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Problems & Prospects of Mergers and Acquisition

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ABSTRACT

Mergers and acquisitions (M&A) are transactions in which the ownership of companies, other business organizations or their operating units are transferred or combined. As an aspect of Global Environment, M&A can allow enterprises to grow, shrink, change the nature of their business or improve their competitive position

The chances for success are further hampered if the corporate cultures of the companies are very different. When a company is acquired, the decision is typically based on product or market synergies, but cultural differences are often ignored. It's a mistake to assume that personnel issues are easily overcome. For example, employees at a target company might be accustomed to easy access to top management, flexible work schedules or even a relaxed dress code. These aspects of a working environment may not seem significant, but if new management removes them, the result can be resentment and shrinking productivity.

The study concludes that companies often focus too intently on cutting costs following mergers, while revenues, and ultimately, profits, suffer. Merging companies can focus on integration and cost-cutting so much that they neglect day-to-day business, thereby prompting nervous customers to flee. This loss of revenue momentum is one reason so many mergers fail to create value for shareholders sometimes. Merger &Acquisition also leads the business towards success and increases its productivity and vast coverage of geographical areas around the world.

Even a company has a personality, a culture that permeates the entire organization. If you acquire a company that has a way of doing things that conflict with yours, the employees of the acquired company may bristle at your management style.

INTRODUCTION

Mergers and acquisitions (M&A) are transactions in which the ownership of companies, other business organizations or their operating units are transferred or combined. As an aspect of strategic management, M&A can allow enterprises to grow, shrink, change the nature of their business or improve their competitive position.

The corporate sector all over the world is restructuring its operations through different types of consolidation strategies like mergers and acquisitions in order to face challenges posed by the new pattern of globalization, which has led to the greater integration of national and international markets. The intensity of such operations is increasing with the de-regulation of various government policies.

The reforms process initiated by the Indian government since 1991, has influenced the functioning and governance of Indian firms which has resulted in adoption of different growth and expansion strategies by the corporate firms. These reforms have opened up a whole lot of challenges both in the domestic and international spheres. In that process, Indian organizations are facing challenges from both, domestic competitors as well as foreign competitors, who can suddenly appear from anywhere on the globe.

The increased competition in the global market has prompted the Indian companies to go for mergers and acquisitions as an important strategic choice.Business firms opt for mergers and acquisitions mostly for consolidating a fragmented market and also for increasing their operational efficiency, which give them a competitive edge.

While most mergers and acquisitions increase the operational efficiency of business firms some can also lead to a building up of monopoly power. The anti-competitive effects are achieved either through coordinated effects or unilateral effects. Sometimes mergers and acquisitions tend to create a collusive market structure.

TYPES OF MERGERS

HORIZONTAL MERGER	VERTICAL MERGER	CO-GENERIC MERGER	CONGLOMERATE MERGER
This kind of merger exists between two companies who compete in the same industry segment. The two companies combine their operations and gains strength in terms of improved performance, increased capital, and enhanced profits. This kind substantially reduces the number of competitors in the segment and gives a higher edge over competition.	A kind in which two or more companies in the same industry but in different fields combine together in business. In this form, the companies in merger decide to combine all the operations and productions under one shelter. It is like encompassing all the requirements and products of a single industry segment.	A kind in which two or more companies in association are some way or the other related to the production processes, business markets, or basic required technologies. This kind offers great opportunities to businesses as it opens a hue gateway to diversify around a common set of resources and strategic requirements.	Conglomerate merger is a kind of venture in which two or more companies belonging to different industrial sectors combine their operations. All the merged companies are no way related to their kind of business and product line rather their operations overlap that of each other. This is just a unification of businesses from different verticals under one flagship enterprise or firm.

Benefits of Mergers and Acquisitions

- Merger refers to the process of combination of two companies, whereby a new company is formed.

- An acquisition refers to the process whereby a company simply purchases another company. In this case there is no new company being formed.

- Mergers and acquisitions generally succeed in generating cost efficiency through the implementation of economies of scale. It may also lead to tax gains and can even lead to a revenue enhancement through market share gain.

- The principal benefits from mergers and acquisitions can be listed as increased value generation, increase in cost efficiency and increase in market share.

- It is expected that the shareholder value of a firm after mergers or acquisitions would be greater than the sum of the shareholder values of the parent companies.

- An increase in cost efficiency is effected through the procedure of mergers and acquisitions. This is because mergers and acquisitions lead to economies of scale.

This in turn promotes cost efficiency. As the parent firms amalgamate to form a bigger new firm the scale of operations of the new firm increases. As output production rises there are chances that the cost per unit of production will come down.

Pros:-

1. Speed. Acquisition is one of the most time-efficient growth strategies. It offers the opportunity to quickly acquire resources and core competencies not currently held by your company. There is near-instantaneous entry into new product lines and markets, usually with a recognized brand or positive reputation, and existing client base. In addition, the risks and costs typically associated with new product development can drop dramatically.

2. Market power. An acquisition will quickly build market presence for your company, increasing market share while reducing the competition's stronghold. Where competition has been particularly challenging, growth through acquisition can reduce competitor capacity and level the playing field. Market synergies are achieved.

3. New resources and competencies. Businesses may choose acquisition as a route for gaining resources and competencies currently not held. These can have multiple advantages, ranging from immediate increases in revenues to improving long term financial outlook to making it easier to raise capital for other growth strategies. Diversity and expansion can also help a company to weather periods of economic or market slump.

4. Meeting stakeholder expectations. In some cases, stakeholders may have expectations of growth through acquisition. While not all stakeholders will insist on acquisition in particular as a growth strategy, under nearly all circumstances, stakeholders are looking for returns on any investment or other advantages for non-investing stakeholders. When there is pressure to perform and meet expectations for returns, an acquisition can often yield results more quickly than other means for growth.

5. Financial gain. Acquiring organizations with low share value or low price earning ratio can bring short-term gains due to assets stripping. Synergy between the surviving and acquired organizations can mean substantial cost savings as well as more efficient use of resources for soft financial gains.

6. Reduced entry barriers. Acquiring an existing entity can often overcome formerly challenging market entry barriers while reducing risks of adverse competitive reactions. Market entry can otherwise be a costly proposition, involving market research among other upfront expenses, and take years to build a significant client base.

Cons:-

1. Financial fallout. Returns may not benefit stakeholders to the extent anticipated, and the expected cost savings may never materialize or may take far too much time to materialize due to a number of developing factors. These might include a higher-than-anticipated price of acquisition, an unusually long timeframe for the acquisition process, lost of key management personnel, lost of key customers, fewer synergies than projected and other unforeseen circumstances.

2. Hefty costs. Under some circumstances, the cost of acquisition can climb steeply, well beyond earlier projections. This is particularly true in situations of hostile takeover bids. In

some situations of runaway costs, the added value may not be enough to justify the cost in dollars and resources that went into making the acquisition happen.

3. Integration issues. Integration of the acquired organization can bring a number of challenges. Company cultural clash can erupt and activities of the old organizations may not mesh as well as anticipated when forming the newly combined entity. Employees may resent the acquisition, and undercurrents of anxiety and anger may make integration challenging.

4. Unrelated diversification. When an acquisition brings together diverse product or service lines, there can be difficulties in managing resources and competencies. Management of employees and departments can face extreme hurdles and the time necessary to address such issues may deplete much of the value otherwise brought about by the acquisition.

5. Poorly matched partner. Unless he or she has extensive firsthand experience in implementing acquisition as a growth strategy, a business owner who does not seek professional advice in identifying a potential company for acquisition may target a business that brings too many challenges to the equation.

Mergers and Acquisitions Laws: the Indian Perspective

The Indian law also provides for the modern day phenomenon of merger and acquisitions, which are cross border in nature. As per the law domestic nexus is a pre-requisite for notification on this type of combinations.

It can be noted that Competition Act, 2002 has undergone a recent amendment. This has replaced the voluntary notification regime with a mandatory regime. Of the total number of 106 countries, which possess competition laws only 9 are thought to be credited with a voluntary notification regime.

Indian Income Tax Act has provision for tax concessions for mergers/de-mergers between two Indian companies. These mergers/de-mergers need to satisfy the conditions pertaining to section 2(19AA) and section 2(1B) of the Indian Income Tax Act as per the applicable situation.

A different set of rules is however applicable for the 'foreign company mergers'. It is a situation where an Indian company owns the new company formed out of the merger of two foreign companies. It can be noted that for foreign company mergers the share allotment in the merged foreign company in place of shares surrendered by the amalgamating foreign company would be termed as a transfer, which would be taxable under the Indian tax law.

Recent Mergers and Acquisitions

Mergers and Acquisitions have been very common incidents since the turn of the 20th century. These are used as tools for business expansion and restructuring. Through mergers the acquiring company gets an expanded client base and the acquired company gets additional lifeline in the form of capital invested by the purchasing company. Recent mergers and acquisitions authenticate such a view.

Novartis AG acquired 25% stake in Alcon Inc. This acquisition was worth 73,666 million common shares of the company. They bought this stake from Nestle SA for $10.547 billion by paying $143.18 for every share. It was a privately negotiated transaction that needed to have a regulatory approval. Simultaneously, Novartis AG also received an offer of 52% interest that was equivalent of 153.225 million common shares of Alcon Inc.

Honeywell International Inc has acquired Norcross Safety Products LLC from Odyssey Investment Partners LLC. The deal was worth $1.2 billion. It was subjected to various kinds of regular closing conventions and regulatory approvals.
Causes of failed mergers. Source :-(www.ibef.org)

Table.1: The top 10 acquisitions made by Indian companies worldwide:

Acquirer	Target Company	Country- targeted	Deal value $ ML	Industry
Tata Steel	Corus Group plc	UK	12,000	Steel
Hindalco	Novelis	Canada	5,982	Steel
Videocon	Daewoo Electronics Corp.	Korea	729	Electronics
Dr. Reddy's Labs	Betapharm	Germany	597	Pharmaceutical
Suzlon Energy	Hansen Group	Belgium	565	Energy
HPCL	Kenya Petroleum Refinery Ltd.	Kenya	500	Oil and Gas
Ranbaxy Labs	Terapia SA	Romania	324	Pharmaceutical
Tata Steel	Natsteel	Singapore	293	Steel
Videocon	Thomson SA	France	290	Electronics
VSNL	Teleglobe	Canada	239	Telecom

Sourced from:ibef.org

Challenges to Mergers and Acquisitions in India

With the increase in number of M&A deals in India, the legal environment is increasingly becoming more and more refined. M&A forms a major part of the economic transactions that take place in the Indian economy. There are a few challenges with mergers and acquisitions in India which have been discussed below;

Regulatory Ambiguity: M&A laws and regulations are still developing and trying to catch up with the global M&A scenario. However because of these reasons the interpretation of these laws sometimes goes for a toss since there is ambiguity in understanding them.

Several regulators interpreting the same concept differently increase confusion in the minds

of foreign investors. This adversely affects the deal certainty which needs to be resolved if the Indian system wants to attract investments from foreign economies.

Legal Developments: There have been consistently new legal developments such as the Competition Act, 2002 , the restored SEBI Takeover Regulations in 2011 and also the notification of limited sections of the new Companies Act, 2013, has led to issues in India relating to their interpretations and effect on the deals valuations and process.

Shareholder Involvement: Institutional investors in the minority position have become active in observing the investee companies. Proxy advisory companies are closely scrutinizing the related party transactions, appointment of several executives and their remuneration. There are cases where the approval of minority shareholders is required. The powers to the minority shareholders have been revamped, one of them includes to sue company against oppression and mismanagement.

These are some of the issues that pose a challenge towards the growth of mergers and acquisitions in India which need considerate attention from the government to make our market attractive for foreign investment.

Drivers of Merger and Acquisitions in India

1. **Right to entry**: Acquisitions that take place abroad permit Indian companies to gain access to developed markets across the globe.

2. **Technology transfer**: This is one of the main advantages and drivers that urge companies to get into M&A deals. Many times corporations require technologies to manufacture particular product or a service which is not available in India. In such situations by acquiring/collaborating companies abroad they get access to the technologies.

3. **New Product Mix**: Many times it is not profitable for companies to manufacture products themselves either due to cost constraints or requirement of huge investments. In such a scenario alliance with another company can give them the right to sell and diversify their product range.

4. **Hedging Country Risks**: Merger and Acquisitions are also attempted to reduce the reliance on the Indian markets and escape the local business cycle

Why Mergers and Acquisitions Fail?

There could be several reasons behind the failure of mergers and acquisitions. Both the parties, viz. buyer and seller need to do proper research and analysis before going for mergers and acquisitions. Following could be the reasons behind the failure of mergers and acquisitions.

Cultural Difference

one of the major reasons behind the failure of mergers and acquisitions is the cultural difference between the organizations. It often becomes very tough to integrate the cultures of two different companies, who often have been the competitors. The mismatch of culture leads to deterring working environment, which in turn ensure the downturn of the organization.

Flawed Intention

Flawed intentions often become the main reason behind the failure of mergers and acquisitions. Companies often go for mergers and acquisitions getting influenced by the booming stock market. Sometimes, organizations also go for mergers just to imitate others. In all these cases, the outcome can be too encouraging.

Due to mergers, managers often need to concentrate and invest time to the deal. As a result, they often get diverted from their work and start neglecting their core business. The employees may also get emotionally confused in the new environment after the merger. Hence, the work gets hampered.

How to Prevent the Failure

Several initiatives can be undertaken in order to prevent the failure of mergers and acquisitions. Following are those:

- Continuous communication is of utmost necessary across all levels – employees, stakeholders, customers, suppliers and government leaders.
- Managers have to be transparent and should always tell the truth. By this way, they can win the trust of the employees and others and maintain a healthy environment.
- During the merger process, higher management professionals must be ready to greet a new or modified culture. They need to be very patient in hearing the concerns of other people and employees.
- Management need to identify the talents in both the organizations who may play major roles in the restructuring of the organization. Management must retain those talents.

CONCLUSIONS

M&As have been found to be beneficial in the sense that Indian companies grew in size, and attain better market share which is substantiated by empirical analysis. Throughout the period of study, turnover increased after the companies experienced an M&A.

This gives strength to the argument that Indian companies are focusing on their core areas and expanding mostly in related areas of strength which is helpful in realization of synergistic benefits. Further, it has been observed that M&As in India are strategic in nature that motives range from growth and expansion to high quality of human resources, strong brand presence and global identity and leadership. To remain ahead of competitors, business leaders need to have a global vision, be pro-active, able to take calculated risk and initiate and manage acquisition and consolidation process smoothly.

When the acquisition faces too many challenges or the timeline for completion stretches out longer than anticipated, too much of the managerial focus is diverted away from internal development and daily operations. The post-acquisition organization can be harmed due to lack of managerial resources, resulting in fewer synergies or at the least, delays in savings realized from synergies.

The key to success keeping fundamentals in place i.e. to bring into line acquisitions to the entire business strategy, plan and execute a vigorous integration process and take adequate awareness of all relevant regulatory norms.

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