CHAPTER 7

CONTRIBUTIONS OF THE STUDY

7.1 INTRODUCTION

In this chapter, we discuss the contributions our study of mergers and acquisitions to management practice, policy formulation and body of knowledge. We also discuss the directions for further research and the limitations of the study.

7.2 CONTRIBUTION TO PRACTICE

The Indian corporate sector has experienced a major restructuring through mergers and acquisitions with the changes brought about by the Industrial Policy Resolution of June 1991. The deregulation of Indian economy provides the corporate sector with numerous opportunities to exploit the emerging demands in this huge market. Industries are moving from fragmented phases to consolidated ones. Mergers and acquisitions have become major means of industry consolidation.

Indian pharmaceutical industry also has been undergoing unprecedented change since the liberalisation era. The industry has been undergoing a profound restructuring since the mid-1990s. This restructuring has been driven by
substantial changes in regulatory, financial, and economic forces surrounding the industry. Some of these forces include licensing, insurance, royalties, shareholder return, patent and generic competition, extremely high risk and cost of research and development, clinical trial issues, international regulation and marketing distributions. The introduction of a system of product patents on January 1, 2005 has profound implications for the pharmaceutical industry. The new patent regime has also led to the return of the pharmaceutical multinationals, many of which had left India during the 1970s. Now they are back and looking at India not only for its traditional strengths in contract manufacturing but also as a highly attractive location for research and development (R&D), particularly in the conduct of clinical trials and other services.

Mergers and acquisitions research has now been ongoing for over 30 years. Each disciplinary approach has made significant advances in our understanding of the mergers and acquisitions phenomenon. However, despite the robust academic interest, empirical data reveal that there has been little change in the acquisition failure rate over this period. An examination of the returns to acquiring shareholder firms reveals that acquisitions continue to produce negative average returns (Agarwal and Jaffe 2000). Hence the correct identification of acquisition targets assumes significance for practitioners. Results of our study and the model
developed will enable the policy makers in corporate organisations in the pharmaceuticals sector to correctly identify the possible targets of acquisition.

The findings of the study are relevant to pharmaceutical industry mainly for the following reasons:

(1) The industry is global in nature and engages in mergers and acquisition activities extensively.

(2) The industry is different from many other industries because of the high cost of bringing a new drug to market and the documented low rate of success for drugs coming through the pipeline. There is an inherent incentive for a pharmaceutical company to use mergers and acquisition activity either to supplement or substitute for early stage research.

(3) The companies in the industry have a well-known propensity to seek merger with/ acquisition of the companies that has so called “blockbuster drugs” with the potential to produce billions in revenue.

(4) Finally, the monopoly or oligopoly structures that exist in several pharmaceutical markets support the expectations of abnormal returns from M&A at least while patent protection is in effect (Bottazzi 2001). Since, over 80% of revenue is lost at the time of patent expiry and the patent period is relatively short, the window for abnormal returns may be limited (Berndt 2001).
Hence there is a need to identify the acquisition targets at the right time. The model developed by us very much useful to the decision makers in this regard.

7.3 CONTRIBUTION TO POLICY FORMULATION

The study makes significant contributions to policy formulation. These contributions can be discussed as follows:

7.3.1 Competition Policy

Very few Indian pharmaceutical companies are of international size. There is a need for mergers as part of the growing economic process before Indian companies can compete with global giants. The scale of mergers and acquisitions is very small and the competition policy should be designed to facilitate mergers and acquisitions.
7.3.2 Data Deficiency

The researcher had to face lot of difficulties in collecting data on mergers and acquisitions in India. There is deficiency of data on mergers and acquisitions in general and the values of mergers and acquisitions in particular. The Securities and Exchange Board of India maintains a database on mergers and acquisitions relating to listed Indian companies. This database contains data from 1977 and provides a partial picture of mergers and acquisitions in India. The databases maintained by a few private agencies are not complete. Moreover, they are not available for public use on a regular basis. Thus, the collection of data is a tough task for the researchers. Hence, there is an urgent need to maintain a comprehensive database on mergers and acquisitions like Merger and Acquisition Statistics of USA and Dealogic of Europe.

7.3.3 Inadequate Information and Reporting Pattern

An analysis of the annual report of the companies shows that the annual report do not provide adequate information on the acquisition of substantial interest in another undertaking or acquisition of substantial interest in the reporting company by another company. Provision should be made for inclusion of this information in the annual reports of the companies.
Although SEBI has Takeover Code, a large number of Mergers and Acquisition deals do not come under its purview because the companies are not listed in the stock exchanges, the acquisition involves majority share holders, or the acquisition is a result of an overseas mergers and acquisition between the foreign parents of the companies concerned. There is a need for more systematic and transparent reporting on the mergers and acquisition activity in the Indian Corporate Sector.

The present format for reporting for the shareholding pattern needs to be modified to reflect the ownership and control characteristics better. Shareholding of controlling interest should be identified separately in several characteristics, viz., foreign shareholding, inter-corporate shareholding and top individual shareholders. This should be in addition to what is reported under the Shareholding of Directors and their Relatives at present.

7.4 CONTRIBUTION TO THE BODY OF KNOWLEDGE

The study is a novel attempt in the field of mergers and acquisitions research in India in that it culminates in the formulation of a model that estimates the
likelihood of a company in the pharmaceutical sector. Sector specific studies are very rare to find in India and this is especially true of the pharmaceutical industry. Besides, most of the Indian studies on mergers and acquisition studies are concentrated in the area of assessing the post-merger performance of the merged entities. A few other studies use the event study methodology to assess the gains to shareholders on account of the mergers. This study tries to fill up an important gap that exists in the body of knowledge that is contained in the extant mergers and acquisition literature.

**7.5 DIRECTION FOR FUTURE RESEARCH**

The number of studies available on mergers and acquisitions in India are very limited. There are very few studies that analyse mergers and acquisitions with reference to a particular industry. Even at the global level, the number studies concentrating on a particular industry is very limited. Research on mergers and acquisitions is an emerging area with plenty of scope for research. There is very good scope for sector specific studies like Mergers and Acquisition in banking industry.

The literature survey findings indicate there is plenty of scope for research on post-merger performance of companies. Majority of the existing studies use financial information for research. Non-financial measures such as productivity
gains of mergers, increase in market share and employment may also be used to study the relative efficiency of firms after mergers and acquisitions. A meta analysis of 93 empirical studies on the determinants of mergers and acquisition performance by King et al (2004), which incorporated the variables most frequently studied in the finance and strategy literature concluded:

“our results indicate that post-acquisition performance is moderated by variables unspecified in existing research…. An implication is that changes to both M&A theory and research methods may be needed”.

Research may also be undertaken to study the nexus between insider-trading and mergers and acquisitions. The effectiveness of the Take-over Code may also be studied.

In tune with the world wide trend, M&A has become an important conduit for foreign direct investment (FDI) inflows in the recent years. Indian companies have also been acquiring companies overseas. So cross border acquisitions offer a good scope for further research.

The process of integration is a complex phenomenon to study empirically. The research on the process of managing acquisition is still in the evolving stages
and none of the Indian studies have dealt with integration aspects. So a detailed study can be undertaken to probe empirically the process of integration.

There are substantial methodological bridges to cross to more closely link the models of acquisition performance adopted in the Finance and Strategy literature with the human and organisational insights from the behavioural studies. This offers a vast potential for research.

Research may also be done to develop mathematical models that predict the likelihood of a company being acquired. In addition to multiple discriminant analysis, probit analysis and logistic regression analysis, artificial neural networks may also be used for this purpose.

**7.6 LIMITATIONS**

Owing to the difficulties in the availability of reliable data, this study was made to confine to a small sample of 23 acquired (target) companies and 58 non-target companies. A larger sample could have produced a more robust model. Besides, the study covers only the period after liberalization (1991) up to 2006.

The study predominantly uses the financial variables for building the logistic regression models. Other variables such as ownership pattern could not be used for want of reliable data.
The study is restricted to only listed companies as the data relating to non-listed companies were not available.