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Mergers & Acquisitions: More Failures Than Successes

Rajnish Jindal[1]

[1]Asst. Professor, Amity Law School, Centre-II, Noida

***Abstract*- Mergers and acquisitions have become a common phenomenon in recent times. Companies have been actively involved in mergers and acquisitions domestically as well as internationally. The increased competition in the global market has prompted the Companies to go global for mergers and acquisitions as an important strategic choice. Mergers & Acquisitions (M&A) are the strategic growth devices in the hands of more and more Companies not only to stay in the competition but also to extend their margins, market share and dominance globally. The scale and the pace at which merger activities are coming up are remarkable. In the sense, mergers and acquisitions has become a strategic concept to grow quickly for a number of leading companies' world over. The booms in mergers and acquisitions suggest that the organizations are spending a significant amount of time and money either searching for companies to acquire or worrying about whether some other company will acquire them. The objective of this paper is to provide the analysis of successes and failures of major Mergers & Acquisitions (M&A) that have happened over a period of time in India and globally.**

Keywords-M&A, Synergy, Strategic, Company.

I. INTRODUCTION

Till the year 1988, the concept of Merger and Acquisition in India was not much popular. During that period a very small percentage of businesses in the country used to come together, mostly into a friendly acquisition with a negotiated deal. The key factor contributing to fewer companies involved in the merger is the regulatory and prohibitory provisions of MRTP (Monopolistic and Restrictive Trade Practices) Act, 1969. According to this Act, a company or a firm has to follow a pressurized and burdensome procedure to get approval for the merger and acquisitions. Merger and Acquisitions (M&A) have been a very important market entry strategy as well as an expansion strategy. The concept of mergers and acquisitions is very much popular in the current scenario. Consolidation through mergers and acquisitions is considered as one of the best ways of restructuring structure of corporate units. M&A gives a new life to the existing companies.

II. WHAT IS A MERGER AND ACQUISITION?

Merger is defined as a combination of two or more companies into a single company where one survives and the other loses their corporate existence. The survivor acquires the assets as well as liabilities of the merged company or companies. It is simply a combination of two or more businesses into one business. Laws in India use the term 'amalgamation' for merger. It usually involves two companies of the same size and stature joining hands. There are different types of concept in which merging of the companies take place like, Horizontal Merger, Vertical Merger, Conglomerate Merger, and Reverse Merger.

Acquisition in a general sense means acquiring the ownership in the property. It is the purchase by one company of controlling interest in the share capital of another existing company. Even after the takeover, although there is a change in the management of both the firms, companies retain their separate legal identity. The Companies remain independent and separate; there is only a change in control of the Companies.

III. HISTORY AND DEVELOPMENT OF MERGERS & ACQUISITION

Mergers and Acquisition has developed in five stages which are as below:

From 1897-1904: During this stage the mergers took place between companies who enjoyed a monopoly in the lines of production like railroad, electricity. Most of the mergers during this time were basically horizontal in nature. However, this stage ended in 1904 as the required efficiency could not be attained.

From 1916-29: The second stage focused on mergers between oligopolies. After the World War the economic boom that followed resulted in these mergers. In the second stage the mergers were basically horizontal or conglomerate in nature. However, this stage ended with the stock market crash in 1929 and the Great Depression.

From 1965-69: The mergers that took place in this stage were conglomerate in nature and were inspired by high stock prices, interest rate etc. However, this stage came to an end in 1968 as a result of the poor performance of the conglomerate.

From 1981-89: The major characteristic of this stage was that the acquisition targets under this were much larger in size as compared to the third stage. Here, the mergers that took place were between oil and gas industries, banking and airlines industries etc. This stage however ended with anti-takeover laws, financial institution laws and the Gulf War.

From 1992-2000: The mergers and acquisition under this stage was inspired by Globalization, Stock market boom and deregulation. In this stage the mergers took place between banking and telecommunication industries. They were mostly equity financed rather than debt financed.

IV. TOP MERGER & ACQUISITION DEALS IN INDIA

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TATA STEEL-CORUS: Tata Steel is one of the biggest ever Indian's steel company and the Corus is Europe's second largest steel company. In 2007, Tata Steel's takeover European steel major Corus for the price of $12.02 billion, making the Indian company, the world's fifth-largest steel producer. Tata Sponge iron, which was a low-cost steel producer in the fast developing region of the world and Corus, which was a high-value product manufacturer in the region of the world demanding value products. The acquisition was intended to give Tata steel access to the European markets and to achieve potential synergies in the areas of manufacturing, procurement, R&D, logistics, and back office operations.

VODAFONE-HUTCHISON ESSAR: Vodafone India Ltd. is the second largest mobile network operator in India by subscriber base, after Airtel. Hutchison Essar Ltd (HEL) was one of the leading mobile operators in India. In the year 2007, the world's largest telecom company in terms of revenue, Vodafone made a major foray into the Indian telecom market by acquiring a 52 percent stake in Hutchison Essat Ltd, a deal with the Hong Kong based Hutchison Telecommunication International Ltd. Vodafone main motive in going in for the deal was its strategy of expanding into emerging and high growth markets like India. Vodafone's purchase of 52% stake in Hutch Essar for about $10 billion. Essar group still holds 32% in the Joint venture.

HINDALCO-NOVELIS: The Hindalco Novelis merger marks one of the biggest mergers in the aluminum industry. Hindalco industries Ltd. is an aluminum manufacturing company and is a subsidiary of the Aditya Birla Group and Novelis is the world leader in aluminum rolling, producing an estimated 19percent of the world's flat-rolled aluminum products. The Hindalco Company entered into an agreement to acquire the Canadian company Novelis for $6 billion, making the combined entity the world's largest rolled-aluminumNovelis operates as a subsidiary of Hindalco.

RANBAXY-DAIICHI SANKYO: Ranbaxy Laboratories Limited is an Indian multinational pharmaceutical company that was incorporated in India in 1961 and Daiichi Sankyo is a global pharmaceutical company, the second largest pharmaceutical company in Japan. In 2008, Daiichi Sankyo Co. Ltd., signed an agreement to acquire the entire shareholders of the promoters of Ranbaxy Laboratories Ltd, the largest pharmaceutical company in India. Ranbaxy's sale to Japan's Daiichi at the price of $4.5 billion.

ONGC-IMPERIAL ENERGY: Oil and Natural Gas Corporation Limited (ONGC), national oil company of India. Imperial Energy Group is part of the India National Gas Company, ONGC Videsh Ltd (OVL). Imperial Energy includes 5 independent enterprises operating in the territory of Tomsk region, including 2 oil and gas producing enterprises. Oil and Natural Gas Corp. Ltd (ONGC) took control of Imperial Energy UK Based firm operating in Russia for the price of $1.9 billion in early 2009. This acquisition was the second largest investment made by ONGC in Russia.

MAHINDRA & MAHINDRA- SCHONEWEISS: Mahindra & Mahindra Limited is an Indian multinational automobile manufacturing corporation headquarters in Mumbai, India. It is one of the largest vehicles manufacturer by production in India. Mahindra & Mahindra acquired 90 percent of Schoneweiss, a leading company in the forging sector in Germany. The deal took place in 2007, and consolidated Mahindra's position in the global market.

STERLITE- ASARCO: Sterlite is India's largest non-ferrous metals and mining company with interests and operations in aluminum, copper and zinc and lead. Sterlite has a world class copper smelter and refinery operations in India. Asarco, formerly known as American Smelting and Refining Company, is currently the third largest copper producer in the United States of America. In the year 2009, Sterlite Industries, a part of the Vedanta Group signed an agreement regarding the acquisition of copper mining company Asarco for the price of $ 2.6 billion. The deal surpassed Tata's $2.3 billion deal of acquiring Land Rover and Jaguar. After the finalization of the deal Sterlite would become third largest copper mining company in the world.

TATA MOTORS-JAGUAR LAND ROVER: Tata Motors Limited (TELCO), is an Indian multinational automotive manufacturing company headquartered in Mumbai, India and a subsidiary of the Tata Group and the Jaguar Land Rover Automotive PLC is a British multinational automotive company headquarters in Whitley, Coventry, United Kingdom, and now a subsidiary of Indian automaker Tata Motors. Tata Motors acquisition of luxury car maker Jaguar Land Rover was for the price of $2.3 billion. This could probably the most ambitious deal after the Ranbaxy won. It certainly landed Tata Motors in a lot of troubles.

SUZLON-REPOWER: Suzlon Energy Limited is a wind turbine supplier based in Pune, India and RePower systems SE (now Senvion SE) is a German wind turbine company founded in 2001, owned by Centerbridge Partners. Wind Energy premier Suzlon Energy's acquisition of RePower for $1.7 billion.

RIL-RPL MERGER: Reliance Industries Limited (RIL) is an Indian Conglomerate holding company headquartered in Mumbai, India. Reliance is the most profitable company in India, the second-largest publicly traded company in India by market capitalization. Reliance Petroleum Limited was set up by Reliance Industries Limited (RIL), one of India's largest private sector companies based in Ahmedabad. Currently, Reliance Industries taking over Reliance Petroleum Limited (RPL) for the price of 8500 crores or $1.6 billion.

V. VARIOUS DISADVANTAGES

The major reasons as to why merger and acquisitions fail are explained as below:

1. Over estimating the value of the target company: Though the basic aim of a company in merger and acquisition is to provide benefit to the shareholders and maximize its profits but in reality most of the companies are not able to achieve this. A survey conducted by Mckinsey and Company shows that many parent companies often over estimate the value of their target company due to lack of due diligence. Also, sometimes, two or more companies are interested in acquiring the

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same company and this greatly shoots up the amount they eventually have meat out for the target company. In 1998 the German auto car maker Daimler Benz merged with Chrysler Group for a value of $36 billion. It was considered to be a win-win situation for both companies as it was perceived to be a merger between equal. However, after a few years, the value of Chrysler fell to a mere $7.4 billion. The merger had proved to be a failure. Many reasons contributed to this but all experts agree that Daimler Benz never conducted a proper due diligence before it merged with Chrysler. In other words, it over estimated the value of the target company which led to merger proving to be unsuccessful.

2. High cost debt: The acquirer many a time's gets submerged in large and extra ordinary debts during merger and acquisition. Most of the mergers and acquisitions are financed through unsecured debts which carry a huge rate of interest with them. These high cost debts eventually lead to a fall in the stock prices of the parent company. Also when two or more companies bid for the same company they may end up paying more for the target company. This over estimated price is usually raised by the company through high cost debts. As a result, the company will try to cover these high cost debts which lead to a fall in the stock prices of the parent company which eventually hampers the company. In 2008, Tata Motors acquired Jaguar. The analysts were of the opinion that it was Tata's ambition to become a global company in quick time that led them to purchase Jaguar. Since a very high cost was paid, the deal was financed by Tata's through high cost debts. Later the shares of both the companies suffered a huge blow as Tata tried to raise money to cover this huge acquisition debt.

3. Job Loss: One of the major reason as to why Mergers and Acquisitions is feared amongst the employees is because of job loss. According to the statistics provided by the UNI-Europa, nearly 130,000 jobs have been lost as a result of mergers and acquisition in the European financial sector. Also according to the European Restructuring Monitor, of the 3.7 million job losses, approximately 240,000 jobs were lost as a result of mergers and acquisition. This job loss is mainly the result of the company going into cost cutting schemes to give some breathing space to its highly skewed balance sheet as a result of the merger or acquisition. The other reasons leading to job losses are: company wanting to save on its pay roll, the parent company may already have surplus workmen, the target company may not be trading efficiently due to a large staff. In USA due to the merger between Chemical Bank and Chase Manhattan in 1995, nearly twelve thousand jobs were eliminated. Also when Nation Bank acquired Bank of America in 1998 it included plans to lay off nearly 18,000 employees.

4. Cultural aspect: This is one of the biggest issues which the companies face during mergers and acquisition. No two companies can do the business in same way. The working and organization culture of every company is different. A company may be different from the other on the basis of the way they project themselves in the market, how they treat customers, suppliers and employees, how much freedom is given to the employees and so on. The merger or acquisition between two culturally different companies eventually leads to lower productivity if this issue is not addressed by the management right from the beginning. In 1998, the German auto car maker Damlier Benz merged with US Chrysler Group. The deal was considered to be a win-win situation for both. However, after two years the company reported a huge loss because of which nearly 21,000 jobs were lost. One of the reasons given for this failed merger was that both these companies were fundamentally different with respect to their cultural background. Daimler-Benz was always known for its methodical organization, centralized decision making and a regard for tradition and hierarchy while Chrysler had a reputation of risk taking, encouraging creativity and flexibility.

5. Monopoly: A monopoly exists when a specific individual or an enterprise has sufficient control over a particular product or service to determine significantly the terms on which other individuals shall have access to it. A merger can lead to a monopoly where there are not many competitors in the market giving the parent company the power to control the price of the product and increase it according to will so as to increase their profit. As a result, the bargaining power is shifted from the consumer to the producer. However, this situation can not arise anymore because of the stringent laws made by the government to check the menace of monopolies. A report made by Judge Thomas Penfield accused Microsoft of enjoying a huge power in the market for Intel compatible PCs. Their position in the market gave them the power to dictate the price in the market without any fear of losing customers.

6. Shareholders and Employees interest overlooked: One of the major mistake committed by the parent company is that it neglects the interest of the employees and the shareholders during due diligence. The shareholders who are being taken over often feel hostile. Mergers and acquisitions makes the employees shift their focus from productive work to issues related to conflicts, layoff, compensation etc. It also puts a huge question mark in the minds of the employees regarding their job security. It is required that during merger and acquisition a proper communication should be maintained between the management and the employees so as to avoid such issues. As a result of the merger between ABB-Flakt at the global level, its branches in India also merged. However, a study conducted on this merger in India revealed that no proper due diligence was conducted as a result of which the gain on the merger was less than the capital market growth due to which the shareholders of Flakt lost heavily..

VI. Conclusion

Continuous growth and survival are the ultimate objectives of any organization and M&A is one of the forms of survival strategy. One of the most important ways to grow profitably and maximizing shareholders' wealth is the nuptials of Companies in Corporate World. But painstaking pre-merger planning including conducting appropriate due diligence, valuable communication during the integration, efficient management and committed leadership, and pace at which the integration plan is done, together is required to handle these nuptials of companies successfully. Mergers and Acquisitions (M&A) are the expression of strategic concepts pertaining to the corporate

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sector. They envisage management of processes related to selling, buying and combining one or more companies for obtaining a common cause. Common cause consists of aiding, financing or assisting a company to grow at a much faster rate.

Corporate Mergers and Acquisitions are very crucial for any country's economy. This is so because the Corporate Mergers and Acquisitions can result in significant restructuring of the industries and can contribute to rapid growth of industries by generating Economies of Scale, increased competition in the market and raise the vulnerability of the stockholders as the value of stocks experience ups and downs after a merger or acquisition. Although the concept of Merger and Acquisition are different from one another but both can be used as engines of growth. As a result, M&As are considered as most strategic concepts to make sure growth for the companies in the Corporate world.

Most of the big companies these days are indulging in merger and acquisition and in the coming years this process is only going to get bigger. As mentioned above more than 61% of the merger and acquisition are not successful. Therefore, it is of utmost need that the success rate of mergers and acquisition be improved. This can only be done if all the aspects involved in merger and acquisition are given proper attention. It is to be borne in mind that a merger or an acquisition done in haste cannot be successful. Before a merger or an acquisition actually takes place a thorough due diligence of the target company should be done. Based on that result the parent company should decide whether to go ahead with the merger or acquisition or not.t.

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