Mergers and Acquisitions: Some Issues & Trends

Dr. Partap Singh,
Head & Asstt. Professor,
Deptt. of Management studies,
S. D. Institute of Technology and Mgt. (SDITM)
Israna, Panipat, Haryana
E-mail: partapchahal@gmail.com

INTRODUCTION

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. Merger and acquisition (M&A) activities have increased rapidly since 2000. Historically, M&As have shown a cyclical pattern. There have been six waves of M&As for the past 100 years; these are those of the early 1900s, 1920s, 1960s, 1980s, 1990s, and 2000s.The trends of mergers and acquisitions in India have changed over the years. The immediate effects of the mergers and acquisitions have also been diverse across the various sectors of the Indian economy.

The merger and acquisition business deals in India amounted to $40 billion during the initial 2 months in the year 2007. The total estimated value of mergers and acquisitions in India for 2007 was greater than $100 billion. It is twice the amount of mergers and acquisitions in 2006.

OBJECTIVES OF THE STUDY

- To analyze the trends, concerns, and issues involved in mergers & acquisitions with special reference to India.
- To work out the impact of mergers & acquisitions as well as causes of failure of mergers & acquisitions.

REVIEW OF LITERATURE

PRESENT STATUS

- Marina Marty nova, Sjoerd Oosting and Luc Renneboog[1] (2007) studied the long-term profitability of corporate takeovers in Europe, and found that both acquiring and target companies significantly outperformed the median peers in their industry prior to the takeovers, but the profitability of the combined firm decreased significantly following the takeover. However, the decrease became insignificant after controlling for the performance of the control sample of peer companies.

- Raymond Noe[2] (2002) studied that 60-80% of all mergers are financial failures when measured by their ability to outperform the stock market or to deliver profit increases.
- Anne Freedman[3] (2002). Those findings are further supported in a study by A.T Kearney that shows 58% of mergers failing to achieve their stated goals, and
- Suh-kyung Yoon[4] (2001) studied that a survey of 1,000 companies revealed that more than two-thirds of companies failed.

CAUSES OF FAILURE OF MERGERS AND ACQUISITIONS

- Overpayment: This is very common cause of failure of acquisition & mergers. De Pamphilis D.M[5]. (2005) found that overpayment often has destroys consequences. Overpayment leads to expectation of higher profitability which is not possible. Excessive goodwill as a result of overpaying needs to be written off which reduces the profitability of the firm.
- Integration issues: **Straub[6]. (2007**) studied that business cultures, work ethics, etc. needs to be flexible and adaptable. Inefficiencies or administrative problems are a very common occurrence in a merger which often nullifies the advantages of the mergers.
- Faulty Strategic Planning and unskilled execution: Schuler, R.S. Jackson, S.E. Luo, Y[7]**..** **(**2004): Faulty Strategic Planning and unskilled execution often leads to problems over expectation of strategic benefits is another area of concern surrounding mergers. *These issues lead to failures of mergers.* Mike Harrison[8] (2001) found that planning is a crucial exercise that will help determine the success or failure of a merging organization. However, many merging organizations do not have adequate or complete integration and implementation plans in place. Only one out of five companies that have acquired another has developed a clear and satisfactory implementation plan.
- *Corporate Culture Differences:* Irene Rodgers[9] (1999). Business International states that poor communications and inability to manage cultural differences are the two main causes of failed mergers.
- Maria Kouli[10] Cultural differences that cannot be resolved affect communications, decision-making, productivity and employee turnover at all levels of the organization. All the best laid plans – exhaustive analyses of strategies, marketing tactics, legal issues, etc. – can fall apart if the people cannot work together. If the two workforces fail to unite behind the strategic goals underlying the consolidation, even the best financial deals and most rigorous legal contracts fail to guarantee success.
- Loss of Customers: Wayne R. Pinnell[11]l (2001) found that all companies need to remember: it's the people who produce profits, represent the company, establish rapport with the customers, and, ultimately, are the ones that will make the combined company succeed."
- *Power Politics:* Randall S. Schuler, Susan E. Jackson[12] (2001) observed that there is a tendency to assume that power disputes are more common in the case of acquisitions than mergers, there is no such thing as "a merger of equals". Further, it was clear that the distribution of power was not equally spread out. "We felt like we were marrying up, and it was clear that they thought they were marrying down."

MERGERS &ACQUISITIONS AND HUMAN RESOURCES

- Personnel motives: Kellor R. Dixon[13](2000) found that managers often enters into mergers to satisfy their own personnel motives like emire building, fame higher managerial compensation, etc. As a result they often lose focus on the fact that they need to look at the strategic benefits of the mergers. As a result, mergers that don't necessarily benefit the organization are entered into. These executives enter into these mergers for the purpose of seeking glory and satisfying their executive ego; leading to failure of mergers.
- *Lack of Communication:* Peter Dixon[14]*(1998)*, a merger expert at Braxton Associates, found that lack of information, no clear direction and confusing messages, all boil down to uncertainty, which is destructive. It is really very important to be clear and consistent, even if the messages may not always be positive for everyone.
- The Conference Board[15]((2000) found that poor communication between people at all levels of the organization, and between the two organizations that are merging, is one of the principal reasons why mergers fail. Middle management and lower level employees in particular are kept in the dark when it comes to merger issues.

- Involvement in mergers & acquisitions process: Raymond Noe[16] "(2002) has studied the involvement in the following table:

Human Resources Involvement in the Merger Process

	United States	Asia-Pacific	Brazil
Initial Planning	16%	19%	8%
Investigative	41%	21%	12%
Negotiation	16%	16%	24%
Integration	27%	44%	56%

- *Loss of Talented Employees:* Raymond Noe[17] (2002) found that one out of four top performers leaves the company within 3 months of the announcement of an event involving major change in the organization 24 and 47% of senior managers in the acquired company leave within the first year.25

IMPACT OF MERGERS

Das[19](2003) found that many of the merging or acquiring companies state the importance of retaining and acquiring key talent, 47% of senior management in the acquired firm leave within the first year and companies experience on average a 50% drop in productivity in the first 6-8 months of the integration. He compares the pre merge and post merger operating profit margin for a sample of 14 acquiring firms and find a decline in profitability in 8 of these companies after merger.

The study of Saple[20] (2000) observed that mergers did not lead to an improvement in performance as measured by profitability (return over net assets) adjusted for the industry average.

Beena[21] (1998) also finds no significant difference in the rate of return and profit margin between the periods before and after the mergers. Overall the results point to the possibility of merger driven by managerial self-interest motive of growth maximization.
Mantravedi and Reddy[22], (2008) investigated Indian acquiring firms and found that there are minor variations in terms of impact on operating performance following mergers, in different sectors of Indian industries.
Marina Martynova, Sjoerd Oosting and Luc Renneboog[23] (2007) investigated the long-term profitability of corporate takeovers in Europe, and found that both acquiring and target companies significantly outperformed the median peers in their industry prior to the takeovers, but the profitability of the combined firm decreased significantly following the takeover. However, the decrease became insignificant after controlling for the performance of the control sample of peer companies.
John C. Bruckman, Scott C. Peters[24] (1987) studied that the amount of time and energy needed to successfully merge two sophisticated organisations is more likely to resemble the planning and execution of the invasion of Normandy, accompanied by the resultant clash of cultures from many elements attempting to work together towards one end. This corporate failure to consider and plan for the long-term consequences can result in financial problems, loss of employee loyalty, lowered employee morale and reduced productivity."

MERGERS AND ACQUISITIONS IN INDIA

Mergers and Acquisitions are key forms of corporate restructuring. The mergers and acquisitions come into existence from the post independence period in India. But very few M&A took place in India prior to 1990s due to Industrial Development and Regulation Act 1951, FERA Act, MRTP Act. After 1890s especially after liberalization in 1991, there was a through cut domestic and global competition. This leads to a big wave of M&A. Takeover cases started only in the year 1996 and then onwards this mode of M&A has gained importance. The Tata Group had 126 M&As deals from April 1998 to March 2008. The number of deals really picked up in the year 1999 with total of 1453 deals as compared to only 172 deals in 1998. The years 2000, 2007 and 2008 saw decline in the deals by 22%, 2% and 24% respectively due to the global credit crisis. **M&A has a decreasing trend from the year 2000 to 2008.**

The trends in Indian M&A, which recorded a rapid increase between 2003 and 2007 registering a compounded annual growth rate of 95% at $70 billion. **Though it dipped following the global crisis of 2008 only to recover soon to hit a fresh peak of $50 billion by 2010**. The robust sector of Telecom, which with an innovative support from the regulatory authority saw a progressive growth post-liberalization it recorded the highest M&A activity during the year with an aggregate of $14.6 billion investment powered by the acquisition of Hutch Essar by Vodafone and Tata Tele buying the NTT Docomo of Japan. Oil & gas sector with $11.2 billion ((Reliance Natural) and Pharma Sector with $ 6.24 billion led the charge of the M & A brigade. This underscored not only India Inc's appetite for going global, but making M & A its critical tool of business strategy for survival and growth.
There has been a considerable shift seen in 2010 in the outlook of Indian companies which relooked at M&A's as one of their key growth strategies. During the year 2010, Indian companies were involved in a record total of 627 M&A deals, including both cross-border and domestic transactions. 283 of these deals, whose announcements included the transaction value, totaled a massive $ 65.9 billion which were significantly higher when compared to 2009 which witnessed a total of 413 M&A deals (including 183 deals with an announced value of $18.4

billion). The manufacturing companies emerged as the most active dealmakers during 2010, led by JSW Steel acquiring a controlling 42% stake in Ispat Industries. M&A showed a significant decline during the period 2010 as global companies turned cautious in investing capital in the first six months of the financial year . With regard to outbound M&A, Indian companies faced significant challenges in raising finance – both locally and globally – to fund their acquisition plans in FY 2010. The challenging macro-economic environment raised concerns of valuation and also impacted the deal closure time.

MERGERS AND ACQUISITIONS IN INDIA: THE LATEST TRENDS

With the increasing number of Indian companies opting for mergers and acquisitions, India is now one of the leading nations in the world in terms of mergers and acquisitions. Among the different Indian sectors that have resorted to mergers and acquisitions in recent times, telecom, finance, FMCG, construction materials, automobile industry and steel industry are worth mentioning. The situation of mergers and acquisitions in India has undergone a sea change in the last couple of years. In Indian corporate sector mergers and acquisitions of foreign companies by the Indian companies has been latest trend. There are different key factors like dynamic attitude of Indian entrepreneurs, buoyancy in economy, favorable government policies, additional liquidity etc. behind the changing scenario of trends of mergers and acquisition in India. The IT and ITES sector have already played a dominant role in global market. The other Indian sectors are following the same trends. The increase participation of the Indian companies in the global corporate sector has further facilitated the merger and acquisition activities in India (As shown in table 1).

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

Source:

- The resultant behavior and pattern of M&As activity during the period may have been occurred due to the following factors:

  (i). The process of restructuring of Indian industry did not commence immediately after liberalization. It was the industrial slow down since 1996, which squeezed the profit margins of Indian corporate entities and forced them to restructure their operations to achieve greater competitiveness. This has driven the companies to go for expansion and consolidation through M&As.

(ii). The slowdown in industrial sector was further depreciated in 1997-98 with a disappointing rate of growth just being 4.1 percent (lowest after 1992-93).The slow down resulted due to declining agricultural production, depreciated capital markets for the last couple of years resulting in drying up of resources of investible funds for industry. (see Table 2)

Table 2: Distribution of M&A cross Industry Groups From 1990-91 to 2000-01

INDUSTRY / YEARS	1990 -91	1991 -92	1992 -93	1993 -94	1994 -95	1995 -96	1996 -97	1997-98	1998 -99	1999 -00	2000 -01	Total
Pharma				2	0	5	27	47	29	57	34	201
Petro chem.						4	11	5	11	13	13	57
Energy, Gas, Power				1	0	3	6	13	15	16	17	71
Non Metallic Mineral					2	3	2	11	11	19	7	55
Tourism, travels						2	4	7	6	13	3	35
Paper products							1	9	4	1	4	19
Food products			3	1	2	8	8	10	9	20	13	74
Textiles, wearing	1	0	0	0	1	0	4	4	12	6	6	34
Finance, Banking			1	0	1	0	7	24	35	51	33	152
IT & Telecom				3	0	0	11	20	31	45	51	161
Electricals, electronic				2	0	0	7	11	13	11	13	57
Basic metal, alloy				1	3	4	9	13	15	15	11	71
Equipment, machinery				4	3	2	12	26	25	30	11	113
Transport equipment						1	4	13	13	24	10	65
Tobacco, beverages				2	2	0	0	4	3	5	6	22
Others							12	31	37	61	58	199
TOTAL M& A					1	0	4	16	14	33	124	248

Source: RBI Report on Indian Industry: Structural Transformation, Restructuring, Performance and Recent Policy Initiatives, *Reserve Bank of India*, 1997, Government of India & *Indian Economy Survey, 1995-96.1996-97, 1997-98,1998-99,1999-00 & 2000-01*

- Large investment banks are taking a back seat to trading and merchant banking. M&A is increasingly viewed by large investment banks as a means to winning ancillary assignments such as underwriting
- One of the drivers for the continuation of M&A transactions with technology companies is that the largest technology companies have tremendous levels of cash.
- **CROSS-BORDER M&A SALES AND PURCHASE: INDIA VS. CHINA**

Japan is the only one Asian country that is in the top ten lists. among the top purchaser are two countries namely Japan (31 percent) and Singapore (16 percent); while Japan and Korea are among the top sellers. however, Japan and Singapore are the gainers from cross-border transactions due to having low sales value whereas Korea's case is the opposite.
china is the fourth dealer both in terms of purchase (6 percent) and sales (9 percent). India has its own share 3 percent in purchase value and 5 percent in sale value which is only half of china. both India and china are in progress with a very low pace of mergers & acquisitions transactions during the latter part of the 1980s and picked up during the 1990s. in the case of sales, in most of the years china remained far upper than India; although Indian sales value exceeded that of china in many years. however, recently both of these countries are involving in cross-border transactions from 2000 onwards in an unprecedented manner. India ranks as the 6th largest purchaser and 5th seller in the Asian region whereas china was the 3rd largest purchaser as well as seller in 2006 (see table 4).

Table 2: Cross-border M&A Sales and Purchase of Top 10 Asian Countries, 1987-2006

Country	Purchase (In Mn $)	Share	Country	Sale (In Mn $)	Share
Japan	161313	31	Japan	90209	19
Singapore	80440	16	Korea	50550	11
China	**29447**	**6**	**China**	**41196**	**9**
Malasya	28371	5	Turkey	32019	7
United Arab	27821	5	Singapore	31340	7
Israel	22456	4	Israel	26947	6
India	**14885**	**3**	Indonesia	22309	5
Saudi Arabia	12598	2	**India**	**21516**	**5**
Korea	12244	2	Thailand	16743	4
Turkey	10114	2	Philippines	15355	3
Total	399689	77	Total	348184	73
Asia Total	516554	100	Asia Total	474188	100

Source: Source: Calculated from UNCTAD, 2008

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.

Further, M&As did not have any impact on return on net worth for the period of study. The nature and pattern of M&As strategies adsopted by the Indian companies reveal mostly horizontal and vertical types. 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.

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