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A Review of International Mergers and Acquisition

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Abstract* – *Mergers as well as acquisitions are increasing their worth and have been a strategic option for companies that is usually applicable. The aim of received fresh information from the acquired company and then transferred this data along with other fields in the acquiring firm is typically a major cause behind an acquisition. Furthermore, for the transfer of information in every S&A, the tacit and explicit nature of expertise is essential. In fact, the process of transfer of knowledge is complicated and dynamic and thus numerous challenges may arise in the process. The transfer of expertise in procurement and fusion may be a problem, but it would be necessary and vital when used in beneficial fashion for businesses.

Keywords* – *International Mergers, Acquisition, Theories, Types, Cross-Border Mergers, Knowledge Management

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1. INTRODUCTION

Competitiveness and competitive advantage are the motto of today's globalized economy worldwide. Corporate companies thrive to achieve the height of prosperity, which seeks to compete against its competitors. The businesses across the globe have been actively striving to build up new skills and capabilities to stay competitive and to expand fast. The function of restructuring, a business strategy for reorganizing and making an enterprise more effective, is thus developed. Many firms restructure in order to concentrate on core enterprises, while divesting non-essential companies. The strategy through which a company alters its business or financial structure called restructuring. Each company nowadays aspires to become a world class company. Therefore, corporate restructuring that delivers excellence is necessary to restore the competitive advantages of the company and react to new possibilities and challenges more rapidly and efficiently.

Corporate restructuring normally means a multi-dimensional reorganization of the corporate sector with a view to achieving competitiveness and guaranteeing commercial success. Corporate restructuring is simply a complete procedure wherein a firm may consolidate, divide business and improve its position in attaining its corporate aims and objectives both in the short term and in the long run. The word 'company strategy' may and has used to indicate at its most generic level almost any modification of operations, capital and ownership, not in the regular business process of the company. Merger & acquisition is a globally often utilized technique for increasing size, rapid development and competitiveness via economies of scale. In the history of M&A transactions worldwide, many fusion waves are known. The UK and the USA were at the root of these agreements. Waves of fusion are ranked on a temporal basis. Each wave is discovered to be substantially distinct. The first wave of merger in the USA has been referred to by historians since 1890. At the end of the 18th century the first US fusion wave began and lasted until 1904. The cause for the dynamic economy shift was the emergence of the stock market and the adoption of the Sherman Anti-Trust Act in 1890. Like the first wave, the second wave likewise started with corporate upturn in 1920 and ended in 1929 with a major economic downturn. The time is also known as the world's great depression. Due to the passage of the 1950* Celler-Kefauver Act, which limits merger activity, the trend of M&A between the years 1940 and 1980 varies significantly. During 1965-1969, conglomerates were concentrated. The US economy again had a significant boom during this time. A significant decrease in combined forces was seen in the decade of the 1970s, often known as the period of hostile takeovers, while the decade exhibited tendencies. This fourth wave is known as the Mega Fusion Wave, when the proportion of hostile takeoffs is much higher. In the industries such as petroleum and gas, medical products, petroleum and finance, this has occurred. In many economies, the 1992 period led to a significant economic shift. This was the most important fusion wave that shattered all the previous records. This wave was extremely friendly, with just 4% of transactions being hostile. The history of Indian M&A is not as ancient as in the United States. Previously, the main foundation of our economy was agriculture. Moreover, industry requirements were centered on the small, village, hamlet and small industry at that time, and still today.

1.1 Merger and Acquisition

The term merger is usually seen with another word in the business language, that is, 'acquisition.' Because the 100% takeover of a company is seen as a merger. In various books, thus, both terms are employed as synonyms. The distinction between the two is, however, thin. The meanings of these two words should thus be discussed individually.

Merger is one of the most frequent types of restructuring employed in companies worldwide. It's an inorganic growth approach. The integration of all competences of two businesses on a single Plattform is needed to ensure optimal use of resources. Even in India tens of thousands of businesses have been bought or fused in the past. This is the process of corporate restructuring for Indian enterprises. The idea of fusion is also called fusion in India; fusion is however a wider concept. Fusion and consolidation are included. In general, fusions are absorbed 100% by a business and open the way for the creation of a new company called a consolidation. You should realize that fusion and consolidation in India have the same legal framework. India provides a comprehensive legislation to deal with different problems relating to the merger agreements The provisions of Chapter XV (Sections 230 to 240) of the Act 2013.

1.2 Theories of Mergers and Acquisitions

These are summarized as follows:

- **Monopoly Theory:** This theory explains the concentration of monopoly power through horizontal mergers and acquisitions. The merger enables the company to achieve market strength, reduction in competition and a good access to the market. The aforesaid initiative helps the acquirer to consolidate its strengths further. To enjoy the benefits of monopoly position in the market, a company can obtain the same by rational use of subsidiaries of acquired business lines and augmentation of entry barriers in specific markets. But such practices are strictly prohibited in India by Monopolies and Restrictive Trade Practices Act, 1969.

- **Valuation Theory:** Valuation theory designates the acquirer as the only one, who can understand the target company better than market, customers, stakeholders and company's existing management itself. It is perceived in this theory that acquirer has better information about the valuation of target company than the stock market. Under this theory, the acquisition is purely termed as investment plan. Here, acquirer estimates the real intrinsic value to be much higher than the present market capitalization of Target Company. From this perspective, the decision to invest in or acquire other companies is a pure investment decision which must be reflected by an increase in shareholder value.

- **Efficiency Theory:** The efficiency theory moves around the synergic effect. In this theory, it is assumed that pooling of resources will help them in achieving the overall efficiency in terms of cost reduction, optimum utilization of resources and resource sharing. The synergic effect can be obtained by way of financial synergy. This move helps the company in minimizing the risk and implementation of sound financial planning. Secondly, operating synergy is the merger of production facilities. The kind of fusion gives birth to the generation of quality product and cost reduction. Thirdly, the sharp skills and competencies of the management are the best outcomes of management synergies.

- **Empire Building Theory:** This theory is in the favor of show-business rather than the interests of shareholders. It has been proved to be true in case of many acquisitions in all the economies of the world. The fact of the theory is tested through several empirical studies. An examination of merger waves in US till the end of century and even afterwards signals at the expansion of empire rather than creating wealth for shareholders. The negative aspect of this show-case always leads to big and good organizations in conflicts at work, disinterest among shareholders and time destruction in unethical issues.

- **Process Theory:** This theory is also known as indirect approach, where M&As are known for the outcome of complex decision-making process. The kind of exercise is done at the level of decision-makers. This type of decisions are not of routine kind and requires tedious mental exercise followed by number of tasks required to accomplish in order to make this M&A activity happen. Here, this is not an end of the story. The decision-makers always make an attempt to ensure the stakeholders regarding the success of this mega event and it's after effects. They generally project the picture, painted through their mental exercise.

1.3 Types of Mergers

Mergers across the world are not of a single type. It has many variants and types; and companies follow the same to fulfill their objectives. Sometimes the decision is based upon the choice of the company or trends prevailing in the market. The different types of mergers are discussed as follows:

√ **Horizontal Merger:** Those companies which are producing same goods or offering similar services combine in a horizontal way. If two very small companies merge with each other, the results are generally very minimal. When two major companies proceed for the horizontal merger, it leads to the synergies at various levels and results in less competition in the market. It has been observed that this kind of merger is the most common type of corporate restructuring. The first merger wave of 1897-1904 is also known for horizontal mergers and its role for creating huge monopolies. The acquisition of Parle products by Coke and the merger of Brooke Bond India with Lipton India to form Brooke Bond Lipton India Ltd. are the examples of horizontal combinations.

√ **Vertical Merger:** It is a merger of two firms producing and offering same products and services but at different levels. This kind of merger strengthens the supply line. Not only the supply side, where a company merges its supplier with itself, has it also come as forward integration. Under this type of integration, producer integrates with the distribution channel. The period of 1922-1929 (second wave) gained the recognition as vertical integration horizon. The best example in this regard is acquisition of Glass Company, rubber plantation, steel mill, auto ancillary unit by FORD Motors Ltd.

√ **Conglomerate Merger:** This is the merger of companies, producing totally unrelated products. Conglomerate merger can be further divided into two parts, that is, pure and mixed. Pure merger deals purely with two different types of companies. Mixed merger involves companies which are looking for products as well as market extensions. This kind of merger leads the companies for diversifying their business in unrelated products. The basic motive of these mergers is to reduce risk through diversification. The third merger wave of 1965-1969 was devoted to conglomerate mergers. The merger of Alstom Transportation Ltd. and Alstom System Ltd. with Alstom Power India Ltd. is an example of conglomerate merger.

√ **Triangular Merger:** A triangular merger refers to the acquisition of a domestic company through a share swap with a subsidiary which is wholly owned by a parent buyer company. This is a merger through subsidiary. Ultimately by this way, acquisition takes place through the action of subsidiary. In simple words a subsidiary acquires the target company; merges with the same; and finally, becomes the subsidiary of the acquirer. This deal is termed as reverse triangular merger. In case of forward triangular deal, an independent company approaches the subsidiary of another company for M&A.

√ **Accretive Merger:** Accretive merger occur when a company with a high price-to-earnings ratio (P/E) purchases a company with low P/E. As a result, the EPS of the acquirer company increases. Thus, accretion implies 'value creation'. In an all-stock deal, if a company acquires a target with a lower P/E ratio, it must be accretive to earnings. Similarly, when RIL approved the merger with IPCL, the swap-ratio was decided to be one share of RIL for every five shares of IPCL. This was believed to be EPS accretive for the shareholders of RIL.

√ **Dilutive Merger:** The word dilutive implies 'destruction' or 'dilution'. A dilutive is one where the EPS of the acquirer company falls after merger. Since the EPS declines, the acquirer company's share price also declines, as the market expects a decrease in the company's future earnings. The expected decline could be because the market forces feel the merger would destroy value and would not result in synergies post-merger. For example, copper mining company Phelps Dodge International Corporation entered into a dilutive merger with Canadian Nickel Miners Inco and Falconbridge in 2006.

2. CROSS-BORDER MERGERS AND ACQUISITIONS

Research shows that M&A (M&A) occurs in waves and that during the 20th century, five main waves occurred. A sixth wave took place between 2002 and 2007 and was part of the economic boom that caused the 2008 global financial crisis. This latest wave was in several ways very different from previous waves, the rising pace of transboundary M&As being one of them. The fusion partners in transnational M&As are headquartered in two separate nations, unlike national fusions. In particular, the sixth wave witnessed a substantial rise in the involvement of companies in M&A transactions from developing nations. In 2004, developing nation companies had a value of US$ 37 billion for cross-border M&A; this increased by 392% in 2008 to US$ 182 billion,

In 2009, developing markets surpassed the value of M&As for the first time on established markets. Boston Consulting Group study (2006) reports that the 100 best companies in different developing nations are growing internationally in a broad range of sectors,including industrial products, pharmaceutics and telecommunications. This study further shows that 57 percent of the cross-border M&A agreements between 1985 and 2005 by these developing companies included target companies from established nations (emerging too developed). Among the major purchases by emerging country companies during these years include the acquisition by the Chinese car company Geely of Volvo, the acquisition by Indian car manufacturer Tata Motor of Jaguar and Land Rover, the acquisition of the Rinker Group of Australia's US$15.1 billion by Mexico-based Cemex, as well as the acquisition of US$2.9 billion by the Chinese Lenovo company.

3. KNOWLEDGE MANAGEMENT IN INTERNATIONAL MERGERS

Due to the significantly increasing foreign direct investments and technology, both within Europe and across the globe, the 1980s and 1990s were saw a new period of international integration. Taking the lead from the three major trading blocs in Europe, North America and Japan, major multinationals (MNEs) are changing the nature of competition, increasing the importance of continuous product innovation and process innovation and creating competition between large companies and MNEs on market share. In consequence, innovative ability is increasingly considered essential for the European Union's economic competitiveness. As competition increases in the global market and technological development speeds up, companies are increasingly developing cooperation companies to maintain and improve their competitiveness. Especially where a single company rarely has all the knowledge or expertise necessary for timely and cost-effective product innovation in high-tech industries, establishing collaborative links with external partners is a necessary component of companies' strategies to reduce costs and risks, and more importantly to ensure the internally unavailable access to knowledge and skills. All sorts of technical partnerships are growing. In the 1980s, US businesses established partnerships with European companies alone with more than 2000 companies. For various reasons, such business marriages are made.

3.1 The factors making knowledge management fragile can be conceived with regard to the following five aspects:

- Mindset of firm members;
- Communication in the firm;
- The firm's structure;
- Relationship among firm members; and
- human resources management show that the transfer of know-how in international acquisitions is facilitated by communication, visits and meetings, and by time elapsed since acquisition

3.2 Knowledge enablers have three significant roles:

a. Stimulating individual knowledge development;

b. Protecting knowledge development in organizations, tackling obstacles to it existing in organizations; and

c. Facilitating the sharing of individual knowledge and experience among organizational members so that individual knowledge will be transformed into organizational knowledge

4. KNOWLEDGE TRANSFER IN MERGER & ACQUISITIONS

The globalization, via trade, strategic alliances, equity, non-equity partnerships and foreign direct investment, has grown progressively through international commerce (FDI). This latter is primarily owing to the technical, economic, and policy developments, from dissemination of the ICTs through to globalisation of markets, liberalization, and privatization, that have grown significantly in the recent decades, in relative and absolute terms. In this context the significance of knowledge management in companies as a key source of strategic competitive advantage has been increased during the past decades among academics. In particular, their performance is increasingly dependent on the facility and the speed by which information is spread across the organization as it relates to multinational companies (MNCs). Indeed, the fundamental reason for the existence of MNCs is because they can create and transmit knowledge across borders in an effective way. In particular, MNCs are distinguished from domestic enterprises by the ability to transmit tacit knowledge across borders. However, owing to tastiness or causal ambiguity of information, the cost of the international transfer is not trivial. For this reason MNCs are mainly able to transmit, utilize information in a more effective and efficient manner in the intra-corporate context than via external market processes, according to the "accepted theory." However, most of the current knowledge transfer research focuses on hybrid governance forms, such as alliances, joint undertakings and licensing agreements. However, while the primary impetus driving global production development and cross-border acquisitions are now among the most apparent aspects of globalization, the research on the transfer of knowledge in M&As has been far from acceptable.

4.1 Factors in Knowledge Transfer during M&A in Industries

Fusions and acquisitions (M&A) enabled businesses acquire important information and maintain competitive advantages with increasing competition in the industry. However, international M&A activity have decreased (almost 40%) during the first half of 2009 since the global economic crisis began in 2008, compared with the previous year, including those of cross-border M&A operations. This decrease is primarily due to the restricted availability to union loans to fund major transactions and to the risks associated in the present recessionary situation. Yet, on the road to recovery, when many multinational companies are confronted with the difficult issue of their main suppliers leaving company or need to rebuild their networks in the supply chain, the global economy becomes very opportunistic. In addition, since not all government stimulus programs are created equally, bigger M&A deals will be considered strategically for continuing economic development in developing markets such as China and India, concentrating on transport and commodities.

4.2 Socio-cultural Perspective on Knowledge Transfer in Mergers and Acquisitions

M&As are significant growth and internationalization strategies for companies. In previous research, strategic fitness and financial variables were emphasised in M&A, but they could not explain the results consistently. The importance of social/cultural variables in M&A has been examined in recent research. This increasing area of research focuses on the socio-cultural challenges associated with the integration of fusion companies. In socio-cultural studies, important subjects are interconnections, personnel (HR) and culture. These studies together indicate that social and cultural variables of M&A outcomes are significant. The discipline was criticized for being theoretical and divided despite advancements in socio-cultural M&A research.

5. PROXIMITY, KNOWLEDGE TRANSFER, AND ADVANCE IN TECHNOLOGY BASED MERGERS AND ACQUISITIONS

M&A has become a more and more essential tool for acquiring the required know-how to increase the creative capacities of companies. There are significant reasons indicating that M&A and inventive performance have a favorable connection. Empirical research shows, however, that M&A has a combined effect on corporate innovation. Further scientific research is needed to discover variables contributing to post- M&A performance and to better comprehend the transfer of knowledge and innovation after a merger or acquisition, due to the lack of clarity. Technology M&A has a unique potential in merging leading-edge technical know-how in two firms to provide superior inventive performance. Innovative performance is linked favorably to the flow of knowledge. But it is not simple to transmit information, in particular tacit knowledge. In the process of knowledge transfer, the closeness of companies is a major factor, but the effect of proximity in an M&A environment has not been well examined. In the context of M&A, proximity refers to the resemblance between the Two M&A Companies in many areas, such as geography, knowledge base, practice, and culture.

5.1 Proximity and management intervention

The transfer of information is an important component of M&A because of the tacit technical knowledge and the lack of closeness between companies may exacerbate that tacit. Proximity in M&A refers to similarities between the two companies engaged in M&A in aspects such as geography, culture and the knowledge base. This research looks at the spatial, cognizant, and organizational aspects of closeness. The physical proximity, either relative or absolute, between companies is the geographic proximity. Cognitive closeness means that companies share the same information and reference.

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