MERGER AND ACCQUISITION

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Abstract

Individuals, markets, marketplaces, and clients are all changing the business environment. A company's usage of inorganic synergies is seen as a vital strategy for increasing client base, decreasing competition, merging and developing swiftly, as well as instilling new technology in their goods, people and procedures. To speed up corporate restructuring, inorganic synergies were identified. Companies face globalization, economic exploration, global difficulties, market exploration, rapidly expanding technology, an insatiable need for money, and the need for diversification. The researchers wanted to look into recent financial M&A. Ecological regulations controlled the 1990s. The government's mandate to reform the Companies Act. Revision of FEMA to allow direct foreign investment and defining the standards by eliminating licensing in the industrial sector. Indian companies were forced to reorganize due to the state's weak economy, in order to face new challenges and gain strength in both the domestic and global markets.

Key Words: Mergers, Acquisitions, Globalization, Economy, Monopoly, Market, Bank.

Introduction

Mergers and acquisitions are increasingly becoming a viable economic strategy for keeping up with the world's fast-growing economy. In this environment, when industrialists and CEOs of major companies are concerned with profits and expansions, those who work for them suffer losses, particularly in terms of their own employment rights. This chapter explains how increased rivalry, expansion strategies, and profit-making techniques have pushed the business world to prefer Mergers and Acquisitions as the best option. To stay afloat today, every company must reinvent itself. It may do so by introducing new items to the market, entering new markets, or making other modifications to assure its continued existence. Whatever the case may be, businesses continue to aim to acquire market

domination for their products. At the same time, it takes into account the earnings and losses incurred as a result of numerous new entries.[1]

Globalization has aided in the development of a more competitive environment. Local traders and businesses that were formerly self-sufficient with their own set of buyers have now extended to worldwide marketplaces to offer their wares. On the other hand, where local traders once had a monopoly on local purchasers, they now have to contend with foreign corporations preying on their most valuable clients. Globalization implies the integration of international markets into local markets.

Five significant causes pushing globalization have been highlighted by Bang and Merkeset. Low trade barriers, low shipping costs, and the economic benefits of information, communication, and technology (ICT) with expanding globalization and ICT revolution are among them. Low trade barriers are linked to the International Monetary Fund's (IMF) decrease of import obstacles, as well as countries' acceptance of foreign technology and investment, which has allowed them to enter new international markets. This benefitted India and China greatly. The flow of goods from one country to another has expanded even more as transportation and communication costs have decreased. Increased information and communication technology (ICT) improves connection by allowing services, support surveillance, and other functions to be used for improved global trade management. The scale of the market has changed as a result of globalization. According to a Harvard University study, the world's largest trade comes from Northern America, Western Europe, Japan, African and Latin American countries, and East Asia. Around 2.5 billion people were estimated to be active in trade across these countries. By the year 2000, however, when India, the Soviet Union, and China joined, the number of individuals engaging in commerce had risen to over 6 billion.[2]

In 1985, the World Economic Forum9 (WEF) included North American and Latin American countries, European, Japanese, and African countries, and East Asian countries,

[1] Muhammad Faizan Malik et. al, —"Mergers and Acquisitions: A Conceptual Review", 23 International Journal of Accounting and Financial Reporting 361 (2014).
[2] Ibid.

with a combined population of over 2.5 billion individuals engaging in international trade. By the year 2000, the former Soviet Union, as well as Asian powers such as India and China, had grown to become important economic powers, with a population of over 6 billion people.

Because the pie must now be shared among an increasing number of people, survival becomes increasingly challenging. The pressure effect, as Bang and Merkeset name it, was created as a result of this. They point out that while globalization has reduced the cost of goods and services, it has also left businesses apprehensive about their future. The fact that the sellers could comprehend their customers is no longer relevant. Companies are finding it more difficult to comprehend their customers as the number of options and diversity of consumers grows, which is another key source of pressure for them.

Now that globalization has shattered trade barriers between countries, the pressure to survive has multiplied. This has cleared the way for the development of initiatives to aid in the recovery of the industries.

Tanwar[3] explains Harvard Professor Michael Porter's three main tactics. The first is a strategy known as "cost leadership." The product's value is maintained low with this technique. With the support of a variety of promotions, the focus is on a larger circulation. This technique will only work if there is cost-effective access to raw materials, labor, and other inputs. Reliance Jio has been utilizing this tactic to attract customers to its own cellular brand in the Indian market. Reliance Jio's ability to provide unlimited calls and high-speed internet at a low cost has harmed Vodafone and Airtel, which are now lowering their costs to compete with Reliance Jio's rising subscriber base.

Porter also recommends the "Differentiation strategy"[4]. This strategy focuses on creating a product or service that is unique in the industry and so gives you an advantage over your competitors. This could take the form of a one-of-a-kind design, exceptional quality,

[3] Supra note at 2
[4] Supra note at 2.

advanced technology, and so on. As Tanwar points out, the consumer may end up bearing the brunt of the product's higher-than-normal price.

Meaning of the term Mergers and Acquisitions

A 'merger' is the process of joining or amalgamating at least two or more companies that are primarily engaged in commercial activity. An 'Acquisition,' on the other hand, is a situation in which a single firm is taken over by another, so eliminating the other company's identity as it becomes a part of the company that has purchased it. In a nutshell, 'mergers and acquisitions' refer to a company purchasing and merging or joining with another company. In a merger, two or more businesses combine their strengths to form a new company, usually with a new name. Merger is an economic tool used by businesses to achieve consistent performance through the development of their functional competence.[5]

Similarly, when two companies engage into an agreement on amicable terms, it is referred to as a merger, regardless of whether it is a buyout. On the other hand, an acquisition occurs when the contract between the companies is unfavorable, that is, when the stronger entity takes over the targeted firm, even if the targeted firm is unwilling to be purchased.

Types of Mergers and Acquisitions[6]

There are various forms of M&A's that reshape the business world by forging new strategic alliances and enhancing corporate philosophies. The following are the most prevalent and major types of M & As from the business structure core area: -

Horizontal Mergers

Horizontal integration is the term used to describe a horizontal merger. Horizontal mergers take place when two corporations are involved in businesses that are inherently competitive. This results in a monopolistic strategy. These types of mergers are beneficial to economies. Brook Bond's Formation Flipkart was formed by the combination of Lipton

[5] Ibid.
[6] Available at https://shodhganga.inflibnet.ac.in/bitstream/10603/214272/17/17_chapter%207.pdf visited on 29/04/2021.

India and Brook Bond. PayU, an online payments provider, acquired Myntra, and Citrus Pay, a competitor.

Vertical Mergers

Vertical integration is the term used to describe a vertical merger. Vertical mergers occur when two or more companies generate independent services or components that are used in the production of a final product. Mergers between such companies occur in an attempt to lower production costs and boost efficiency in order to increase profits. This also aids in

supply and demand adjustments. This type of incorporation aids an entity in becoming obviously self-contained.

Congeneric Mergers

Congeneric mergers are ones that take place between organizations that are interconnected and involved with one another but do not share a customer-supplier relationship. The clients of both businesses are reached through the conveyance methods in a congeneric merger[7].

For instance, Volvo Bus and Volvo Commercial Vehicles combined with Concentric Network Corporation, and Next Link Communication Inc. amalgamated with Concentric Network Corporation.

Conglomerates Merger

A conglomerate merger occurs when two companies that are unrelated unite. The result of the deployment of financial resources is a conglomerate merger. Another motive is to increase the debtors' capability.

[7] Ramaiya, A., *Company Law Digest*, (Vinod Publication (P.) Ltd., Delhi, 2000).

Additionally, a conglomerate merger increases the overall value of outstanding shares by raising leverage and per share profitability, which is only possible when the average cost of capital is reduced[8].

This type of merger allows the corporation to diversify its operations without incurring the high costs that come with starting a new business.

Cash Merger

The term "cash merger" refers to a merger that is also known as a "cash-out merger." The holders of one company's shares receive money rather than the merging entity's shares in a real cash merger. In some ways, this is an effective exit for the cash-strapped shareholders.

Triangular Merger

In most cases, a triangular merger is used for administrative and taxation purposes. It is a tripartite path of action, as the name suggests. The goals of such mergers coincide with those of the acquiring company's other business. The nicest aspect about such mergers is that the acquirer's subsidiary firm also survives. Another facet of mergers that is common in India is the merging of ill and healthy businesses. This is done for tax purposes, as the sick units survive and the healthy units' revenues are offset by the losses of the sick surviving units. Reverse mergers are a form of merger that occurs when two companies merge.

Impact of Mergers and Acquisitions

It is not necessary for all mergers, acquisitions, or combinations to be positive and fruitful. Combinations, mergers, and acquisitions can have a negative impact in some situations, resulting in significant losses. Shareholders, employees, and management all have a direct impact on mergers and acquisitions.

[8] Ramaiya, A., *Guide to the Companies Act*, (Madras Law Journal Office, Madras, 1975).

M&A's are aimed at improving the entity's profitability as well as its productivity. Simultaneously, the goal of M&A is to lower the firm's expenditures. Synergies, on the other hand, are not always successful. As previously said, mergers and acquisitions frequently divert from the aim for which they are entered, causing them to lose focus and ultimately fail. There are numerous elements that influence the success of mergers, acquisitions, and takeovers[9].

M&A's influence not only the company's entire workforce, but also its customers. Hurt the amalgamated entity's reputation Not only that, but psychological elements also have a significant impact on the entity's true goal and purpose. Mergers and acquisitions, according to many research, affect not just senior executives, the labor force, but also shareholders.

Conclusion

For a corporate sector, there are primarily two development methods: organic and inorganic. Organic growth is aided by a larger customer base, higher sales deals, and better organization of men, money, supplies, and technology. Inorganic development provides a path for a company to attain faster development by allowing it to skip a few stages on the way to success. Rebuilding through mergers and acquisitions is a one-of-a-kind and crucial method for ensuring inorganic growth. The business environment is changing as a result of diverse paths taken in terms of technology, competition, products, individuals, markets, and clients. Inorganic development synergies such as mergers, acquisitions, and takeovers are seen as critical tools that help corporations enter new markets, expand their client base, minimize competition, merge and develop in a timely manner, and instill new technology in their goods, people, and procedures. Following that, corporates discovered inorganic synergies as fast-track corporate reformation tactics for development.

In this situation, the corporate environment is reflected by globalization, economic exploration, global difficulties, market exploration, rapidly expanding technology, an insatiable demand for funds, and the need for diversification, among other factors. The

[9] Singh, R.K., *Amalgamation & Merger of Companies and the WTO*, (Eastern Law House, New Delhi, 2013).

study's main goal was to undertake an in-depth investigation of m&a in the banking industry over a recent era. Environmental rules governed the economy in the 1990s. The government's directive, namely, the revision of the Companies Act to encourage fast-track mergers and cross-border mergers. To promote the exploration of a business, a revision to the FEMA to allow direct foreign investment and setting the criteria by abolishing licensing in the industrial region, which will now be market driven rather than controlled, as well as an aggressive condition. Prior to being stifled by the state's slumbering economy, India's industries were forced to undergo reorganization in order to meet new difficulties that would aid enhance strength in both the domestic and global markets.

Suggestions

1. We require unblemished and one-of-a-kind merger and acquisition rules and regulations that are clear and Compaq so that they can create transparency and avoid misperceptions, which can result in a very healthy environment for mergers and acquisitions and can also lead to the single window concept.
2. The Reserve Bank of India (RBI) is the exclusive regulatory authority for the banking sector, including mergers and acquisitions of banks. It is necessary to establish a separate authority that is only responsible for mergers and acquisitions, as well as a separate body that is responsible for determining the feasibility of such transactions. Along with that, it is necessary to take into account the viewpoints of each and every organisation.
3. It is necessary to establish a Bank Board to keep an eye on every activity of the bank and its top executives at the time of M&A announcements, and to train bankers to act as a buffer between the banks and the government in order to maintain effective governance once the announcements are made.
4. There are vestiges of a previous social age that we must assess and correct in our old policies, tactics, and, in particular, our conservative approach to public sector benefits. It's time to make a decision: do we want a large number of banks or a few powerful banks.
5. Large public sector banks are more efficient in terms of performance than small public sector banks, but consolidation of weak banks does not result in a stronger institution;

rather, it has a negative impact on the economy, and this tendency should be reversed. According to the International Monetary Fund, size is inextricably related to risk because it protects organisations from disciplinary action by the government and because any organisation that learns there is no downside to risk is more likely to engage in it.