International Journal of Enhanced Research in Management & Computer Applications
ISSN: 2319-7471, Volume 7 Issue 2, February-2018, Impact Factor: 3.578

A Study on Merging & Acquisitions on Selected Companies

Dr. V. Ramesh Naik[1], P.Prathyusha[2], P. Jaganmohan Reddy[3]

[1]Assistant professor, Dept of Management studies, GATES Institute Of Technology, Gooty, Anantapuram (D), AP, (India)
[2]P.G studentII[nd] Year in MBA Dept of Management Studies , Gates Institute of Technology, Gooty, Anantapuram (D), (India)
[3]P.Jaganmohan Reddy, P.G student II[nd] Year in MBA Dept of Management Studies, Gates Institute of Technology, Gooty, Anantapuram (D), (India)

ABSTRACT

The M&A are transactions in which the ownership of companies, other organizations /their operating units are moved or combined. Itis improve the market efficiency by capturing synergies between firms. But acquire also impose externalities (both positive and negative) on the remaining firms in the industry. The purpose of this paper to study the concept of merger/acquisition in detail by taking examples of some companies. This paper describes mainly causes of merging& acquisitions why because of it will help for making effect on employees, management,shareholders & competitions etc. And also this paper describes causes behind mergers & acquisitions of economic scale, market share, financial synergy & also diversification. Etc. Merger/acquisition area 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.

Keywords: Merger & Acquisitions, Financial Synergy, Shareholder, Economic Scale. Diversification etc.

I. INTRODUCTION

Mergers and acquisitions (M&A) is a general term that refers to the consolidation of companies or assets. M&A can include a number of different transactions, such as mergers, acquisitions, consolidations, tender offers, purchase of assets and management acquisitions. In all cases, two companies are involved .It is negotiation in which the ownership of companies, other business organization or their operating units are transferred or combined. As an aspect of strategic management, M&A can allow enterprises to grow, shrink, &changes the nature of their business or competitive position.

From a judicial point of view, a merger is a judicial consolidation of twoentities into one entity, whereas an acquisition occurs when one entity takes ownership of another entity's stock, equity interests or assets. From a commercial &liabilities under one entity, and the distinction between a `` merger'' &an ``acquisition'' is less clear. A transaction judiciallyorganized as an acquisition may have the impact of placing one party's business under the indirect ownership of the other party's shareholders, while a transaction officially structured as a merger may give each party's shareholders partial ownership &control of the combined enterprise. A deal may be euphemistically called a ``merger of equals'' .it means agree two officials of Company and joining to gether.

II. MEANING OF MERGERS & ACQUISITION –CURRENT SCENARIO

Mergers & Acquisition (M&A) refer to the management, financing, &strategic decisions involved with buying, selling, &combining companies or, we can say, with the consolidation of the companies.

A merger is the combination of two similarly sized companies combined to form a new company. An acquisition occurs when one company clearly purchases another &becomes the new owner. Whether some combinations are structured as a merger or acquisition depends not only on the underlying business transaction, but also on other legal, taxation &psychological implication. An acquisition may are may not lead to a merger from a strategic &investment banking point of view the two concepts require a similar expertise &process.

Merger: In a merger, the boards of directors for two companies approve the combination &seek shareholders' approval. After the merger, the acquired company ceases to exist &become part of acquiring company.

Acquisition: In a simple acquisition, the acquiring company obtains the majority stake in the acquired firm, which does not change its name or legal structure.

III. OBJECTIVE OF THE STUDY

1. To know the Present Trends of Mergers & Acquisition
2. To know the Causes of Mergers & Acquisition
3. To know the effects of Mergers & Acquisition after

Methodology: This paper is conceptual in nature. Data collection was achieved by online websites &the date is filtered to improve the quality of paper. The interpretations are made by the authors with the help of guide.

IV. LITERATURE REVIEW

Growth is an essential aspect of organizational success. It is something for which most of the companies strive for. It is observed commonly that small companies want to grow big and big firms want to grow bigger. Indeed companies have to grow and the reasons behind are almost same for every organization. However, different companies adopt different strategies for this purpose and the most suitable strategy is the one that supports the company to move progressively towards accomplishing its stated goals (Greiner, 1991).The ultimate objective of most companies is profit, therefore whatever strategy is adopted, profit remains at the heart.

Although, growth is considered to be one of the key points of reference of success by business analysts and is mandated by investors. However, researchers have also argued that, although, growth is essential for firms, but every growth strategy is not successful in terms of value creation. Not all the growth strategies are values adding, that could result in an improved performance of a firm (Olsen &Chathoth, 2007; Slevin&Covin 1997). Olsen &Chathoth (2007) further argued that it is the firm's performance on a long term basis that determines the sustainability of the growth strategy that was implemented in the first place. Companies choose growth strategies that suits best to them in a frame work of market and competitors. The best route to growth varies depending on the market and the nature of business (Churchill &Lewis, 1983).

V. TRENDS OF MERGERS&ACQUISITIONS

1. **Horizontal Merger:** Horizontal merger is nothing but when two companies are producing same products &service it is called horizontal merger.

Example: Kumar Mangalam led idea cellular has agreed to merger Indian unit of Vodafone plc. with itself, making it $23 billion telecom giant. These two telecom companies are providing same service.

2.**Vertical Merger:** A vertical merger is a merger between two companies that operate at separate stags of the production process for a specific finished product. A vertical merger occurs when two or more firms, operating at different levels within an industry's supply chain, merger operations. Most often, the logic behind the merger is to increase synergies created by merging firms that would be more efficient operating as one.

Example: There have been several examples of vertical merge. In 2002,ebay, a prominent online action &shopping website, acquired paypal , a company that supports online payments &money transfers. Although both business provided different service, paypal was used for a growing number of transaction on ebay & therefore very relevant to their operations.

3. Conglomerate Merger: A conglomerate merger is a between firms that are involved in totally unrelated business activities. There are two types of conglomerate merger. Pure &mixed. Pure conglomerate merger involves firms with nothing in common, while mixed conglomerate merger involves firms that are looking for product extensions or market extensions.

Example: Walt Disney Company &the American broad casting company.

4. Concentric Merger: A concentric merger is a type of merger where two companies are in the same or related industries but do not offer the same products. In a concentric merger, the companies may share similar distribution channel, providing synergic for the merger.

Example: Merger of concentric with next link, concentric dialup internet &next link.

5. Market-Extension Merger: As per definition, Market extension merger takes place between two companies that deal in the same products but in separate markets. The main purpose of the market extension merger is to make sure that the merging companies can get access to a bigger market &that ensure a bigger client base.

Example: Dell's alien ware gaming laptops.

6. Product Extension Merge: According to definition, product extension merger takes place between two business organizations that deal in products that are related to each other &operate in the same market. The products extension merger allows the merging companies to group together their products &get access to a bigger set of consumers. This ensures that they earn higher profits.

VI. TOP FIVE MERGERS &ACQUISITION IN 2017

Acquisition &Mergers are strategic moves by companies foreseeing scope for business expansion. Big organizations acquire small ones to strengthen their existing or to quickly fill the loopholes-instead, they do it themselves from the scratch. On the other hand, two big companies merge primarily to achieve the monopoly over the industry. Below are the acquisitions &mergers happened in the technology space in india in 2017.

1. Flipkart's acquisition of eBay India

In April 2017. Indian e-commerce giant Flipkart acquired the Indian wing of eBay, which infused $500 million into flipkart as well as sold its Indian operations unit for an exchanging of equity stake in flipkart. As flipkart doesn't have the global presence, the acquisition will bolster the cross border trade &help flipkart to combat Amazon's onslaught. Moreover, the acquisition may bring new investments in future for flipkart from the parent company ebay.

2. Axis bank's acquisition of Freecharge

Axis bank is one of the few tech savvy banks in India. It has been embracing technology to ease the banking. It acquired Accelyst solution private limited &freecharge payment technologies private limited for $60 million .the acquisition will pave a way for its foray into proliferating digital payments space in the country. Being an organization with deep pockets, Axis bank may further pump cash into freecharge to take the fight against the likes of payments, Mobikwik, etc.

3. Vodafone – Idea merger

The high profile merger was announced at a time when the new entrant Reliance Jio started disrupting the Indian telecom industry. The combined entity with Kumar Mangalam Birla as chairman is going to be the largest telecommunications service provider in the country with about 400 million customers, 35% customer market share, &41% revenue market share.

4. Google's acquisition of Halli Labs

Based in Bangalore, Halli labs develop solution to traditional problems using artificial intelligence (AI), Machine Learning technologies. Google acquired this 4-month old startup for an undisclosed amount in June 2017.the Company joined next billion users' team at Google with its CEO becoming director of engineering. The acquisition is a testimony to how big companies look beyond horizons to acquire talent.

5 .Airtel - Telenor merger

Airtel which is under immense pressure due to losing customers &falling revenues is trying hard to regain its lost ground. The merger with telenor India will give initial thrust to the company in the fight against reliance jio&Vodafone – idea. Airtel is buying Telenor India's operations in Andhra Pradesh, Bihar, Maharashtra, Gujarat, up (east), up (west) &Assam circles, which contribute about 35% to Airtel's total revenue. It will also increase the company's 4G spectrum holdings.

VIII. CAUSES MERGER& ACQUISITIONS

Mergers &acquisition are usually intended to achieve any or all of the following purposes:

- Synergistic operational advantages-Coming together to produce a new or enhanced effect compared to separate effects.
- Economies of scale(scale effect)-Reduction in the average cost of production &hence in the unit costs when output is increased, to enable to offer products at more competitive prices &thus to capture a large market share.

- Reduction in production, administrative, selling, legal &professional expenses.
- Benefits of integration –Combining two or more companies under the same control for their mutual benefit by reducing competition, saving costs by reducing overheads, capturing a large market share, pooling technical or financial resources, cooperating on research &development, etc. Integration may be horizontal(or lateral) or vertical &the later may be backward integration or forward integration.
- Optimum use of capacities &factors of production.
- Tax advantages- Carry forward &set off losses of a loss-making amalgamating company against profits of a profit-making amalgamated company, e.g. Section 72A of the income-Tax Act, 1961.
- Financial constrains for expansion- A company which has the capacity to exp&but cannot do so due to financial constrains may opt for merging into another company which can provide funds for expansion.
- Strengthening financial position.
- Diversification.
- Advantages of brand-equity.
- Loss of objectives with which several companies were set up as independent entities.
- Survival.
- Competitive advantages: The factors that give a company an advantage over its rivals.
- Sustaining growth.
- Accelerating company's market power &reducing the severity of competition.

In the early seventies, the Organization for Economic Cooperation &Development (OECD) published a report of their committee of Experts on Restrictive Business Practices, on `Merger &Competition Policy'. The report listed twelve motive most often cited for mergers, which may be grouped together under the following categories:

Economies of Scale

- Obtain Real Economies of Scale.
- Acquire Capacity at Reduced Prices

Market share

- In market power
- Expand production without price reduction
- Build an empire
- Rationalize production

Financial Synergy

- Obtain Tax advantages
- Obtain monetary economies of scale
- Use complementary resources
- Gain promotional profits

Diversification of Risk

- Spread risks by diversification
- Avoid firm's failure

Thus, the key idea behind M&A is the creation of synergy—that is, the creation of value that is greater than the sum of the parts of the combining companies. This nation, &the people in M&A who facilitate it, greases the skids of commerce by helping companies grow, shed dead weight, find the money to pursue new ideas, &bring new &better products to market.

IX. EFFECT OF MERGERS &ACQUISITIONS

Mergers &acquisition bring a number of changes within the organization. The size of the organization change, shares also change, even the ownership may also change due to the mergers &acquisition. The mergers &acquisitions play a major role on the activities of the organizations. However, the Effect of mergers &acquisition varies from entity; it depends upon the group of people who are being discussed here. The Effect of mergers &acquisitions also depend on the structure of the deal.

XI. POSSIBLE EFFECT OF MERGERS &ACQUISITIONS

Have a look at the Effect of Mergers &Acquisitions on different segments of business.

- **Effect on Employees**

  Mergers &Acquisitions may have great economic Effect on the employees of the organization. In fact, mergers &acquisitions could be pretty difficult for the employees as there could always be the possibility of layoffs after any merger or acquisition. If the merged company is pretty sufficient in terms of business capabilities, it doesn't need the same amount of employees that it previously had to do the same amount of business. As a result, layoffs are quite inevitable. Besides, those who are working, would also see some changes in the corporate culture. Due to the changes in the operating environment &business procedures, employees may also suffer from emotional &physical problems.

- **Effect on Management**

  The percentage of job loss may be higher in the management level than the general employees. The reason behind this is the corporate culture clash. Due to change in corporate culture of the organization, many managerial level professionals, on behalf of their superiors, need to implement the corporate policies that they might not agree with. It involves high level of stress.

- **Effect on Shareholders**

  Effect of mergers &acquisitions also include some economic Effect on the shareholders. If it is a purchase, the shareholders of the acquired company get highly benefited from the acquisition as the acquiring company pays a hefty amount for the acquisition. On the other hand, the shareholders of the acquiring company suffer some losses after the acquisition due to the acquisition premium &augmented debt load.

- **Effect on Competition**

  Merger &acquisition have different Effect as far as market competitions are concerned. Different industry has different level of competitions after the mergers &acquisitions. For example, the competition in the financial service industry is relatively constant. On the other hand, change of powers can also be observed among the market players.

A corporate merger or acquisition can have a profound effect on a company's growth prospects &long-term outlook. But while an acquisition can transform the acquiring company literally overnight, there is a significant degree of risk involved, as mergers &acquisitions (M&A) transactions overall are estimated to only have a 50% chance of success. In the section below, we discuss why companies undertake M&A transaction, the reasons for their failures, &present some examples of well-known M&A transaction

CONCLUSION

Based on this paper. M&A comes in many shapes and sizes, and investors need to consider the complex issues involved in M&A. A **merger** can happen when two companies decide to combine into one entity or when one company buys another. An **acquisition** always involves the purchase of one company by another. It Play vital role in decreasing of losses of Company. After Mergers & acquisitions Effect on Employees. Due to the changes in the operating environment &business procedures, employees may also suffer from emotional &physical problems. Effectson **Management**Due to change in corporate culture of the organization, many managerial level professionals, on behalf of their superiors, need to implement the corporate policies that they might not agree with. It involves high level of stress. Effect of **Shareholders acquiring** company suffers some losses after the acquisition due to the acquisition premium &augmented debt load. Effect of **Competition** as far as market competitions are concerned.

REFERENCES

[1]. Y.A. Al-Hroot The impact of mergers on financial performance of the Jordanian industrial sector pp.25-1995
[2]. A.A. Al-Sharkas, M.K. Hassan, S. Lawrence The impact of mergers and acquisitions on the efficiency of the US banking pp.145-1992-DOI: 10.1111/j.1468-5957.2007.02059.x
[3]. P.C. Andreou, C. Louca, P.M. Panayides Valuation effects of mergers and acquisitions in Freight transportation pp-243-1998 Transportation Research Part E 48 (2012) 1221–1234

BOOKS:

[4]. Applied Mergers and Acquisitions-2004-Robert Bruner
[5]. 2. Mergers and Acquisitions Basics - SET: All You Need to Know- 2010- Donald DePamphilis

WEBSITES:

[6]. Mapsofindia.com-Compare Infobase Ltd.(ISO-9001-2000 Certified Company)
[7]. www.linkedin.com-RituparnaDuttagupta
[8]. Gadgetstouse.com-AjitSamudrala