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CORPORATE REFORMATION: MERGER AND ACQUISITION IN EMERGING MARKET

Corporate Reformation: Merger and Acquisition in Emerging Market

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Abstract – The purpose of this paper is to answer whether a Developed Country firm would generate higher returns to its shareholders by acquiring a company from the India or by acquiring an Emerging Market target. It includes an extensive literature review that covers the main motives and theories behind merger and acquisition (M & A).

Keywords: Corporate, Merger and Acquisition, Market

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INTRODUCTION

Corporate reform is one of the means that can be employed to meet the challenges and problems which confront business. The law should be slow to retard or impede the discretion of corporate enterprise to adapt itself to the needs of changing times and to meet the demands of increasing competition. The law as evolved in the area of mergers and amalgamations has recognized the importance of the Court not sitting as an appellate authority over the commercial wisdom of those who seek to restructure business.

The reforms stabilized the macro economy of India, abolished industrial licensing, reduced the number of monopolized industries and increasingly liberalized FDIs and trade (Kochhar et al., 2006), with critical impacts on every industry. Overall this resulted in impressive general economic growth. The interest of academic research, media and practitioners in the Indian case has grown consequently. The first wave of academic research on this topic focused in the 1970s and 1980s on isolated cases of Indian subsidiaries based in Sri Lanka, Kenya and Malaysia; in these first cases, the internationalizing Indian firms were typically pushed abroad by the harsh conditions of the home context and operated mainly in manufacturing industries. The most recent stream of research interested in the Indian case focuses instead on more diverse cases and issues (Capelli et al., 2010).

India is sometimes compared with China in cross country studies (Sun et al., 2012) or grouped with other EMs. Appreciating its peculiarities in single country studies can however be extremely valuable, advance general IB theory and inspire some future reflection on similar contexts of research. In particular, a context is a composition of different aspects such as space, time, opportunities and constraints, social and physical dimensions. In the Indian context it is possible to isolate some aspects that, even if not universally new, arise in a particularly intensive and interesting way.

REVIEW OF LITERATURE:

Mergers and Acquisitions have since the 1990s become popular among firms as a way to expand and pursue corporate goals. Earlier merger waves were mainly carried through with a focus on restructuring and on core and related business. The basic purpose of corporate restructuring is to enhance the shareholder's value. A company should periodically evaluate its portfolio10 of businesses, capital mix and ownership and assets arrangements to find opportunities for increasing the shareholder value. There are two broad theories explaining why firms acquire other firms or merge with other firm. The monopoly theory postulates that the firms use the route MA to raise their market power, whereas, according to the efficiency theory, MA are planned and executed to reduce costs by achieving scale economies. Either way firms are expected to have better financial performance following MA. Many of the existing studies empirically support the proposition that MA lead to better financial performance of the firms. Contrary to this, there are also studies (Ghosh, 2001) that report results at odds with the view that MA improves corporate performance.

Mergers and Acquisitions (M&A) are an extensive worldwide phenomenon (Pinto, Prakash and Balakrishna C.H.,: 2006, pp. 29-35) and Mergers and Acquisitions (M&A) have emerged as the natural process of business restructuring throughout the world (Prasad, 2007). The last two decades have witnessed extensive mergers and acquisitions as a strategic means for achieving sustainable competitive advantage in the corporate world (Pinto, Prakash and Balakrishna C.H.,: 2006, pp. 29-35). Mergers and Acquisitions (M&A) have become the major force in the changing environment. The policy of liberalization, decontrol and globalization of the economy has exposed the corporate sector to domestic and global competition (Selvam, et. al., 2009). Mergers and Acquisitions (M&A) have also emerged as one of the most effective methods of corporate structuring, and have therefore, become an integral part of the long-term business strategy of corporate sector all over the world. Almost 85 percent of Indian companies are using M&A as a core growth strategy.

GROWTH AND TECHNIQUES IN THE GLOBAL MARKET:

The growth of international strategic partnerships has risen exponentially in the last twenty years. Competing in a global marketplace has made it increasingly important to align business strategies with a risk management strategy that includes strengthening global supply chains and vendor partnerships. As Wiley points out, "In the near future, it is supply chains that will compete, not companies" (Wiley, 2004). Global supply chains must be carefully selected and monitored to ensure the competitive edge required to achieve success in the global market place. Typically, the first order of business has been logistics and operations. Businesses identify viable suppliers, hospitable host countries, lucrative markets, and amenable vendor partners world-wide. Then they set about drawing up agreements and Operationalzing the new vendor relationships. Then the realities of operating a global business hit home and businesses scramble to understand what went wrong.

The international community is putting pressure upon international businesses and their local suppliers to demonstrate that while they are making money, they are doing so as responsible global citizens (Jackson and Winkler, 2004). In addition to concerns about how best to manage risks and maintain efficient global supply chains, international laws and policies are requiring multinational corporations and non-governmental organizations to demonstrate a sense of corporate social responsibility (CSR), good stewardship of the environment and natural resources, protecting human rights, improving the living and working conditions of local populations who labor in their plants and factories, and engaging in fair labor practices. Global markets compound the risks and costs of market failures for the weak. What is true at the local level, where local polluters do not internalize the costs of their pollution, obtains at the global level, and often in spades. The rich countries that have historically emitted the highest per capita greenhouse gas emissions have imposed costs on the poor. As the biggest polluter in per capita terms, the United States is imposing costs not only on its own future citizens, but also on the children and grandchildren of the world's poor, who are much less likely to have the resources to protect themselves from the effects.

Mergers and acquisitions have become a staple of newspaper headlines. Although most M&A activity is initiated by companies in the developed world, a recent A.T. Kearney study of global M&A reveals that a paradigm shift is occurring: Beginning in 2002, deals between developing and developed countries grew at an annual rate of 19 percent— far in excess of the industry average and four times faster than deals conducted within either developing or developed countries alone. While not large in absolute terms, this rate of growth indicates how rapidly the developing world is catching up in the M&A business.

CONCLUSION:

In this paper we found that the firms with greater demand for products or larger dominance in the domestic market record lower profitability in the long-run. However, MA does not have any significant impact on profitability of the firms into the market. In addition, in-house R&D and foreign technology purchase also do not have any significant impact on profitability of the firms. Thus, Indian firms fail to reap the benefits of MA in terms of profitability. M & A may benefit the firms in enhancing their competitiveness and thereby facing acute competition from the MNCs. This in turn ensures consumer welfare. Improvement in efficiency and competitiveness is reflected in large number of acquisition of foreign firms abroad by Indian companies.

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