilities, which are valued more in terms of sustainable competitive advantage. The acquisition of Jaguar and Land Rover by India's Tata Motors can be considered as a case in point. While Jaguar and Land Rover were considered premium car segment brands, Tata Motors catered to price-conscious customers desiring minimum maintenance products suited to emerging economy road conditions. This combination of Tata Motors with Jaguar Land Rover opened new combinatory avenues in terms of resources and capabilities allowing for the ability to serve a wide range of product-market segments competitively (Economic Times 2013).

However, achieving such goals in the short run is difficult and often requires long-term orientation. Moreover, the progress is fraught with challenges related to integration and transfer of knowledge. This is because knowledge transfer is constrained when the home- and host-country environments are dissimilar (Finkelstein and Haleblian 2002). Also, the acquiring firm will find it difficult to absorb the product-specific knowledge from the target firm, as the acquiring firm would be unaware how it was created and modified in the target firm. Without such intricate understanding of the acquired firm's knowledge, integrating or developing such knowledge and capitalizing on the advantage can be difficult (Elango et al. 2013; Puranam and Srikanth 2007).

Karim and Mitchell (2000) illustrate this difficulty well: "If two firms produce the same product line, we assume that there is substantial similarity in the routines that underlie the product line. We further assume that there is more similarity between routines of the same product lines from different firms as compared to different product lines from different firms" (p. 1066). While the former case presented applies to resource deepening acquisitions, the latter argument applies to firms making resource extension acquisitions. Therefore, the recombination of differing sets of knowledge or transfer of new knowledge to the home country is not typically feasible (Teece 1977). Teece points out that new knowledge or expertise can be gained only though transfer of people across firms along with investments to convert the tacit knowledge into codified knowledge (where possible). Such processes take time and effort and entail significant risk of failure, as the target firm itself may or may not understand the underlying knowledge behind routines operated by it (Lippman and Rumelt 1982).

Additionally, due to the non-overlapping nature of resources and capabilities across both acquiring and target firms, while a greater scope for creation of more complex resource bundles exists, the process is unclear and outcomes uncertain. The

processes of bundling, structuring and leveraging of combined resources and capabilities are less visible, more complex and causally ambiguous, raising the possibility of greater variation in outcomes (Sirmon et al. 2007; Bridoux et al. 2013). Compared to resource deepening acquisitions, where the intended objectives and processes are more within the firm's current capabilities, resource extension acquisitions are further away from its knowledge base, making it inherently risky (Lippman and Rumelt 1982).

Due to the many complexities of resource extension acquisitions, in the context of emerging economies there is greater difficulty in terms of assessing the true outcomes. First, these acquisitions involve strategic assets such as innovation capabilities, brand building, technologies, customer relationships, etc., whose potential impact is unclear in the near term. Besides, the missing intermediaries and specialists, or "voids", in the institutional environment restrict the flow of information necessary to accurately predict the likely outcomes (Khanna and Rivkin 2001). Second, resource extension acquisitions involve acquiring resources and capabilities, which are more distant from the current knowledge position of the acquirer. As a consequence, identification of potential opportunities and uses of acquired assets might be difficult when the business environment is still evolving. Moreover, in the post-acquisition phase, the reconfiguration of assets to achieve desired objectives can be more challenging due to sharp differences between the existing and the acquired assets. For instance, the knowledge embedded in the human resources of the target firm may not be accessible due to employee resistance or unwillingness. This issue can be more problematic in the case of emerging economy firms due to their weak image/perception abroad (Gubbi 2015). Finally, most often the strategic assets sought in resource extension acquisitions are likely to be found in firms operating in the advanced economies. The vast differences in the national cultures between the home and host market, in addition to the negative perception of country-of-origin of the acquirer firm (Johansson et al. 1994), can make post-acquisition challenges problematic. Accordingly, we posit,

Hypothesis 2: *Cross-border resource extension acquisitions create marginal or no returns for the acquiring firm from the emerging economies.*

So far, we have discussed the direct effects of resource deepening and resource extension acquisitions on acquisition performance. We have also argued that in the context of emerging economies, resource deepening acquisitions have immediate benefits and greater clarity in terms of outcomes and are hence viewed positively by the stakeholders. However, this does not suggest that resource extension acquisitions are less valuable. As seen in the case of Tata Motors and Jaguar Land Rover, resource extension acquisitions can also pay off, if handled well. Then, what are the conditions under which the intended benefits of resource extension acquisitions may be better realized? The answer to this question forms the next part of our theoretical model.

Cohen and Levinthal (1990) have highlighted the fact that the ability of an acquiring firm to absorb new knowledge is contingent on its current knowledge. Prior knowledge creates opportunities for enhanced learning via association (Huber

1991). This is a critical factor which could influence the outcome of an acquisition, as the ability to learn and transfer knowledge is a key part of determining acquisition performance (Finkelstein and Haleblian 2002). Scholars working on this topic have recognized two aspects of absorptive capacity (Lane et al. 2001; Zahra and George 2002). The first aspect is the ability to assimilate the knowledge (potential absorptive capacity) and the other is the ability to apply the knowledge (realized absorptive capacity). The ability to assimilate the acquired firm's knowledge cannot be taken for granted, as "learning cannot be … independent of current capabilities" (Kogut and Zander 1992, p. 384) of a firm. In other words, assimilative capacity is contingent on the current levels of investments made by the firm to either tap into diverse sources of knowledge and/or develop in-house capability to recognize and value external knowledge.

2.3 Assimilative Capacity

In the context of emerging economy firms, firms with greater ability to assimilate knowledge, which we refer to as assimilative capability, are likely to do better for the following reasons. First, due to the increasing presence of global competition in their home market, there is a greater need to quickly assimilate the acquired knowledge. Moreover, fast changing home market conditions in the post-reform period in emerging economies require firms to develop strategic flexibility (Uhlenbruck et al. 2003).This might require greater investments in creating the necessary organizational structure, systems and processes, as well as training human resources to respond. Firms who invest more to enhance their assimilative capabilities are more likely to be better prepared to absorb new knowledge and respond swiftly to changing market conditions. Second, with resource extension acquisitions, acquirers are dealing with complex and vastly different bundles of resources and capabilities. When the asymmetries in resource pools are high and hold greater promise for discovering something new, identification of opportunities to leverage the new capabilities carry greater value (Sirmon et al. 2007). In other words, it is not enough to just possess diverse resource pool, firms need to be equally aware of lurking opportunities and how best to reconfigure and redeploy the resources and capabilities. This process is facilitated by greater assimilative capability of the acquiring firm. Finally, assimilative capability to cope better with greater variation in resource bundles allows acquiring firms to undertake greater risks by seeking more diversity when identifying the target. Thus, they are able to seek greater diversity in their resource pool and further enhance their assimilative capabilities.

Therefore, we propose,

Hypothesis 3: *A firm's assimilative capacity will moderate the relationship between cross-border resource extension acquisitions and returns for an acquiring firm from the emerging economies such that, the greater the assimilative capacity of the acquirer, greater are the gains for the firm.*

Since resource extension acquisitions are more complex, long-term oriented and hence less certain in terms of realization of intended objectives, acquiring firms seek better anticipation and preparedness when engaging in such transactions. One of the ways is having prior knowledge and by developing capabilities to manage such acquisitions. This is made possible by incremental learning through previous acquisition experience. Such learning can take place even though each transaction will have unique attributes, since the firm would have learned what processes and procedures work in acquisitions as they progress from one to another (Levitt and March 1988). Such experiences could lead to firms developing better routines in screening, selecting and acquiring targets, and once the target is acquired, implementing systems to facilitate post-acquisitive success (Vermeulen and Barkema 2001). Earlier studies have stressed the importance of acquisition experience as a key predictor for acquisition success (Finkelstein and Haleblian 2002; Barkema and Schijven 2008a) and hence of consequence to cross-border resource extension acquisitions.

2.4 Acquisition Experience

In the context of this study, Elango and Pattnaik (2011) show that Indian firms acquire targets of increasing value in a sequential manner, so that they can minimize exposure to risks and optimize their ability to learn from acquisitions. Acquisition experience can be visualized at two levels, namely, the firm level and the business group level. Both contribute to positive acquisitive outcomes.

Firm level acquisitions experience entails industry-specific factors, codes, rules and practices that impact efficient and effective transfer of resources and knowledge in acquisitions (Barkema and Schijven 2008b). This knowledge of industry-specific conditions in managing acquisitions successfully increases with acquisitions experience (Perkins 2013). Haleblian and Finkelstein (1999) have shown that acquisitions success is related to acquisition experience within a firm's industry. Emerging economy firms with prior acquisition experience may be more efficient, more sensitive to sources of employee resistance, and better prepared to cope with unexpected surprises during the due-diligence process and in the post-acquisition phase. All of these factors are known to improve acquisition performance (Shimizu et al. 2004) and are thus most relevant to resource extension acquisitions.

A common phenomenon in emerging economies is the presence of business groups made up of legally independent firms and linked to one another formally through ownership stakes and informal family ties (Khanna and Rivkin 2001). Within business groups, it is well known that tangible and intangible resources as well as personal networks are shared through coordination and collaboration across members (Mahmood and Mitchell 2004). Therefore, critical experience and newer routines gained from managing acquisitions are likely to be transferred to other group member firms. In other words, firms vicariously learn to perform tasks by imitating "…the acquisition behavior of other firms to which they are tied through board interlocks" (Barkema and Schijven 2008b, p. 610). This advantage is strong in the case of business group affiliated firms since the group owner has the authority

to transfer personnel from one group firm to another. If affiliate A of the group has made an acquisition in the past, people involved in the transaction can be engaged to assist affiliate B attempting to make its first acquisition. Thus, affiliate B acquires the acquisition knowledge from affiliate A without previously having made an acquisition of its own. When a number of business group affiliates make acquisitions, the incremental experience and knowledge gained from each acquisition takes the shape of group-wide acquisition experience. In conclusion, we posit that firm level acquisition experience allows for the development of industry-specific knowledge and capabilities in managing acquisitions, while group level experience offers broader knowledge across multiple contexts. Therefore, we propose the two related hypotheses:

> *Hypothesis 4*: A firm's acquisition experience will moderate the relationship between cross-border resource extension acquisitions and returns for an acquiring firm from the emerging economies such that, the greater the acquisition experience of the acquirer, greater are the positive gains for the firm.

> *Hypothesis 5*: A firm's acquisitive experience at the level of business group to which it is affiliated will moderate the relationship between cross-border resource extension acquisitions and returns for an acquiring firm from the emerging economies such that, the greater the acquisition experience of the business group, greater are the positive gains for the firm.

3 Method

For this study, we chose to analyze cross-border acquisitions by Indian firms. India provides the appropriate setting for this study, being the second largest and the second fastest growing emerging economy in the world with an enviable diversity in terms of culture, business models, industries, and firm ownership. We scrutinized all "completed" cross-border acquisitions by publicly traded and incorporated firms in India (including subsidiaries of foreign parents) over the period starting January 2000 and ending on December 2010.[3] The database was constructed by simultaneously referring to the Thomson Financial database, ORBIS (Zephyr) database and announcements made on the Bombay Stock Exchange (BSE). In each case, we ensured cross-validation across two independent sources of data. For some of the cases, we were able to establish authenticity by verifying with company annual reports and media reports. Overall, we were able to identify 1004 cross-border acquisitions (including repeat acquisitions by the same firm) by publicly listed Indian firms across all sectors of the economy. In our sample, 367 firms belonging to 99 different industries made these 1004 cross-border acquisitions. Almost half of these acquisitions were made by 184 firms affiliated to business groups, and out of

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[3] As described in the results section, we incorporate the Heckman (1979) two-step procedure to account for the propensity of a firm to engage in acquisitions. For this purpose, we take into account all the firms with data in the Prowess database corresponding to the industries in which acquisitions were made.

Table 1 Data distribution

Industry	N	Country	N
Computer software	285	United States	341
Drugs and pharmaceuticals	114	United Kingdom	119
Automobile ancillaries	32	Australia	47
Other chemicals	26	Germany	47
Trading	25	Singapore	40
Steel	23	Canada	26
Plastic packaging goods	19	South Africa	26
Telecommunication services	17	United Arab Emirates	22
Organic chemicals	15	France	21
Pesticides	15	Italy	20
Others	433	Others	295
Total	1004	Total	1004
Ownership	**N**	**Sector**	**N**
BG	574	Manufacture	519
Private	345	Service	463
Foreign	75	Others	22
SOE	10		
Total	1004	Total	1004
Acquisition type	**N**	**Country type**	**N**
Controlling	739	Developed	732
Minority	265	Developing	272
Total	1004	Total	1004

the 183 stand-alone firms in the sample, 89 firms made multiple acquisitions over the period of study. More than 70 percent of the acquisitions pertain to industries involving medium to high levels of technology/knowledge as recognized under ISIC Revision 2 or NACE Revision 1.1. This categorization includes services such as computer and related activities where Indian companies are well recognized. A detailed breakdown of the sample is provided in Table 1.

Next, we collected firm- and industry-level data for the acquiring firms in the sample. The Prowess database maintained by the Center for Monitoring Indian Economy (CMIE) contains firm-specific data on over 25,000 large and medium firms, both private and public, and contains records of annual financial data from the year 1989 to date. Aggregate macro-level information was obtained from the National Accounts Statistics (United Nations Statistics Division), World Economic Outlook (International Monetary Fund) and the database maintained by the Organization for Economic Co-Operation and Development (OECD).

3.1 Dependent variable

We adopt market response to the announcement, as reflected in the firm's share price movement around the occurrence of the event, as the barometer of acquisition performance. The choice of this particular measure is justified on several counts. First, it has been extensively used over time in finance and strategic management studies of M&As (see Schoenberg 2006; Zollo and Meier 2008 for a review). The underlying logic of using such models is based on the assumption "…that stock prices incorporate all relevant information that is available to market traders. If this is true, then any financially relevant information that is newly revealed to investors will be quickly (instantaneously) incorporated into stock prices. Therefore, an event is anything that results in new relevant information." (McWilliams and Siegel 1997, p. 630) Second, "…evidence shows that ex ante measures of acquirer abnormal returns are correlated with ex post measures of acquisition performance, which is consistent with the predictive validity of event study methodology." (Finkelstein and Haleblian 2002, p. 41) Third, stock performance measures assessed in event study methodology are relatively unbiased compared to other measures and invariant to the differences in accounting policies across nations and those adopted by firms (Cording et al. 2008). We use cumulative abnormal returns to shareholders as the measure of acquisition performance. A corresponding measure, Cum. Abn. Ret., calculated over a window period of 3 days (-1 to $+1$ day before and after the announcement day)[4] is obtained from standard event study methodology (see Brown and Warner 1985; McWilliams and Siegel 1997 for details).

We define abnormal returns on a given day as the difference between the focal firm's stock price return and market return (usually equated to the stock market index returns). That is,

$$\text{Abnormal returns}_{it} = \text{Daily stock price return}_{it} - \text{Market index return}_t$$

where "i" corresponds to the focal firm and "t" denotes the stock trading day. Once abnormal returns are thus calculated for each traded firm in the sample in the near vicinity of the acquisition event, cumulative abnormal returns over a window period of 3 days (-1 to $+1$ day before and after the announcement day) is calculated using the formula,

$$\text{Cum. Abn. Ret. } (+/-\ 1\ \text{day})_i = \sum_{t=-1}^{+1} \text{Abnormal returns}_{it}$$

3.2 Independent variables

Content analysis is a widely used technique to glean vital information contained in textual material. According to Short and Palmer (2008, p. 728), "[c]ontent analysis is a qualitative research method that uses a set of procedures to classify or otherwise categorize communications …[t]ypically relying on archival data to extract criteria

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[4] As an alternate, we cross-verify all our models with a 7 day window period (-3 to $+3$ days).

of interest to strategic management scholars." Content analysis has aided in analyzing corporate strategies, organizational boundaries, new product development, organizational resources, strategic groups, and joint ventures (Short and Palmer 2008). According to Morris (1994, p. 903), "[c]ontent analysis is a research technique used to objectively and systematically make inferences about the intentions, attitudes, and values of individuals by identifying specified characteristics in textual messages." In the context of this study, inferences about the intentions are disclosed via corporate announcements on stock exchanges where the firm is listed, media releases and interviews by top management, company annual reports and so on.

The first step in content analysis involves defining the text unit to be analyzed and developing categories for classification along with the coding rules for each category (Morris 1994). Adopting an "open-ended" approach, we screened each such announcement or media report for the views expressed by top management or the explicitly stated benefits and justifications for the acquisition. Typical phrases referring to future expectations of the management such as "we expect", "this acquisition will", "we believe", "is being acquired mainly to", "this acquisition is aimed at", and so on provided the lead to look for specific details. We first collected and analyzed stock market announcements made by a focal firm listed on the BSE. In most cases, rationale for the particular acquisition was available either on the day the acquisition was formally announced or in the subsequent days following the announcement of acquisition. In cases where limited information about the acquisition was provided to the stock exchanges, we searched for other media reports immediately following the acquisition announcement and/or company annual reports where the acquisition was highlighted. The textual information thus collated was manually analyzed and coded by one of the authors and by a master's-level student with a good understanding of mergers and acquisitions.

The coding procedure was as follows: We identified resource deepening acquisitions as those where the acquiring company believed that the acquisition "reinforced", "strengthened", "filled critical gaps", "augmented" existing skill-sets or competencies of the firm. The corresponding variable, *resource deepening*, was assigned a value of "1" in such cases and "0" otherwise. Next, we looked specifically for phrases signaling anything that explicitly mentioned terms such as "new", "additional", "enhance", "improve", "expand" in reference to the market and/or product. We termed such acquisitions *resource extension* acquisitions and assigned the variable a value of "1". Otherwise, the measure carried a value of "0". It was also possible that a particular acquisition could serve the purpose of both *resource deepening* and *resource extension*. In such cases, both the coded variables take a value of "1". Finally, in cases where nothing was explicitly stated in the publicly available media release, both variables were assigned a value of "0". Typical examples of announcements/media releases, along with the acquisition categorization, are presented in "Appendix".

We operationalize the moderating variable firm's *assimilative capacity* with two conventional measures: firm's research and development expenses and firm's exposure to international markets. According to Cohen and Levinthal (1990), a firm's capacity to assimilate is built by a prolonged process of investment in

research and accumulation of knowledge from diverse sources. Therefore, we operationalize the related variable *RD Intensity* as the ratio of R&D investments to total sales. Similarly, firms accumulate local knowledge dispersed across global markets by way of exports and other international operations. Previous experiences with international markets is measured using *export intensity,* measured as the ratio of total export sales to net sales averaged over three years prior to the acquisition.

Acquisition experience accumulated at the level of the firm and at the level of a business group (if the focal firm is an affiliate) is measured by a simple count of number of acquisitions made at the time of focal acquisition. Since the process of making an acquisition is unlikely to vary across geographic context, we take into account both within- and cross-border experience. We thus created two variables, *acquisition experience (Firm)* and *acquisition experience (BG)*, to denote the experience at the two levels, respectively. We define firm-level acquisitive experience as number of acquisitions carried out by the focal firm prior to current acquisition, while group-level acquisitive experience is defined as number of acquisitions completed by the business group the firm is affiliated with prior to current acquisition.

3.3 Controls

In line with recommendations of existing literature on mergers and acquisitions and foreign investments, we control for a number of known predictors such as firm size, firm age, firm performance, experience operating previously in the international market and resources owned by the firm. We measure *firm size* with the conventional measure of logarithm of total assets and alternately by stock market-based average market capitalization (logarithm of average market capitalization over 365 days prior to the event). *Firm age* is measured by taking the difference between year of acquisition and the year of incorporation of the firm. We measure *firm performance* by taking the acquiring firm's average 3 years net profit margins (net profit to sales ratio) prior to the event. Taking the average over 3 years can minimize chances of accounting manipulations, if any. A firm having its own financial resources to fund acquisitions as compared to a firm raising funds via loans may differ in terms of impact on acquisition. Internal accrual is measured using the conventional 3-year average of *current ratio* or the ratio of current assets to liabilities.

In addition to the typical controls, we introduced into our model several additional controls likely to influence acquisition performance. In the Indian context, three types of ownership affiliation have been found to influence business activities and outcomes, namely, business group (BG) membership, state ownership and foreign parent ownership. We control for business group affiliation with the binary variable *BG affiliation*, which takes a value of "1" when the firm belongs to a business group in the list maintained by CMIE and "0" otherwise. Similarly, we introduced another variable, *foreign parent subsidiary*, with a value of "1" if the parent firm was registered outside the country. Otherwise the variable carried a value of "0". We adopted a dichotomous variable, *majority control*, taking a value of "1" if the particular acquisition announcement resulted in the acquiring firm

exceeding a 50 % stake in the target. Otherwise, this variable carried a value of "0". Since India is well recognized for its information technology-enabled services sector, we differentiate acquisitions belonging to this sector with an indicator variable *services sector*.

Finally, we control for a number of macro-economic variables such as fluctuations in currency value and differences between home and host market conditions. The variable *currency conversion,* measured as the logarithm of host economy currency in current US dollar terms, accounts for currency exchange control. The variable *institutional distance* captures the differences in normative, regulative, and cognitive aspects of the institutional environment between two economies. Adopting the procedure of Meyer et al. (2009), we used business freedom, trade freedom, investment freedom, labor freedom and proprietary rights (components of the Economic Freedom Index developed by the Heritage Foundation) to construct the measure of institutional distance. For each target country in the sample, we divided the value for the selected Economic Freedom Index category for that year by the corresponding value for India. The mean of the five ratios thus obtained was used as the measure for institutional distance. Values greater than "1" signify higher levels and those less than "1" reflect lower levels of institutional development relative to India. Following Gubbi et al. (2010), we include the indicator variable *OECD country* if the host country belongs to the industrially advanced OECD group. Finally, we included year dummies and controlled for industry effects with dummies for 2-digit industry classification level. We tested all our models using ordinary least square regressions with robust standard error estimates.

4 Results

Descriptive statistics and correlations of key variables in the model are reported in Table 2. The highest observed correlation between any two variables was found to be 64 %, hence multicollinearity is unlikely to be an issue. Further, we tested for multicollinearity by running the "vif" command in Stata, and the values were found to be well within the recommended limits for each variable. As seen in Table 2, out of 1004 acquisitions, 742 (74 %) acquisitions were resource deepening and 629 (63 %) acquisitions were resource extensions, with a correlation of 27 % between the two.

Following recommendations in previous research (see Shaver 1998), we account for the non-observable firm characteristics, such as the propensity to engage in acquisitions, leading to variations in acquisition performance. The standard practice is to conduct a two-stage Heckman (1979) estimation procedure wherein in the first stage, we model the propensity of a firm to make cross-border acquisition (i.e., choice model). Here we include both the acquiring and non-acquiring firms in the 102 industries in which acquisitions were made. The Prowess database provided us with a sample of nearly 60,000 observations corresponding to 4230 different firms. In the second stage, we model acquisition performance as a function of the hypothesized model and controls, including the endogeneity correction (inverse of the Mills ratio) obtained from the first stage. Exclusion criteria mandated that at least one predictor variable figured in the first stage and not in the second stage.

Table 2 Descriptive statistics and correlations (N = 1004)

	Mean	S.D.	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
(1) Cum.Abn.Ret.(+/- 1day)	1.62	7.02	-54.55	52.89	1																
(2) Resource deepening	0.74	0.44	0	1	0.06	1															
(3) Resource extension	0.63	0.48	0	1	0.05	0.27	1														
(4) Majority control	0.87	0.33	0	1	0.08	0.23	0.13	1													
(5) Firm performance[a]	-0.68	18.35	-411.14	0.79	-0.1	-0.02	0.06	-0.02	1												
(6) Firm age	26.98	21.74	0	143	-0.06	-0.06	-0.01	-0.07	-0.01	1											
(7) Firm size	9.39	2.19	-0.82	15.03	-0.14	0.11	0.1	-0.13	0.04	0.34	1										
(8) Foreign parent subsidiary	0.07	0.26	0	1	-0.04	-0.01	-0.08	-0.03	0.01	-0.09	-0.08	1									
(9) Current Ratio[a]	2.46	4.86	0.22	72.51	-0.03	-0.03	-0.03	0.06	0.02	-0.15	-0.24	0.03	1								
(10) RD intensity[a]	0.01	0.02	0	0.12	0.04	0.15	0.07	0.04	0.02	-0.03	0.14	-0.02	-0.03	1							
(11) Export intensity[a]	0.39	0.41	0	7.66	0.01	0.1	0.04	0.07	0.04	-0.26	-0.08	0.2	0.05	0.06	1						
(12) Acquisition experience (Firm)	3.81	3.38	0	22	-0.05	0.12	0.03	0.02	0.03	0.21	0.41	-0.02	-0.07	0.22	0.06	1					
(13) Acquisition experience (BG)	5.23	11.46	0	78	-0.04	0	0	-0.07	0.01	0.36	0.32	-0.13	-0.12	-0.02	-0.14	0.19	1				
(14) BG affiliation	0.57	0.5	0	1	-0.04	0.02	0.11	-0.02	-0.04	0.35	0.46	-0.33	-0.21	0.1	-0.27	0.19	0.4	1			
(15) OECD country	0.73	0.45	0	1	0.03	0.19	0.1	0.08	-0.03	-0.06	-0.11	0.1	0.03	0.05	0.11	0.02	-0.04	-0.09	1		
(16) Institutional distance	1.65	0.3	0.73	2.13	0.02	0.14	0.08	0.08	-0.03	-0.08	-0.17	0.13	0.04	-0.04	0.1	-0.04	-0.07	-0.14	0.63	1	
(17) Currency conversion	-3.08	1.77	-4.83	5.87	-0.03	-0.14	-0.08	-0.09	0.02	0.13	0.17	-0.04	-0.05	-0.01	-0.09	0.03	0.09	0.12	-0.57	-0.59	1
(18) Service sector	0.46	0.5	0	1	-0.06	0.03	-0.01	0.03	0.04	-0.24	-0.14	0.19	0.22	-0.22	0.28	-0.07	-0.12	-0.29	0.04	0.11	-0.07

All correlations greater than 0.06 in magnitude are significant at 5 %

[a] 3 year average values

Here we used two measures of firm performance derived from behavioral theory literature—historical performance aspiration and social performance aspiration (see Greve 2003 for details)—and a measure for domestic market position of the firm as the distinguishing factors. From the first stage analysis of all firms included in the Prowess database with appropriate data, we thus create two measures for endogeneity correction, IMR 1 and IMR 2,[5] respectively.

Results of regression estimates are reported in Table 3 for the full sample. Model 1 corresponds to the "controls only" model, and in the subsequent models (2–7), we introduce each explanatory variable one by one. Model 8 represents the fully specified models. In Hypothesis 1, we predicted a positive relationship between resource deepening acquisitions and the dependent variable, cumulative abnormal returns to shareholders. In line with our reasoning, the coefficient of the corresponding variable *resource deepening* in models 2 and 8 is positive and significant (1.839, $p < 0.01$; 2.084, $p < 0.01$). Thus, our first hypothesis is strongly supported. The second hypothesis of our model predicts that acquisitions aimed at resource extension create marginal or no returns to the acquiring firm. In line with this reasoning, the corresponding coefficient for *resource extension* turned out to be negative and not significant. In order to confirm whether the coefficients for resource deepening and resource extension are statistically different, we examine this possibility by running the "test" command under Stata where it tests for equality of the coefficients under consideration. The null hypothesis for equality could not be rejected ($p = 0.12$). However, the one-sided test for both coefficients indicated that the values are significantly different from zero ($p = 0.04$). Taken together, our second hypothesis also finds support from the sample tested.

Under Hypothesis 3, we predicted that a firm's assimilative capacity—in this case measured in terms of *RD intensity* and *export intensity*—is likely to positively enhance the performance of resource extension acquisitions.[6] Results from the analyzed data (Table 3, model 8) indicate that the corresponding coefficient for the interaction variables *Resource extension*RD intensity* and *Resource extension*Export intensity* are both positive and significant ($b = 60.36$, $p < 0.01$; $b = 2.99$, $p < 0.05$), thus supporting the hypothesis. Further, in Hypotheses 4 and 5, we conjecture a positive influence of acquisition experience—at the level of the firm and business group, respectively—in the case of resource extension acquisitions. Corresponding coefficients in the results appear to suggest contrasting effects. While the coefficient of the first variable *Resource extension*Acquisition experience (Firm)* is negative and significant ($b = -0.34$, $p < 0.05$), the coefficient of the second interaction variable *Resource extension*Acquisition experience (BG)* is in line with our hypothesis, i.e., positive and significant ($b = 0.08$, $p < 0.1$). Therefore, while Hypothesis 4 is rejected, Hypothesis 5 is supported by the data

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[5] Two variables were created, since historical and social aspiration performance measures tend to strongly correlate and cannot be used in the same model.

[6] We do not anticipate interactive relationships between resource deepening acquisitions and moderators due to a lack of strong theoretical rationalizations. However, for the sake of completeness we created the relevant variables with interaction effects. We included these additional interaction terms in the fully specified model reported in Table 3. We did not find any statistically significant interaction between resource deepening acquisitions and the moderators, and hence do not report them in the tables.

Table 3 Ordinary least-square regression results [dependent variable = Cum. Abn. Ret (±day)]

	1	2	3	4	5	6	7	8
Resource deepening		**1.839** (0.79)**				**1.216** (0.91)[+]		**2.084** (0.84)**
Resource extension			0.488 (0.64)	0.211 (0.69)	−0.201 (0.87)		0.291 (0.69)	−0.355 (1.11)
Resource extension*RD intensity				**41.522** (20.69)*				**60.364** (21.69)**
Resource extension*export intensity					1.767 (1.51)			**2.991** (1.55)*
Resource extension*acquisition experience (firm)						−0.169 (0.15)		**−0.336** (0.15)*
Resource extension*acquisition experience (BG)							0.044 (0.05)	**0.083** (0.05)[+]
Controls								
Majority control	2.219 (1.11)*	1.756 (1.05)[+]	2.143 (1.15)[+]	2.11 (1.15)[+]	2.188 (1.15)[+]	2.171 (1.15)[+]	2.042 (1.16)[+]	1.567 (1.08)
Firm performance[a]	−0.032 (0.02)*	−0.031 (0.02)[+]	−0.033 (0.02)*	−0.032 (0.02)*	−0.032 (0.02)*	−0.034 (0.02)*	−0.033 (0.02)[+]	−0.03 (0.02)[+]
Firm age	0.001 (0.01)	0.005 (0.01)	0.002 (0.01)	0.001 (0.01)	0.001 (0.01)	0.002 (0.01)	0.004 (0.01)	0.004 (0.01)
Firm size	−0.431 (0.28)	−0.493 (0.28)[+]	−0.454 (0.29)	−0.435 (0.29)	−0.487 (0.29)[+]	−0.431 (0.29)	−0.477 (0.29)	−0.532 (0.29)[+]
Foreign parent subsidiary	−0.592 (1.59)	−0.571 (1.55)	−0.558 (1.61)	−0.544 (1.61)	−0.503 (1.62)	−0.519 (1.60)	−0.564 (1.61)	−0.38 (1.57)
Current ratio[a]	−0.119 (0.05)*	−0.105 (0.05)*	−0.117 (0.05)*	−0.117 (0.05)*	−0.121 (0.05)*	−0.115 (0.05)*	−0.116 (0.05)*	−0.104 (0.05)*
RD intensity[a]	20.628 (13.77)	17.267 (13.87)	20.458 (13.64)	−10.657 (14.94)	19.826 (13.49)	20.96 (13.73)	21.062 (13.72)	−27.395 (15.67)[+]
Export intensity[a]	0.407 (0.58)	0.474 (0.59)	0.385 (0.58)	0.376 (0.58)	−1.111 (1.58)	0.36 (0.58)	0.399 (0.58)	−2.097 (1.57)
Acquisition experience (firm)	0.047 (0.10)	0.046 (0.09)	0.048 (0.10)	0.049 (0.10)	0.063 (0.10)	0.155 (0.12)	0.049 (0.10)	0.285 (0.12)*
Acquisition experience (BG)	0.001 (0.03)	0 (0.03)	0.002 (0.03)	0.001 (0.03)	−0.001 (0.03)	0.001 (0.03)	−0.02 (0.03)	−0.05 (0.03)[+]
BG affiliation	−0.611 (0.77)	−0.597 (0.77)	−0.675 (0.76)	−0.622 (0.77)	−0.686 (0.77)	−0.629 (0.77)	−0.724 (0.77)	−0.553 (0.77)
OECD country	1.373 (0.74)[+]	1.235 (0.73)[+]	1.3 (0.74)[+]	1.309 (0.74)[+]	1.322 (0.73)[+]	1.179 (0.73)	1.248 (0.73)[+]	0.911 (0.72)
Institutional distance	−1.323 (1.22)	−1.388 (1.20)	−1.286 (1.22)	−1.269 (1.22)	−1.377 (1.22)	−1.177 (1.22)	−1.261 (1.21)	−1.246 (1.21)
Currency conversion	0.018 (0.18)	0.008 (0.17)	0.017 (0.18)	0.01 (0.18)	0.003 (0.18)	0.017 (0.18)	0.006 (0.18)	−0.043 (0.18)

Table 3 continued

	1	2	3	4	5	6	7	8
IMR 1	1.308 (4.31)	1.084 (4.35)	1.34 (4.34)	1.423 (4.36)	1.423 (4.31)	1.099 (4.40)	1.32 (4.28)	0.811 (4.32)
IMR 2	−1.105 (4.42)	−0.931 (4.46)	−1.09 (4.46)	−1.208 (4.48)	−1.041 (4.42)	−0.979 (4.50)	−1.015 (4.40)	−0.629 (4.41)
Service sector	−19.493 (6.62)**	−18.421 (6.74)**	−19.334 (6.66)**	−19.318 (6.68)**	−11.139 (4.87)*	−11.343 (4.77)*	−11.623 (4.76)*	−9.032 (4.90)[+]
Industry and year fixed–effects included								
Constant	13.107[+]	12.791[+]	13.349[+]	13.056[+]	6.922	4.496	5.874	4.942
F	2.41**	2.7**	2.36**	2.38**	2.3**	2.31**	2.26**	2.37**
N	589	589	589	589	589	589	589	589

Values within parentheses are robust standard error values

[a] 3 year average values

[+] $p < 0.10$, * $p < 0.05$, ** $p < 0.01$ (significance levels based on two–tailed test)

analyzed. In order to validate and reconfirm our findings, we carried out a series of crosschecks and supplemental analyses.

4.1 Supplemental Analysis

Since more than 70 % of observations pertain to acquisitions made in the OECD countries, we reran our regression with this subsample. Results obtained were largely similar to those reported in Table 3. Thus, target country group appeared to have no influence. In order to rule out any bias created by economic activities of the firms represented in the sample, we retested the theoretical model on a subsample of acquisitions made by services sector firms. With the exception of the coefficients for acquisition experience variables, which turned out to be non-significant, the remaining key coefficients were similar to those reported. From results, it appears that the acquisition experience is less relevant in the case of service sector firms as compared to non-service sector firms.

Next, we replaced the dependent variable of cumulative abnormal returns (± 1 day) with an alternate measure calculated using a ± 3 day event window using stock price data from the Bombay Stock Exchange. As expected, there was a slight dip in the level of significance as compared to the reported results—for instance, the interaction with RD intensity was non-significant. However, we found no clear violation of the theoretical model proposed. As a crosscheck, we recalculated the cumulative abnormal returns using stock price data collated from the National Stock Exchange (NSE)—a leading and alternative stock exchange to the BSE. A rerun of the regression models with this alternate measure benchmarked to the NIFTY index of the NSE very closely resembled the reported results. Above analysis suggests our theoretical model is robust to alternate specifications of the dependent variable.

Probing our reported results further, we replaced all 3 year average values in the fully specified model with corresponding 1 year lagged values and carried out the regression. In terms of direction and significance levels of the corresponding coefficients, there was no visible difference noticeable from those reported in Table 3. In order to reconfirm the contrasting impact of acquisition experience at the firm and BG level, we created a new variable where we specifically account for group level experience in a specific target country. In other words, it is likely that cross-border acquisition experience at the group level is primarily due to familiarity of the business group with a particular geographic context. We replaced the original broad-based *acquisition experience (BG)* variable with a more refined measure focused on group level acquisition experience in a particular target country. Regression with the related fully-specified model showed that the interaction between the *resource extension* variable and the refined group level acquisition experience in a particular target country was positive but not significant. Coefficients of all other predictors in the model otherwise closely resembled those reported in Table 3, Model 8. Taken together, our analysis so far indicates that acquisition experience at the group level operates differently from acquisition experience at the firm level. While group level experience supports resource extension acquisitions, firm level experience does not. We discuss this further in the next section.

Finally, we provide a visual sense of the various interactions in the model by way of graphs (Fig. 1). Here, we calculate the dependent variable using coefficients obtained from the regression model and assigning the related variables with specific values. In our case, since *resource extension* is a dichotomous dummy variable, the related graphs reflect the difference in the effect of moderator variables plotted using values one standard deviation above and below the mean values. Clearly, as seen in the graphs, assimilative capacity measured using RD intensity and Export intensity, as well as the group-wide acquisition experience, boosts prospects of higher returns to shareholders when cross-border acquisitions are aimed at resource extension.

5 Discussion and Implications

We began this inquiry by articulating the need to more closely investigate asset-seeking foreign investments made by emerging economy firms. In particular, our theorization distinguishes resource deepening acquisitions from resource extension acquisitions and speculates a differential impact on acquisition performance in the context of emerging economy firms. Our analysis of cross-border acquisitions by Indian firms over the period 2000–2010 largely supports our theorization and in the process, our study makes several contributions to the literature.

First, our results indicate that while resource deepening acquisitions tend to reward investors, resource extension acquisitions had no tangible impact. The results are largely in line with our reasoning where the anticipated benefits of resource extension acquisitions are often delayed in terms of time and involve many more complications in terms of knowledge transfer across firms and compatibility in terms of organizational cultures, systems and processes. Additionally, it is quite possible that in the emerging economy context, in the initial post-reforms period the market may see greater value when firms are attempting to fill critical gaps in resource portfolios that have been lacking rather than gaining advanced capabilities or knowledge necessary to create brands, products, innovations, etc. Moreover, resource extension acquisitions are fraught with greater uncertainty since the intended benefits are expected to accrue in the long run. If an acquisition works well, it is likely that in the long term, the acquirer may benefit and create value. It is also probable that the broader stock market (on the basis of whose reaction we evaluate acquisitions) does not have the necessary information to accurately assess the true value of such acquisitions.

This study complements the work done by Buckley, Elia and Kafouros (2014), who have proclaimed variations in the performance of target firms in developed markets due to 1) differences in the resources of the acquiring firm from an emerging economy and 2) the experience accumulated from previous acquisitions and investments in developed and emerging countries. Our study also supplements the findings of the two earlier studies of Aybar and Ficici (2009) and Gubbi et al. (2010) by recognizing two broad categories of underlying motivations for resource augmentation driving cross-border acquisitions by emerging economy firms and by demonstrating their differential impact on value creation.

Second, our results suggest that an acquiring firm's assimilative capacity—i.e. the potential to absorb external knowledge—facilitates realization of intended
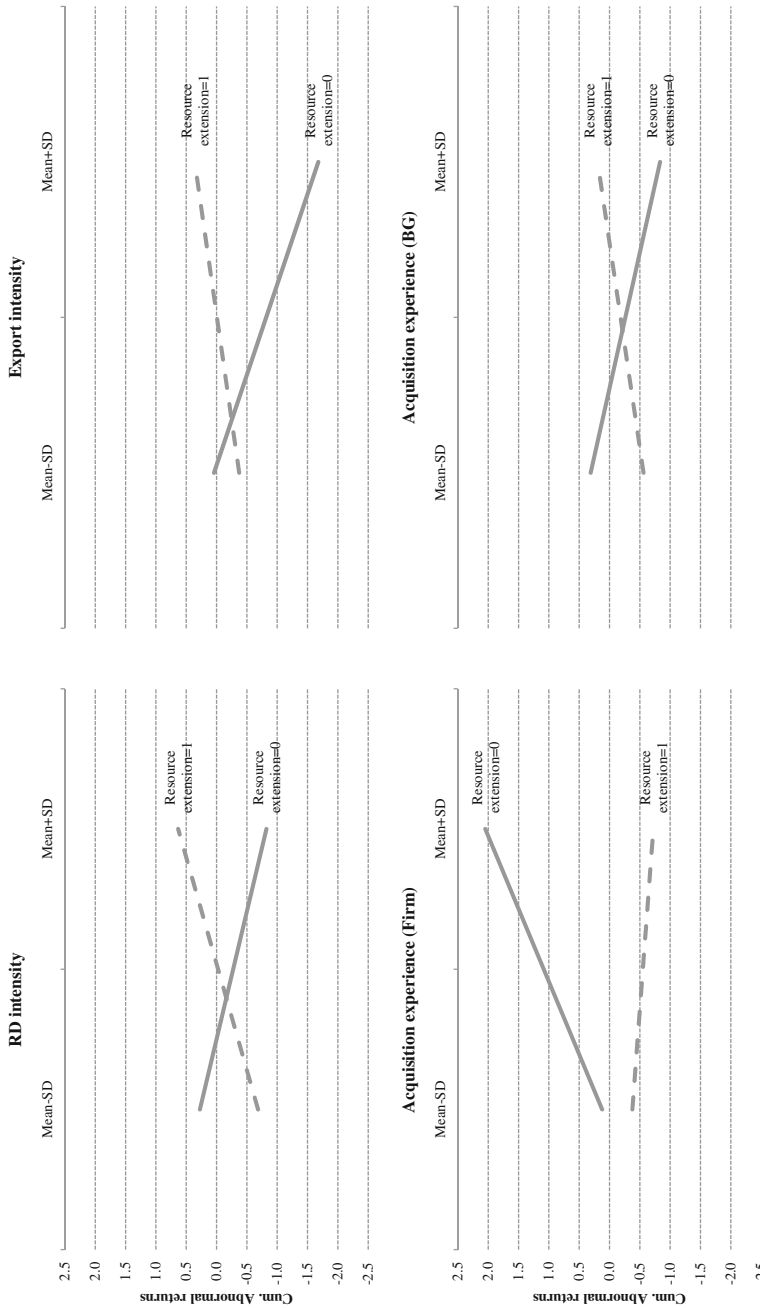
Fig. 1 Interaction graphs

benefits in the case of resource extension acquisitions. As a consequence, investors recognize and respond positively to such acquisitions. In particular, our analysis shows that the extent of investments made in research and development as well as prior exposure to international markets in the form of exports help in this regard. Therefore, our findings support the logic of the knowledge-based view and learning theories built around empirical findings from other contexts (e.g., Finkelstein and Haleblian 2002) by demonstrating their predictive validity in the context of cross-border acquisitions by firms from the emerging economies.

Third, analysis of cross-border acquisitions by Indian firms suggests a muted or even negative role of acquisition experience at the firm level when acquisitions are aimed at resource extension. However, affiliation to a business group and the associated group-wide acquisition experience enhances the possibilities for value creation in resource extension acquisitions. Compared to the more established multinational firms from developed economies, firms from the emerging economies are relatively young when it comes to acquisition experience, especially across national borders. Inexperienced acquirers also tend to make mistakes when applying knowledge from previous acquisitions and tend to inappropriately generalize the new situation (Haleblian and Finkelstein 1999). Besides, previous home market experience has little or no value for these firms since the post-reform market is much different from the pre-reform markets and requires a distinct set of resources and capabilities to remain competitive (Peng 2003). By exposing the limits of firm-level acquisition experience in the context of asset-seeking acquisitions by firms from emerging economies, our study makes an important contribution to acquisition and organizational learning literature streams (Haleblian et al. 2009).

In the context of emerging economies, access to group-wide resources has been found to benefit affiliate firms when the business environment is closed to foreign competition. Additionally, some studies on Indian Groups have found the importance of group affiliation to be lower in a more liberalized era (Zattoni et al. 2009). More specifically, whether the benefits of group affiliation extend beyond the home market have little or no clarity. On all these fronts, our results provide clear evidence of group membership benefitting the acquiring firms, especially when the acquisitions are aimed at resource extension. To the best of our knowledge, ours is the first study to demonstrate a positive contribution of group-level factors to multinational dimensions of firms' strategic initiatives. By revealing positive influence of group-level experience on resource extension acquisition performance, our study provides new directions for future research. We next discuss some of the limitations of our study and outline the potential avenues for future research.

6 Limitations and Future Research

First, our core rationalizations in this paper were premised on the major motivation declared by the sample firm during the period of acquisition announcement. We acknowledge that, as with any action by a firm, there are secondary motivations and one cannot simply attribute one single motivation driving a major initiative such as an acquisition. For instance, although we include market-seeking acquisitions in our

analysis, resource deepening or extension in such acquisitions may differ from those in strategic-asset seeking acquisitions. Further studies with longer observation windows are required to validate whether, and under what conditions, firms sustain their declared objectives for a strategic action. Second, we have employed content analysis to differentiate one type of acquisition from another; in reality, such a categorization may not be feasible since the acquisitions lie on a continuum ranging from low to high values. It is possible for a focal acquisition to be both resource deepening and resource extending at the same time. Further studies using more sophisticated measures (such as questionnaire-based ranking on a scale) can help address some of these limitations. Third, this paper's empirical analysis is based on a representative sample of cross-border acquisitions from one country, India. It is important to validate our claim employing a multi-country empirical setting. Fourth, while our dependent variable for acquisition performance, viz. cumulative abnormal return, has its advantages in the context of this study, it is based on the efficient-market hypothesis. Moreover, its efficacy is limited at best to the period immediately following the announcement. Future research may well consider examining for changes in performance over the medium- to long-term. We also urge scholars to employ alternate measures for performance and to look well beyond the acquisition period, especially the post-acquisition integration phase.

6.1 Managerial implications

Our study's findings, within its boundary conditions, have implications for practice. The willingness of firms to take risks with an eye on the long-term orientation is not limited to Indian firms. Cogman et al. (2015) highlight instance of firms from Brazil, Chile, and Philippines following analogous approaches to address gaps in their firm capabilities. In a similar vein, Deng (2009) points out that firms from China engage in cross-border acquisitions to acquire critical capabilities lacking at home and are driven by a long-term strategy (e.g., TCL acquiring Schneider Corp.). These firms target acquisitions with a strategic intent to develop capabilities for global competition and seem to be under no rush to unlock value from such investments (Rui and Yip 2008). Therefore, we believe that our articulation of resource-deepening and resource-extension acquisitions extends well to other emerging markets and provides valuable information to practitioners and managers.

In the broader context of this study, given the higher failure of acquisitions overall, several facets of the acquisition process of these emerging market firms are notable. First, these firms are more selective when identifying the targets for acquisition. They typically do not seek first-tier firms (market leaders) in an industry, but are directed to niche players who offer specific capabilities these firms lack. In most cases the acquisitions are carried out with a motivated seller, which does reduce the risk of overpaying as well as post-acquisition integration problems. For instance, the well-publicized acquisitions such as Tata Motors' acquisition of Jaguar/Land Rover or Lenovo's acquisition of IBM's PC division were cases where the seller (i.e., Ford and IBM) were in a hurry to divest the respective units. More recently, the same can be said of Zhejiang Geely Holdings of China's acquisition of Volvo of Sweden. In such contexts, the need for these firms to get involved in high-

stakes bidding wars is very minimal. Second, to reduce knowledge loss from the acquired firm, these firms "…do everything they can to keep top teams intact. That, they believe, shows the buyer's confidence in the company, its strategy, and the quality of its talent." (Kale et al. 2009, p. 113). While this approach may seem unconventional, compared to acquisitions of developed country firms where acquisitions typically destroy shareholder value, acquisitions by emerging market firms have been found to enhance or reduce shareholder value based on specific contingencies (Lebedev et al. 2015). Managers contemplating long-term oriented and risk-bearing acquisitions may do well to pay heed to the above approaches and minimize the risks of failure.

Specific to resource-extension acquisitions where the payoff is often delayed and investments carry greater risks, managers can benefit from the findings in this study. First, as noted earlier, while the outcome of resource extension acquisitions is not positive, it does not mean that such acquisitions do not create value. As indicated by our other findings, firms can change this outcome by investing in assimilative capacity. For instance, it might be a good idea for a firm to increase internationalization via exports before engaging in a resource extension acquisition. A firm may want to first build a capability to absorb the requisite knowledge by investing internally in research and development and exposing itself to diverse customers in overseas markets. Second, firm-specific experience in acquisitions seems to hurt resource extension acquisitions. This might be more relevant to managers of emerging economy firms since they are grappling with changes in the external context. Therefore, experience with previous acquisition in one context seems to be less helpful when applied in another context. However, the good news is that firms affiliated with business groups are able to capitalize on the variety of learning that may have been acquired at the group level. Affiliation to a business group provides the acquiring firm with the option of leveraging group-wide resources to facilitate and optimize the acquisition process, especially when the targets are located in foreign markets. This might prompt managers of standalone firms to invest more in assimilative capability since they lack the advantage of being associated with a business group.

7 Conclusion

A vast body of work on acquisitions has uncovered a host of antecedent conditions and moderators that have triggered and catalyzed acquisition activities and outcomes (Haleblian et al. 2009). Our study enriches this body of work by uncovering subtle variation in acquisition performance within what was otherwise considered a homogeneous category of asset-seeking acquisitions. Our study is the first of its kind to showcase differences in acquisition performance in the context of cross-border acquisitions by emerging economy firms, depending on whether these firms seek to deepen or extend their existing resource profiles. Furthermore, our study also reveals the conditions under which an acquiring firm can hope to benefit from acquisitions aimed at long-term goals such as extending the resource profiles. Methodologically, it uses content analysis to offer a richer contextualization of resource sought, along with many traditional measures/techniques used in research.

Appendix 1

Industry	Content	Source	Coding
Telecommunication services	*Bharti Airtel Ltd … approved the acquisition of 100 % of Telecom Seychelles Limited, the leading telecom operator of Seychelles…With this acquisition, Bharti Airtel will expand its African footprint to 16 countries and its overall presence to 19 countries. …Mr. Manoj Kohli, CEO (International) & Jt. MD, Bharti Airtel, said, … operations will benefit … by leveraging the efficiencies of scale of our African operations*	Bombay Stock exchange Date: 8/11/2010	Resource deepening
Other chemicals	*"Godrej Consumer Products Ltd (GCPL) … acquire PT. Megasari Makmur Group and its distribution company in Indonesia. …Commenting on the acquisition, Adi Godrej, Chairman, GCPL, said: "Megasari Group provides …a significant foothold in Indonesia … leading position in household product categories in Indonesia and …significant synergies and create value for shareholders. As an emerging market multinational, this acquisition is an important step in our global 3 by 3 strategy – presence in 3 continents – Asia, Africa and Latin America through 3 core categories - home care, personal wash and hair care… We look forward to working with the Megasari team to take the company to the next level along with creating a platform for other Godrej products in Indonesia*	Bombay Stock exchange Date: 4/6/2010	Resource extension
Computer software	*Aurionpro Solutions Ltd … acquire 100% control in Coban Corporation (Coban), based at San Francisco, USA…Commenting on the proposed acquisition Mr Amit Sheth, Managing Director, of the Company said "Coban's acquisition shall provide an added impetus to Aurionpro's growth plans in the US markets… Coban's team with its rich experience in working on high end, large and complex products in global environment synergistically complements the bouquet of existing skill sets and … by adding offshore delivery capabilities to already strong onsite presence*	Bombay Stock exchange Date: 8/31/2006	Resource extension

Industry	Content	Source	Coding
Computer software	*Wipro Ltd … acquire the Finland based Saraware Oy in an all cash deal. … This acquisition adds expert domain competencies in the areas of Radio Networks and Secure Mobile platforms. Saraware has nearly 200 specialists in these domains based out of Finland… Ramesh Emani, President, Product Engineering Services of the Company said "This acquisition gives us much needed local presence in Finland and puts us in the heart of the Nordic region. …In addition, this acquisition brings niche skills in development of Base Station Controllers and mobile communication platforms. Combined with Wipro's existing competencies, it helps us penetrate into high growth segments like secure communications and gives us the capability to handle complete outsourcing deals in the evolving GSM, 3G and Tetra markets*	Bombay Stock exchange Date: 6/8/2006	Resource deepening and Resource extension
Drugs and pharmaceuticals	*Ranbaxy Laboratories Ltd … acquired a generic product portfolio …belonging to the Spanish pharmaceutical Company EFARMES, S.A. …Commenting on the development, Mr. Peter Burmea, Regional Director, Europe, CIS & Africa of the Company said, …[t]he acquisition fortifies our presence in Spain while augmenting our existing product portfolio. With this strategic development, we will be able to provide a wide range of quality generics …The Company has a presence in 21 of the 25 EU countries and is fast consolidating its presence in Europe*	Bombay Stock exchange Date: 6/9/2005	Resource deepening

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