

A STUDY ON MERGERS AND ACQUISITIONS STRATEGIES**TAMMINENI SAUJANYA, MBA STUDENT****M.RAMESH, Associate professor****Dr. T. SRINIVASA RAO, Professor & HOD****DEPARTMENT OF MBA****INSTITUTE OF AERONAUTICAL ENGINEERING, DUNDIGAL, HYDERABAD****ABSTRACT:**

The purpose of this paper is to study the concept of Merger/Acquisition in detail by taking examples of some companies. The objective is to find out the major issues associated with pre and post merging situations with special emphasis on the human aspect. Merger/Acquisition is a phenomenon which is easy to think but hard to implement. Three phases of mergers – premerger, transition phase and the post merger phase have its own advantages as well as difficulties, if handled with proper care synergies can be withdrawn but a little mistake can spoil the whole transition. Both management and employees have to work hard at their own level to make it a successful one because man is the major factor during the whole deal. Post merger transition phase is the most difficult one as in any organization whether large or small cultural clashes exist which may turn up a merger into the failure. Merger/Acquisition is a process which is very essential nowadays for the growth and survival of the business. Companies are acquiring more and more firms in order to expand their business and with lots of reasons which are discussed here. If any company is not adopting this way either they will not grow or will be acquired by the other major big firm. Although the present system which is adopted by the companies for takeover can't be taken as the appropriate one because the major reason behind this is of synergies but still more and more companies are merging with one another as there is a flow of merger or acquisition in the present era. When companies merge or make a plan for acquisition the only factor in their mind is growth or expansion or synergies. People factor is totally ignored. Either they are not involved anywhere or if involved then at very lower level.

Key Words: Merger, Acquisition, Human factor, Communication, Employees, Management

I. INTRODUCTION

The terms merger, amalgamations, take-over and acquisitions are often used interchangeably to refer to a situation where two or more firms come together and combine into one to avail the benefits of such combinations and re-structuring in the form of merger etc., to face the challenge of increasing competition and to achieve synergy in business operations. The literature sources most frequently identify three phases of a merger or an acquisition process. Restructuring of business is an integral part of the new economic paradigm. As controls and restrictions give way to competition and free trade, restructuring and reorganization become essential. Restructuring usually involves major organizational change such as shift in corporate strategies to meet increased competition or changed market conditions.

This activity can take place internally in the form of new investments in plant and machinery, research and development at product and process levels. It can also take place externally through mergers and acquisitions (M&A) by which a firm may acquire another firm or by which joint venture with other firms. This restructuring process has been mergers, acquisitions, takeovers, collaborations, consolidation, diversification etc. Domestic firms have taken steps to consolidate their position to face increasing competitive pressures and MNC's have taken this opportunity to enter Indian corporate sector. This discusses impact of merger with reference to human resource aspect, it has actually integrated most of the significant management subjects under considerations into the judgment. The results of this study provide relatively strong support for the existence of a positive relationship between employee participation from top to bottom with employee satisfaction, motivation and performance. Since the basic aim of the study is to examine the

impact of any major change like merge on the management. Here in this study the organizational performance is measured by means of employee performance and employee performance is measured by their motivation, satisfaction of employees towards the job and the organization. Empirical evidence appears to support the view that human capital practices like employee participation after merger can influence the organizational performance and growth. Organizations interested in the growth and in high performance must involve their employees in decision making process to motivate, satisfy and better performance of the employees. The research provides proofs for the organizations that whenever the workforce is not satisfied and motivated with their jobs, performance is affected. The conclusion also suggests that after a merger happened, the management might be able to increase the level of commitment in the organization by increasing satisfaction and motivation of employee with compensation, policies, and work conditions. Impact of mergers and acquisitions on top level management may actually involve a "clash of the egos". There might be variations in the cultures of the two organizations. Under the new set up the manager may be asked to implement such policies or strategies, which may not be quite approved by him. When such a situation arises, the main focus of the organization gets diverted and executives become busy either settling matters among themselves or moving on. If however, the manager is well equipped with a degree or has sufficient qualification, the migration to another company may not be troublesome at all. Mergers and acquisitions, like organizational transitions in general, are typically followed by major structural and cultural changes, which may arouse stress, anger, disorientation, frustration, confusion and fright among personnel. Uncertainty and other negative emotions, in turn, tend to lead on to the several negative organizational outcomes, like lowered commitment and productivity, increased dissatisfaction and disloyalty, high turnover, leadership and power struggles, sabotage and a general rise in dysfunctional behaviors.

OBJECTIVE OF THE STUDY

Main objective of the study is to find out the major issues associated with pre and post merging situations where cultural shock arises and employees and management clashes to fulfill their desires moving in two different directions. This paper also analyze the present training methods to cope up with the environment and the up bringing situations and some alternatives are also suggested to make any merger/ acquisition a successful event for the company.

II. ANALYSIS OF MRGERS AND AQUISITIONS

TYPES OF MERGER

There are four types of merger which are as follows:

1. Horizontal merger:

It is a merger of two or more companies that compete in the same industry. It is a merger with a direct competitor and hence expands as the firm's operations in the same industry. Horizontal mergers are designed to produce substantial economies of scale and result in decrease in the number of competitors in the industry. The merger of Tata Oil Mills Ltd. with the Hindustan lever Ltd. was a horizontal merger.

2. Vertical merger:

It is a merger which takes place upon the combination of two companies which are operating in the same industry but at different stages of production or distribution system. If a company takes over its supplier/producers of raw material, then it may result in backward integration of its activities. On the other hand, Forward integration may result if a company decides to take over the retailer or Customer Company. Vertical merger may result in many operating and financial economies. The transferee firm will get a stronger position in the market as its production/distribution chain will be more integrated than that of the competitors. Vertical merger provides a way for total integration to those firms which are striving for owning of all phases of the production schedule together with the marketing

network (i.e., from the acquisition of raw material to the relating of final products).

3. Co generic Merger:

In these, mergers the acquirer and target companies are related through basic technologies, production processes or markets. The acquired company represents an extension of product line, market participants or technologies of the acquiring companies. These mergers represent an outward movement by the acquiring company from its current set of business to adjoining business. The acquiring company derives benefits by exploitation of strategic resources and from entry into a related market having higher return than it enjoyed earlier. The potential benefit from these mergers is high because these transactions offer opportunities to diversify around a common case of strategic resources.

4. Conglomerate merger:

These mergers involve firms engaged in unrelated type of business activities i.e. the business of two companies are not related to each other horizontally (in the sense of producing the same or competing products), nor vertically(in the sense of standing towards each other and the relationship of buyer and supplier or potential buyer and supplier). In a pure conglomerate, there are no important common factors between the companies in production, marketing, research and development and technology. In practice, however, there is some degree of overlap in one or more of these common factors.

TYPES OF ACQUISITION

An acquisition can obtain the structure of a purchase of the stock or other equity interests of the target body, or the acquisition of all or a substantial amount of its assets.

□ **Share purchases** – In a share purchase, the purchaser buys the shares of the target company from the shareholders of the target company. The purchaser will obtain the company with all its assets and liabilities.

□ **Asset purchases** – In an asset purchase, the purchaser buys the assets of the target

company from the target company. In simplest form this leaves the target company as a blank case, and the money it receives from the acquisition is then paid back to its shareholders by dividend or through liquidation. However, one of the advantages of an asset purchase for the buyer is that it can ‘cherry-pick’ the assets that it wants and leave the assets and liabilities that it does not. This liquidation is however usually the end outcome.

The terms “demerger” , ”spin-off” or “spin-out” are sometimes used to point out the effective opposite of a merger, where one company splits into two, the 2 nd often being a independently listed stock company if the parent was a stock company.

III. MOTIVES BEHIND M&A (MERGERS AND ACQUISITIONS)

The dominant rationale used to explain M&A activity is that acquiring firms seek improved financial performance. The following motives are considered to improve financial performance: Synergies: This refers to the fact that the combined company can often reduce its fixed costs by removing duplicate departments or operations, lowering the costs of the company relative to the same revenue stream, thus increases profit margins.

Market Share:

This assumes that the buyer will be absorbing a major competitor and thus increase its market power (by capturing increased market share) to set prices.

Cross selling:

For example, a bank buying a stock broker could then sell its banking products to the stock broker's customers, while the broker can sign up the bank's customers for brokerage accounts. Or, a manufacturer can acquire and sell complementary products.

Economies of Scale:

For example managerial economies have increased the opportunity of managerial specialization. Another example is purchasing economies due to increased order size and associated bulk-buying discounts.

Taxes:

A profitable company can buy a loss maker to use the target's loss as their advantage by reducing their tax liability.

Strategies or Golden Rules for Mergers and Acquisitions (M&A)

Merger and Acquisition Strategies are extremely important in order to derive the maximum benefit out of a merger or acquisition deal. A sound strategic planning can protect any merger from failure. Through market survey and market analysis of different mergers and acquisitions, it has been found out that there are some golden rules which can be treated as the Strategies for Successful Merger or Acquisition.

Golden Rules:

- Before entering into any merger or acquisition deal, the target company's market performance and market position is required to be examined thoroughly so that the optimal target company can be chosen and the deal can be finalized at a right price
- Identification of future market opportunities, recent market trends and customer's reaction to the company's products are also very important in order to assess the growth potential of the company.
- After finalizing the merger or acquisition deal, the integration process of the companies should be started in time. Before the closing of the deal, when the negotiation process is on, from that time, the management of both the companies requires to work on a proper integration strategy. This is to ensure that no potential problem crop up after the closing of the deal.
- If the company which intends to acquire the target company plans restructuring of the target company, then this plan should be declared and implemented within the period of acquisition to avoid uncertainties.
- It is also very important to consider the working environment and culture of the workforce of the target company, at the time

of drawing up Merger and Acquisition Strategies, so that the employees of the target company do not feel left out and become demoralized. Strive to keep the employees informed, encourage feedback, be honest about what's ahead, and make sure people stay focused by ensuring the best possible start for the newly expanded company.

IV. SUCCESS OR FAILURE OF MERGERS AND ACQUISITIONS (M&A)

The large volume of local and international research studies available regarding the issue of merger failure and success, despite varying research objectives and methodologies, are consistent in their findings that large numbers of Merger and Acquisition transactions fail to reach potential. However, any specific elements of the merger and acquisition process have yet to be identified as the critical success or failure factor impacting on the performance of a transaction. It is more likely that a range of issues and elements are responsible for M&A failure (Bennett, B.,: 2005, pp. 9-16). There are basically two broad issues responsible for success or failure of M&A transactions. These two issues are 'Fit' issues and 'Process' issues. 'Fit' issues are those which assess the juxtaposition of the acquirer and the target. The acquirer has limited ability to influence the fit issues; however there are some factors over which control can be asserted. 'Process' issues are those over which the acquirer can exert a large degree of control (Bennett, B.,: 2005, pp. 9-16).

**V. RESEARCH METHODOLOGY**

Fifty companies are selected for the research purpose. In all those companies reasons of mergers and acquisitions were studied in depth. Intention of both acquirer and acquiree were studied to find out why companies are opting for mergers and acquisitions. Wave of merger and acquisition is floating all over the world including India. Out of the fifty companies five companies are again selected for macro study. These five companies are United Beverages and Shaw Wallace, HDFC and CBoP, Vodafone & Hutch, Federal Mogul and Goetz India and HP Compaq merger. This is a qualitative study so how and why questions are handled instead of finding the no of reasons. In depth study of reasons is conducted. This methodological design is particularly useful in expanding our understanding and knowledge of mergers and acquisitions in terms of strategic planning and the issues surrounding the due diligence process.

VI. CONCLUSION

Over the years several studies have been carried out to evaluate whether Mergers and Acquisitions have been value enhancing or destructive of organizations. The methods that have been used to analyze acquisition performance are varied. The objective of our study is to review the literature to study history of M&A, phases, Motives and different methods used for measuring performance, evaluate the benefits and shortcomings, investigate whether there have been new developments in the techniques used over the last few years. The study started reviewing the M&A literature with an aim to understand the relevant processes and synthesizing the research results for the benefit of managers and future researchers. The scope of the study thus was restricted to M&A history, phases, motives, and methods. To conclude, the current study shows that there are multiple methods of measuring acquisition performance, each with its merits and demerits. The selection of the method of measurement is crucial to the results drawn, hence should be selected with great care.

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