

SUCCESS THROUGH STRATEGIES IN CROSS-BORDER MERGER & ACQUISITION

Bhavesh Chadamiya¹ and Mital Menapara²

Assistant Professor, Om Vindhyavasini College for IT & MGT.,
Saurashtra University, Rajkot

Email: ¹bp_patel84@yahoo.co.in, ²menparamital@yahoo.co.in

ABSTRACT

As the markets are becoming global, activity in mergers and acquisitions (M&A), particularly cross-border, is booming. The traditional internal or organic growth model has given way to an aggressive market-based external growth model. Globally, the number and size of deals is heading toward record levels, with cross-border deals taking centre stage, as companies take advantage of cheap financing to pursue their expansive M&A strategies.

This research paper starts with the introduction of M&A in India with some figures and end with conclusion. This paper is concentrated particularly on the various strategies which the Indian as well as overseas companies can leverage in their cross-border merger and acquisition processes which form the main part of this paper.

Keywords: Merger & Acquisition, Cross Borders of M&A, Analyze Company Culture, Handel to People, M&A Communication.

INTRODUCTION

It is the inherent desire and need of every business to grow both vertically and horizontally. Organic growth, that is development from within, is often slow and sometimes difficult. That is why there is an increasing trend towards M&A. It could be called an instant expansion. Most Indian companies have followed an inorganic route to expand their overseas operations. The number of cross-border deals has increased from 30 in 1995 to 71 in 2000 and 410 in 2011.

According to report by Grant Thornton, the number of cross-border deals from India in 2011 grew much faster than domestic deals. There were 480 M&A deals in India last year with a total value of about \$20.3 billion. Of these 266 were cross-border deals (value \$15.3 billion). The targeted firms are being used US and EU as platforms to gain access into these foreign markets by leveraging the market positions already established by these firms on their respective domestic turfs. From 1995 to August 2006, 29 percent of Indian cross-border M&As occurred in the European Union and 32 percent in North America.

Indians are taking over more Indian companies abroad than MNCs (multinational companies) are taking over companies in India. The sectors that held sway in these deals include Engineering, IT and IT - enabled services, Media, Pharmaceuticals & Healthcare and Textiles.

Cross- Border Merger & Acquisition Strategies

Many Mergers and Acquisitions have failed across all industries. These failures are not usually caused by outside factors like the market, competition, high purchase premiums or excessive leverage. Rather, the failures have three primary causes: incongruent management styles, organizational culture differences and clashes in decision-making processes.

Dissatisfied customers, communication problems, cultural cohesion problem, decision making problem, employee attrition, decreased productivity are the most distressing aspect of managing a post merger or acquisition operations of business. At that time, it becomes very difficult for companies to solve those problems. For this reason, the solution to managing these transactions depends largely on planning and prevention.

Here some real-life **strategies** are given which can help the companies to act on before the cross-border M & A deal is inked.

Cultural Cohesion: Analyze Company Cultures

In today's competitive global business landscape, the increasing number of M&A deals across cultures has presented companies with a whole new set of opportunities and challenges to consider as they attempt to integrate the business strategies, operations, and cultures of the different companies. The organizational culture plays an important role during mergers and acquisitions as the organizational practices, managerial styles and structures to a large extent are determined by the organizational culture.

The importance and bottom-line impact of the cultural component in cross border M&A deals is still unappreciated and underestimated when compared to the other operational, management, and business strategy issues that so often dominate the discussions and integration planning in the corporate offices.

During the courting phase, companies considering consolidation must maintain objectivity about the impending business deal. Companies should frankly discuss their respective business cultures to determine whether an appropriate fit is even possible. Distinct differences must be acknowledged, accepted and dealt with directly. An open and honest assessment of the differences in business cultures ensures there are no surprises after the two companies begin working together.

HR: Handle the People part of M & A

Although the merging entities give a great deal of importance to financial matters and the outcomes, HR issues are the most neglected ones. Companies typically amass an army of financial advisors and lawyers but lack the expertise to handle the people part of M & A. Ironically studies show that most of the mergers fail to bring out the desired outcomes due to people related issues. The uncertainty brought out by poorly managed HR issues in mergers and acquisitions have been the major reason for these failures.

To successfully merge two companies, executives need to allocate sufficient communication resources for managing employee concerns. Industry consolidation typically raises fears about job loss, plant relocation or the reassignment of responsibilities. Managers must be honest with their people about what to expect. Management must also involve their staff in as much decision-making as possible.

Frequently, the smartest strategy is to bring in a trusted advisor who is skilled in handling the human aspects of mergers and acquisitions. After all, companies are made up of people and people determine performance. Putting people first is an investment in success.

Beware the Honeymoon Syndrome

Spirits are usually high at the onset of the merger or acquisition. Stock prices skyrocket, press is favorable and expectations are high for growth. This is the “honeymoon period” when companies are preoccupied with the bright side of the new venture. This can also be a very dangerous time, as companies are blind to the weaknesses and risks inherent in the deal. Often it’s wise to bring in an objective third party as the planning begins to prevent ‘infatuation’ and ensure that management is realistically considering the problematic aspects of the merger or acquisition.

It’s also critical to gauge whether management is willing to allocate enough “bandwidth” to tackle both the acquisition and current operations. It is important to perform "reverse qualification" so companies use the same set of analytical tools on themselves that they have already used on the target company.

Asking the following questions will help determine whether both organizations are truly fit or not.

- “Does the new company treat customers the same way?”
- “Do we share similarities in risk taking?”
- “Does the new company nurture leadership qualities in their management staff?”

Sometimes no deal is the best deal

Sometimes the best deal is the one that never happens. If there is problem in findings the interest of both the parties in the merger or acquisition, it is better to stop that process at that time only. For example, the recent decision of Land O’Lakes and Swiss Valley Farms to indefinitely postpone their intended fluid milk joint venture. Both companies analyzed ways to come together and decided the venture would not work in both cooperatives’ best interests. Although the venture did not fly, the companies’ reluctance might be deemed a success. A failed merger can cost a company millions of dollars, often resulting in huge employee turnover and customer dissatisfaction

Merger & Acquisition Communications

Clearly defined communication strategy during M &A plays an important role in removing the employee fears and kill rumors floating around in the organization. Studies show that communication strategy that involves senior managers of the acquired organizations work well. The employees meeting in small groups so as to discuss their concerns, fears and positive feelings also helps to lessen the stress on employees of acquired firm. This also

provides confidence to employees that the new management is willing to listen to their concerns and feelings, building an atmosphere of mutual trust.

The transition period also becomes crucial from communication point of view. In case of lengthy transition period the employee stress increases, the best strategy in this period is to convince the employees that they are part of new organization and their concerns will be taken care of. The transition period can also be used to improve communication with the employees of acquired firm. Improved communication will help to better understand each other's cultures and practices. Firms can also use this period to analyze the human capital of the acquired firm and define their possible roles in the new organizations. The transition period provides ample opportunity to design the new organization, explain the new roles to the employees, plan synergies and train the employees as the new role. This will make the integration process easier for the acquiring organization.

Benefits of Results-Driven Communication include:

- Retain customer loyalty and brand image, as well as strengthen competitive advantage;
- Retain talented employees and reinforce workforce commitment;
- Sustain investor confidence;
- Better prepared to be proactive and capture communication opportunities.
- Capture synergies and prepare for future venture integration.

CONCLUSION

Indian companies are expanding beyond outsourcing and investment hubs to become global market-shapers through mergers and acquisitions. The increase in major cross-border transactions in recent years has been facilitated by the relaxation of regulations on overseas capital movements as well as a supportive political and economic environment.

Indian companies are able to identify foreign firms that have value-added offerings that complement their own low-cost products and services to create an efficient integrated global business model—turning the conventional direction of such deals on its head. But what they are required to keep in mind are the several aspects of M&A activity considered in the form of strategies. They should consider cultural as well as diversity aspect, communication aspect, people aspect, honeymoon syndrome aspect and interest and co-operation aspect of involved parties. A successful integration process relies on effective, consistent and regular communication, in identifying and valuing of cultural differences, being honest with the employees and considering problematic aspect of M&A.

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