International Journal of Management, IT & Engineering
Vol. 7 Issue 5, May 2017,
ISSN: 2249-0558 Impact Factor: 7.119
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage as well as in Cabell's Directories of Publishing Opportunities, U.S.A

MANAGING MERGERS & ACQUISITIONS: AN ISSUE OF STRATEGY MANAGEMENT

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ABSTRACT

In this paper we have tried to discuss the meaning of mergers and acquisitions how for they contribute to the strategic planning policy of any organizations. Firms usually merge for the benefit of both the organizations and to achieve excellence in the terms of profitability, economies of scale and to cope up with prevailing competition. There are some more objectives for which companies merge one of them is shareholder's wealth. We had tried to throw light on managing mergers as a strategic decision and also tried to explain mergers acquisition life cycle supported by case study for better understanding of the concepts of the readers.

KEY WORDS : Management,Strategies,Rationales,Mergers&Acquisitions

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INTRODUCTION

Concepts of the readers Mergers and acquisitions that are usually referred to as M&A are important part of corporate restructuring. The basic concept behind mergers and acquisitions is that two companies create comparatively more value than they have as separate organizations. It happens due to consolidation of two firms. Therefore, The understanding of mergers and acquisitions of great importance in today's world where newspapers almost every day tell stories of such activities taking place around the globe. Major sectors going for these activities are banking, Pharmacy, IT, chemicals oils telecom etc.

MERGER

A merger is a strategy of joining two businesses. Basically merger occurs when two companies join or merge to form one single company but with a new name.

'M&As represent a marriage.'[1]

This is because merger often takes place between two companies that are equal in size and status and with their cooperation, thus the term "merger of equals". This may not be true always or for all the companies that merger. Sometimes a merging is not a marriage between two equals therefore "When two companies differ significantly in size, they usually merge. [2]

ACQUISITION

Acquisition means situations where one firm acquires an and the existence of Transferor Company is vanished.[2]

Simply put in what happens in an acquisition is that one business buys another usually smaller business that might be absorbed by the transferee company.

An organization that attempts to merge with some other organization generally named as acquirer organization. On the other hand the company is being acquired is know as target company.

ACQUISITIONS, MERGERS AND STRATEGIC MANAGEMENT

In the past decades mergers and acquisitions were only financial transactions aiming to control undervalued assets and the target was an industry or business very different from the

acquirer's core business. Cash flows merely sufficient for debt repayment were the main goal. Mergers and acquisitions in current times are very different the past.

"Today the typical merger or acquisitions are quite strategic and operational in nature."[3]

It implies that today managers are not just buying undervalued assets but they are also buying the customer base, distribution channels, and new markets, organizational competencies and new talent of the merging companies. All of these acquired factors in return provide more strategic opportunities to companies so that they can gain advantage over their competitors. Such company's resources are successful in consolidating business units in an attempt to maximize their turnover, revenue and share prices.

"Strategic planning has long been emphasized by companies as an important tool for the success of business.[4].

Many studies conducted in this regards revealed that seldom did managers had an strategic rationale for Mergers and Acquisitions and the impact these deals will have on the organization in the coming time. Companies have recently shifted their emphasis from cost saving to using Mergers and Acquisitions as strategic driving force for growth of organizations.

Companies that undertake such deals can either gain from them or can be a complete failure. It is there for every important to align any company on strategic plans with their M&A plans. This can be done by an effective tool that is due diligence that implies the screening of all the potential targets of M&A.Which will explained afterwards.[4]

IMPORTANCE OF MERGERS AND ACQUISITIONS

Mergers and acquisitions are very important means where by companies respond to the dynamic strategic environment.

"Many firms have no alternative but to merge, acquire or be acquired." [5].

Simply it is the last strategy for company's survival.The basic goal of business in today's world is to grow or death . Companies that are successful that are those growing and will expand its market share by their competitors and will be able to generate high economic profits and provide reasonable returns to their shareholders. On other hand companies having stagnant growth loses its customers as well as market and shareholders' value.

'Mergers and acquisitions play a critical role in both sides of this cycle.'[6]
Mergers and acquisitions enable successful companies to grow faster than their competition by combining the strength of the companies that have merged. On the other side it leads to the existence of the weaker companies by having them acquired by other large and successful companies.

Mergers and acquisitions are vital part of any healthy economy and importantly, the primary way that companies are able to provide returns to owners and investors.

"M&A are amongst the most powerful and versatile growth tool employed by companies of all sizes and in all industries".[6]

This also signifies the importance of M&A in that they are highly efficient growth tools employed by organizations of all size and and in all industries. It reflects that M&As being global trend.

The Reasons for Mergers and Acquisitions

Companies and businesses uses mergers and acquisitions for many reasons some are here:

- Mergers and acquisitions can pave ways for entering new markets by adding new product line and increasing the availability of product in new markets i.e. gaining competence to do more combinations.
- Mergers and acquisitions are use to increase enhance shareholder value by cost reduction that achieved by combining departments, operations and reducing work force leads to increased profitability. Increasing revenue by absorbing major competition and thereby

increasing market share. Tax savings are achieved when a profitable company merges with a loss making firm.

- Some mergers and acquisitions takes place when management of any business recognizes the need to transform corporate identity.[6]
- These activities are used for diversification of risk.
- Acquisitions are undertaken to achieve vertical and horizontal operational synergies signify that the whole is great than the parts.[7]
- Some M&As take place for market dominance and achieving economies of scale.[8]

Screening of potential Merger and Acquisition targets

As complication of mergers and acquisitions has increased, the scope and effectiveness of due diligence is now questionable.[9]

To overcome the danger of making a wrong decision, its should be well understood that the probable buyer of an organization needs to work out and act on a clear criteria when considering a potential merger or acquisition,[10]

Organizations should also plan for successful target engagement. To do so, they should clearly identify their target and offer compelling value proposition to potential target candidates.[11]

Foundations for Mergers and Acquisitions

→ Strategic Basis

To achieve a set of strategic objectives, the strategic basis plays an important role.

Mergers and acquisitions are usually not central to a achieve strategic objectives, as usually there are other alternatives available.

→ Speculative Basis

This basis takes place when the acquirer takes the acquired organization as a commodity. The organization only will acquire another fit feels that it is a potential target and that it could benefit from this acquisition. A major risk in this type of acquisitions is that the acquirer can do

anything with the other organization which is acquired. It could either split it or sell it in parts. The speculative basis is very much vulnerable to changes happening in the environment.

→ Management Failure Basis

Sometimes, mergers and acquisitions may be forced due to failure on the management side. Strategies might be wrongly aligned or market conditions may change significantly while implementing the time scale. The result may be that the initial strategy becomes non aligned.

.**→Political Basis**

In today's world the impact of political influence is becoming significant factor with respect to mergers and acquisitions.It can be easily seen by the situation of reliance petroleum in the tenure of prevailing government.

→Business Redefining Basis

Business redefinition is sometimes possible through mergers and acquisitions. This is an appropriate strategic basis when an organization's mission and vision grew stale due to technological change. In such case the organization cannot immediately update its technology by internal investments so the organization seeks to acquire the new and innovative technologies to redefine its business.

INTEGRATION AND CONGLOMERATION

There are three basic types of mergers:

VERTICAL MERGERS

HORIZONTOL MERGERS

CONGLOMERATE MERGERS

Vertical Mergers

A vertical merger is a merger between two companies that operates at different stages of the production process for a specific finished product. A vertical merger occurs when two or more organizations', working at different levels within an industry's supply chain, merge operations. Most often, the logic behind the merger is to increase synergies created by merging firms that

would be more efficient operating as one. A vertical merger, also known as a vertical integration is a merger between a manufacturer and a supplier within the same industry. These types of mergers or integrations occur when a company wants to reduce operating costs and increase efficiency to earn higher profits. Combining the operations of two companies allows a parent company to control the whole production cycle of a product by incorporating two businesses as a one business entity. The supply chain of an industry consists of five steps: raw materials, intermediate manufacturing, assembly, distribution and the customer. There are two types of vertical merger strategies, backward integration and forward integration that move vertically up or down the supply chain to accomplish a vertical integration. A backward integration normally occurs when a manufacturer moves up the supply chain to own the supplier of its raw materials. A forward integration happens when a company within the supply chain moves down to throw out the middle man and get closer to the end customer. In these situations, a manufacturer normally acquires or integrates with wholesalers or distributors to control the direct sales to consumers.

Horizontal Mergers

A horizontal merger is a merger that occurs between firms that operate in the same space, as competition tends to be higher and the synergies and potential gains in market share are much bigger for merging firms in such an industry. This type of merger occurs frequently because of larger companies try to create more efficient economies of scale, Horizontal mergers help companies gain competitive edge over competitors.

Conglomerate Mergers

A conglomerate is the combination of two or more companies engaged in entirely different businesses that fall under one business group, usually involving a parent company and many subsidiaries. Often, a conglomerate company is the combination of different industries. Conglomerates are often large and multinational.

Conglomerates were popular in the 1960s due to a blend of low interest rates and a repeating market trends, which allowed the conglomerates to buy companies in leveraged buyouts, sometimes at temporarily deflated values. For many years this was enough to make the

company's stock price go up, as companies were often valued largely on their ROI. The insistent nature of the conglomerates themselves was enough to make many investors, who saw a "powerful" and seemingly inevitable force in business, buy their stock. High stock prices allowed them to raise more loans, based on the value of their stock, and thus buy even more companies. This led to a chain reaction, which allowed them to grow very rapidly.

all of this growth was somewhat illusive and when interest rates rose to offset inflation, conglomerate profits cut down. Investors noticed that the companies inside the conglomerate were growing no faster than before they were purchased, whereas the rationale for buying a company was that "power of combinations" would provide efficiency. By the late 1960s they were shun by the market, and a major sell-off of their shares ensued. In so many cases, conglomerates are formed for genuine interests of diversification rather than management of paper ROI. Companies with this orientation would only make acquisitions or start new branches in other sectors when they believed this would increase profitability or stability by sharing risks.

Timing of Integration

Other than different levels and forms of integrations, the time of the integrations play a vital roe in the success of the merger or acquisition. This is related to the ongoing processes in the acquired company. The exploitation and exploration of processes required different types of integration therefore their the timing of integration will also be different.[13]

The longer the temporally lag between the closing and start of integration, the lower the acquisition performance. [14]

Therefore is very important to take timing of integration into consideration while acquiring or merging with a company. If this factor is not taken into consideration while acquiring the result of merger may be a failure.

Sometimes it also seems to be more beneficial to initially leave the target company on the grounds on which it was previously functioning and move towards any sort of integration at later stage in the change process.[15]Whatever may be the acquiring company should carefully analyze and assess the company to be acquired and study its process and then figure out the right time and right type of integration..

LIFE-CYCLE OF MERGERS AND ACQUISITIONS

Merger & Acquisition Life cycle The life cycle of Mergers and acquisitions can be categories as Pre deal and post deal activities.

Pre M&A deal Activities

- Merger & Amalgamation Definition
- Target screening
- Due Diligence
- Transaction Execution
- Transition Planning

Post M&A deal Activities

- Integration
- Divestiture

Almost all mergers and acquisitions begin with the inception in this phase the process is initiated by the managers of the company. This step is usually followed by feasibility stage where the financial and logistics are analyzed. The merger or acquisition may be the improvement of the financial position and market value. The feasibility phase includes detailed analysis of the financial characteristics of the proposed merger while considering time scales, synergy generation and other variables.

During some point or towards the end of the feasibility phase proper decisions made on how to take things to next level. At this point, the organization commits its self to other merger or acquisitions and starts allocating the funds and resources as per requirement.

The next phase is known as pre-merger phase and starts immediately after the commitment to proceed. In this phase the senior managers of both the organizations enter into negotiation to form structure of the new organization.

The services of external professional consultants are also needed in this phase. A after the negotiation is made, the deal takes form of a merger. The contract set out the rights, duties and obligations of both the organizations under the terms of the deal. As soon as the contracts in place, the implementation process begins. This process involves the mechanics of actually making the merger happen.

In real life, merger and acquisition lifecycles can be considered in much more complex terms. In practice, it is necessary to subdivide a life cycle phase in to manageable chunks to have sufficient control and response. In implementing mergers managers usually establish detailed review and associated reporting procedures and formats for each phase. The procedure prove to be very helpful keeping the entire merger focus and on track.

The figure various phases of the life cycle. Strategic planners dominate the early phases as they are responsible initiating the merger and for making strategically correct decisions.

Once it is decided go ahead with merger, the role of the strategic planners lessens and the implementation terms and specialist become active. The external consultants are there to set up the contract and the remaining aspects of the deal. The integration team comes into action as soon as the contracts are finalized and signed by both parties.

IMPORTANT TACTICS FOR MERGERSANDACQUISITIONS

There are some aspects which requires look around strategies

Internal capabilities:

The internal capabilities means the analysis of strengths of the organization while going for mergers the company should analyze the strength of the target company. This analysis helps the companies to decide whether the company should acquire the target company for what?

Strategic goals and alignment

It is very essential to evaluate a firm's strategic and financial goals- determining if they can be achieved faster or more easily via firm's own growth rate or they go for merger.

Selection criteria:

Selection should be grounded on after acquisition cost reduction market share, and synergy opportunities. Flexibility should be maintained as criteria in one industry may not apply to another.

Target selection:

The target selection process needs to be carried out quickly keeping in mind that it should be explicit and transparent.[17]

MERGERSANDACQUISITIONS-SUCCESSESANDFAILURES

The target Mergers and Acquisitions can neither be successful nor complete failures. A study in which 180 cases were studied show that two-thirds of mergers and acquisitions fail. Outcomes less than standards were also considered as failures.[18]

According to an earlier search, inadequate planning, hurry to close the deal, not being able to foresee the future integration problems and projecting synergies that turnout to be illusionary are all cause of failure.[19]

A Detailed merger plan over throw the implementation of the merger or Acquisitions. A successful merger plan will put up with fruitful results. In the mergers that do succeed, experiences and preparation are said to be the key factors. A merger or acquisition has a higher chance of success if the organization and its management has before experienced and survived merger.

CONCLUSION

Mergers and acquisitions are being used as an important strategic tool for continued existence by many organizations in today's competitive environment. The essence of mergers and acquisitions is that the value of two companies together is greater than one. Companies merge with other companies to make use of one another's strengths and these results in increased market share and profitability that is important for survival of organization. Mergers and acquisitions enable companies to work as one and thus increase their total market value.In this

research paper,we have discussed what mergers and acquisitions are, their causes and their importance.We have also explained the ways to screen a potential target and the rationales behind mergers and acquisitions. This paper also discusses the types of mergers i.e.vertically integrated, horizontally integrated and conglomerate. In another part we had tried to explain the life cycle of mergers and acquisitions. It begins with inception and ends at post implementation.In the end, we have discussed successful cases studies of mergers and acquisitions for better understanding of the paper.

Mergers and Acquisitions are selected as tools for the perpetual succession of companies and theses are considered not less than a competitive weapon among business firms in today's world.This paper explains the importance of these weapons and contributes for long life of business. Its also describes how business firms strategically and successfully merge or acquire for mutual benefit.This paper also explains the strategies that firms can adopt and derive benefits by merger and/or through acquisition business rationales, integration .We aim to provide a consolidated paper having the stages, rationales and types of mergers and acquisitions.

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