CHAPTER - 6
MERGERS AND ACQUISITIONS

Introduction

The theoretical justification of mergers and acquisitions is that in capitalist economies the basic philosophy is that by and large the best use of national resources results from allowing people to pursue their own economic advantage subject to restriction against the monopoly and exploitation of situations. Mergers and acquisitions unaccompanied by any of these two evils result in the increased efficiency and increased national outputs (Sen, 1969).

Robert Davies, CEO, Prince of Wales Business Leaders Forum (PWBLF), stated during the conference "Business as a Partner in Social Development", held in New Delhi during March 20-22, 1996 that "In 1989 only 20 per cent of people lived in economies oriented toward market principles now only 10 per cent do not." This implies that the mergers and acquisitions which were and are popular in the US and the UK and are gaining popularity in the Europe and Japan are going to become popular in almost the whole world. India is no exception. Though the mergers and acquisitions in India had been a strictly controlled affairs till the liberalization in 1991, their significance as a route for business growth has increased since and due to the liberalization and globalization of Indian economy. Globally the significance of mergers and acquisitions has increased substantially recently after and due to the radically changed environmental conditions.
In 1996, Bank of Tokyo Limited and Mitsubishi Bank Limited of Japan merged to form the world’s largest banking institution Bank of Tokyo-Mitsubishi with 72 trillion yen ($679 billion) in assets. Chase Manhattan Corp and Chemical Banking Corp of the US merged into the "new" Chase Manhattan institution with $304.1 billion in assets displacing Citicorp as the number one US bank. Wells Fargo & Co, in the first major hostile takeover in the US, since the November 1988 merger of Bank of New York Corp and Irving Trust Co, acquired First Interstate Bancorp, following an intense battle that left Wells with assets of $108.39 billion.

New Oji Paper Co. Limited, already one of Japan’s biggest paper makers, and Honshu Paper Co. Limited would merge around October 1 to strengthen their long-term position in the industry and resist increasingly stiff international competition. The new company will become the third biggest paper company in the world, with annual sales of about $9 billion, after International Paper Co. and Boise Pacifi Corp. of the United States. New Oji was set up in 1993 through a merger between Oji Paper and Kanazaki Paper. Both Honshu and New Oji trace their roots back to a 19th century company known as Oji Paper, which was split in 1949 as Japan broke up its huge business groups known as "zaibatsu" following World War II.

Why mergers and acquisitions such as enumerated above as well as the numerous small, medium, large, and mega corporate organizations are being merged or acquired? Are they justified in doing so? What are the implications of mergers and acquisitions? What is the significance to
Indian business especially in the emerging business scenario of liberalization and globalization of Indian business? These are the questions today managers are concerned about.

There have been number of mergers and acquisitions in the past also. However, their significance has now increased significantly due to the changing business environment in India as well as in the world. In the 1980s the Indian corporate world was shocked when hostile attempt to takeover DCM and ESCORTS by London based NRI Sawraj Paul got disclosed. The attempt, however, had failed but not without a green-mail.

The first mergers and acquisitions wave appears to have already started since liberalization in India. The further integration of Indian economy with global business is likely to increase the momentum of this wave. Hindustan Lever Limited (HLL) acquired Tata Oil Mills Co. Limited (TOMCO) immediately following the alliance between The Godrej Soaps and Proctor & Gamble (P&G). The HLL - TOMCO merger created ripples not only in business circles but among the shareholders, investors, employees, consumers and policy makers. The merger, however, was approved by the Bombay High Court. The Brooke Bond India Limited and Lipton India Limited both Unilever group companies had merged and amalgamated as Brooke Bond Lipton India Limited (BBLIL). BBLIL went on an acquisition spree and acquired interest in other processed food and ice-creams businesses. Recently, BBLIL has also been merged with HLL both being Unilever group companies, making HLL the top ranking multi-national company in India as well as the largest private sector company in terms of market capitalization.
Feeling the pulse of business combinations and mergers in our country, the council of the Institute of Chartered Accountants of India, New Delhi, issued an Accounting Standard (AS) 14 titled Accounting for Amalgamation which came into force on 1.4.1995 (Rao, 1996).

Indian managers can learn a great deal from the experience of mergers and acquisitions in the Indian business pre and post liberalization. They may also learn from the experience of business abroad. Mergers and acquisitions are short-cut methods to business growth and hence, they are attractive to any business desiring growth.

This chapter aims to develop better understanding about the nature and significance of mergers and acquisitions and their impact on the sustainable growth of business. Since liberalization in mid-1991 there are upheavals in the environment especially in the legal framework concerning business and that concerning growth of business through mergers and acquisitions. The scrapping of licensing system and amending the Monopolies and Restrictive Trade Practices (MRTP) Act, have paved the way for mergers and acquisitions in the Indian business.

**Merger**

A merger is popularly understood to be a fusion of two companies (Sen, 1969). In the Monopolies and Mergers Act, 1965 of the UK, under Section 6, merger has been stated to mean "two enterprises by or under the control of a body corporate ceasing to be distinct enterprises."
is often known as amalgamation, especially when a new entity is created by merging of two business entities.

The most popular types of mergers are horizontal merger, vertical merger, market extension merger or marketing/technology related concentric merger, conglomerate merger and consolidation merger. A horizontal merger is a merger between two or more companies that compete in the same business and geographical market. A vertical merger is a merger that integrates the operations of a supplier and a customer. A backward vertical merger is where the customer acquires the supplier. A forward vertical merger is where the supplier acquires the customer. A market extension merger or marketing/technology related concentric merger is a merger between two companies in similar field whose sales do not overlap but may expand the acquiring firm's geographical or product market due to related marketing/technology of the firms. A conglomerate merger is a merger that does not fit into any other category. It is a merger between firms in totally unrelated business. A consolidation merger is a merger of two or more firms, generally engaged in same or similar business under the control of the same management.

Acquisition

A corporate acquisition is the purchase by one company (the bidder or acquiring firm) of a substantial part of the assets or securities of another (the target or acquired firm), normally for the purpose of restructuring the operations of the acquired entity. The purchase may be of a division of target firm (a divisional buyout, divestiture or spin-
off), or of all or a substantial part of the target’s voting shares (merger or partial takeover). Bids are sometimes directed towards the acquiring firm’s own shareholders, as a minority buyout or in a leveraged buyout (LBO) where a group of investors typically involving the firm’s own management acquires all the outstanding voting shares.

A bid for control of the target can be presented as a merger proposal or a tender offer, or a combination of the two (two-tiered offer). Merger proposals are negotiated directly with target managers and must be approved by the target’s board of directors before target share holders are given the opportunity to vote on the proposed deal. Thus, the incumbent target management has de facto veto power over merger proposals. In contrast, a tender offer is made directly to target share holders who decide individually whether or not to tender. Most countries require a minimum offer period (e.g. 20 days in the US and four weeks in France), and pro rata purchase of the tendered shares in over-subscribed offers. Since a tender offer does not require the incumbent target management’s approval, this acquisition method is particularly useful when the bidder’s objective is to replace the target management (a ‘hostile’ takeover) (Newman, 1994).

Historical Perspective on Mergers and Acquisitions

The mergers and acquisitions are important features in modern business. The history of business testify the importance. It has helped growth of most of the leading corporations in the world. The statistics indicate that two-thirds of the large public corporations in the US had a merger
or amalgamation in their history and top 200 corporations in the US are reputed to own about a half of the total corporate wealth of the US. Many giant corporations in the world have evolved through consolidation of smaller companies. General Motors was thus formed during the First World War, General Dynamics assembled and got together a number of defense and defense oriented companies after the Second World War. The Ford Motor Corporation acquired the assets of Lincoln Motors Company in 1922 and in 1953 acquired the farm equipment assets of Dearborn Motors Limited. In 1961 Ford purchased Philco Corporation and certain other assets of Electric Autolight Co. and thus emerged as one of the giant companies dealing with a large range of products (Sen, 1969).

The Figure-1 in Exhibit-1 (Newman, 1994) provides data on the number of US mergers back to 1895. Unfortunately, historical data on mergers and acquisitions are not highly reliable; existing data series span different time periods and cover different universes. But combining these series, as the figure shows, provides rough index of trends in mergers and acquisitions activity over time.

The aggregate number of transactions in the US show four distinct periods of particularly intense acquisition activity. The first acquisition wave occurred over the periods 1890-1904. There was a consolidation of a large number of companies. This period appears to have been a period of consolidation and horizontal diversification and resulted in the emergence of a number of companies dominant in industries which were formally before the merger a number of small enterprises. Some of the giant companies of today which were the result of amalgamation at this time.
are Standard Oil Companies of New Jersey, U.S. Steel, and Bethlehem Steel. Some of these merger efforts also were directed towards control of the market which ultimately led to a reaction leading up to the passing of antitrust legislations and ultimate dissolution of some of the larger units.

Between 1919 and 1930 there was another wave of amalgamations and mergers. The mechanics and pattern had changed slightly and during this period mergers were effected by formation of holding companies which acquired the controlling shares of a large number of small companies over relatively broad range of products. Among the important companies which had merged during this period were Radio Corporation of America, National Dairy Products and Allied Chemical and Dye.

There was a third wave in the 1960s. This era may be considered to be an era of conglomerate mergers. Between 1967 and 1968 there was a spate of mergers all over the world. Large number of mergers took place in the UK, the US, Japan and Italy. Many of the mergers were with a view to forming big and giant units with ultimately saving of overheads and also for avoiding unnecessary competition. But many of the mergers were effected with a view to obtaining the unutilized resources of the acquired units (Sen, 1969).

This was followed by another record number of transactions in the 1980s (Newman, 1994). The 1980s brought 98 of the 100 largest deals in history, with the number of transactions peaking at approximately 6000 in 1985 valued at approximately $400 billion (Merrill Lynch, 1989).
The 1980s also brought the 'break-up' takeover (i.e., the purchase of a conglomerate firm for the purpose of subsequently selling off its unrelated divisions) and great LBOs, including the single largest transaction in history, the Kohlberg Kravis Roberts & Co.'s $25 billion leveraged buyout of RJR Nabisco Inc. in 1988. During the second half of the 1980s, approximately 22 per cent of the annual number of acquisitions of public traded target firms were in the form of LBOs. These transactions were greatly aided by the ability to leverage the target firm's assets with high-risk, high-yield 'junk' bonds. However, towards the end of the decade, political opposition to junk bond financing gained substantial momentum, leading to regulatory restrictions on the use of debt in takeovers and, consequently, a general reduction in the number of large LBO transactions.

In Europe, corporate acquisitions have until recently played a much less prominent role than in North America. This reflects in part the much smaller and less liquid capital markets of the individual European countries, as well as a traditional preference for cross-border partnerships and strategic alliances as opposed to outright ownership of foreign firms. However, European acquisition activity has increased substantially in the wake of the rapid integration of product and capital markets within the European Community over the last decade. Thus, while domestic acquisitions in the US represented 85 per cent of the global acquisition activity in 1985, the percentage was approximately 50 per cent and falling by 1989, with the balance made up of largely European transactions (Smith and Walter, 1991). Within Europe, the UK companies
are by far the most active acquirers, with approximately 60 per cent of the total in 1990. French, Italian and (to a much smaller extent) German firms count for another 25 per cent of the total. The acquisition activity of the UK firms includes a substantial of hostile takeovers and large LBOs, including a $20 billion deal involving BAT industries in 1989. The UK firms are also pursuing aggressive acquisition strategies overseas, as reflected in the recent increase in the number of foreign acquisitions in the US.

Another source of information (Newman, 1994) indicates that the US market for corporate control experienced a boom starting in the mid 1970s and running through the decade of the 1980s. During the period 1976-90, over 35,000 control transactions occurred — including mergers, tender offers, divestitures and leveraged buyouts, totaling $2.4 trillion (in 1990 dollars). The premia paid to selling firms and their shareholders in these transactions totaled $690 billion (1990 dollars).

Researchers report that 30 percent of American manufacturing firms were acquired in the period 1976-87. At least 143 (28 percent) of the 1980 Fortune 500 firms were acquired by 1989 (Hall, 1991; Bhagat, Shleifer and Vishny, 1990). In addition, leveraged buyouts (LBOs) became increasingly frequent during this period. In LBO transaction managers (often in cooperation with outside buyout specialists) borrowed funds to repurchase the firms' publicly held stock, thereby taking the companies private. These deals (also referred to as MBOs) amounted to about 6 per cent of the total transaction and about 11.3 per cent of the total value of transactions in the period.
A major change distinguishing the 1980s takeover boom from previous mergers and acquisitions booms was hostile takeover offers. Hostile bidders bypassed incumbent managers and boards of directors by making tender offers directly to the firms' shareholders at a premium over market prices. These offers could be completed in days or weeks and transferred control to new management teams without the consent of the incumbent managers.

Although hostile tender offers received much attention in the press, they were only a small fraction of the 35,000 transactions in the 1976-90 period. Only 364 hostile offers were made during this period and of those only 172 (47 per cent) were successful. Because completion of hostile offers often involved major restructuring, these offers threatened many powerful establishment interests, including CEOs, directors, labor unions and politicians in affected communities. The resulting debate over the effects of these transactions on shareholders, managers, employees, customers, suppliers and communities, and on the productivity of American corporations provided a constant source of controversy during the 1980s. By 1992, the resulting antitakeover legislation by states, unfavorable court rulings, and increased regulatory control of credit markets vastly reduced the level of mergers and acquisitions activity and LBOs, and virtually halted hostile takeovers in the US.

In recent years assets acquired via mergers in the US have averaged $234 billion. This figure might be compared with the $500 billion a year spent on new plant and equipment and the $130 billion on R&D. Beyond its
scale two facts about merger activity stand out: mergers have come in great waves around, at least since World War II, a secular upward trend.

The all-pervasive trend in the US and the European corporate world in 1995 and 1996 has been to acquire and merge. Aided by the low interest rates, American and European markets are in the grip of a full-blown mergers and acquisitions rush. Announced deals in 1995 aggregated a phenomenal US $600 billion up from US $450 billion in 1994. Industries like pharmaceuticals, telecom, finance and information technology are leading the mergers and acquisitions wave (Thakkar and Shah, 1996).

In India, the mergers and acquisitions till the 1970s were low key affairs. The mergers and acquisitions were as a result of discussions generally conducted across the board and negotiated settlements reached amongst the parties concerned. The shareholders had little say in these matters. They were simply being informed about the decision already reached by the management. Hence, they had little or no opportunity to take part in the process of mergers and acquisitions.

This scenario changed considerably in the early 1970s starting with the most famous takeover attempt by Swaraj Paul for DCM and Escorts. Though the attempt was unsuccessful this gave rise to groups of financially strong individuals to go in for faster growth through mergers and acquisitions. Some of the industrialists who became active are Rama Prasad Goenka, Manohar Ranjan Chhabria, Sudarshan Birla, Srichand Hinduja, Vijay Mallya and Dhirubhai Hirachand Ambani. Among the NRIs the Hinduja group took over Ashok Leyland and Ennore Foundries and secured strategic
interests in IDL Chemicals and Astra IDL; Chhabria group acquired crucial stake in Shaw Wallace, Matter & Platt, Hindustan Dorr Oliver, Dunlop India, Gordon Woodroffe and Falcon Tyres. Chhabria group also acquired controlling interest in Genelac at Rs.65 a share and offered the same price to all ordinary shareholders who might want to sell. Among the prominent Indian industrial groups also been active in the takeover bids were the Goenkas of Calcutta, who during 1988 successfully took over the control of Ceat Tyres, Herdillia Chemicals, Polychem, etc.; Spartak took over the control of Neiveli Ceramics; Oberoi group took over Pleasant Hotels of Rane group; Mahindra and Mahindra Limited took over the automotive pressing unit of Guest Keen Williams Limited (GKW) at Kanhe, Pune despite competition from many other automobile companies in the country. Earlier Mahindra and Mahindra had also taken over Allwyn Nissan. Besides, there have been other notable takeovers viz. Universal Luggage by Blow Plast, Crystal Investment & Finance by MRF, Shalimar Paints by Jindals, etc. Tata Tea in September 1988 made a public offer to takeover Consolidated Coffee Limited and acquired 50 per cent of the company's equity at twice the market price of the company's share.

Furmarrite Nicco merged with Nicco Limited both being closely-held companies where promoters increased their equity stake from 32 per cent to 51 per cent to lower the stake of the financial institutions. Tata Fertilizers, a loss making company was merged with Tata Chemicals. Four companies, viz. Hindustan Computers, Hindustan Reprographics, Hindustan Telecommunications and Indian Computer Software Co. were merged to form HCL Limited.
In spite of all these the record of mergers and acquisitions in India is negligible compared to that of the US and of the UK. The MRTP approved mergers and acquisitions during January 1980 to June 1989 were mere 32 amalgamations and 52 takeovers as under:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amalgamations</th>
<th>Takeovers</th>
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<tbody>
<tr>
<td>1980</td>
<td>4</td>
<td>2</td>
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<tr>
<td>1981</td>
<td>3</td>
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<td>1986</td>
<td>5</td>
<td>10</td>
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<td>1987</td>
<td>1</td>
<td>5</td>
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<tr>
<td>1988</td>
<td>1</td>
<td>13</td>
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<tr>
<td>1989 (Jan-June)</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>32</strong></td>
<td><strong>52</strong></td>
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Source: Reply given on July 24, 1989 in the Rajya Sabha to unstarred question Number 570.

Between 1988 and 1992, 121 successful mergers and takeovers and 37 attempted takeovers have been reported, BIFR motivated mergers numbered 38 (Verma, 1993).

The number of announcements and types of mergers and acquisitions in India since 1991 are as follows (Thakkar and Shah, 1996):

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
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<tbody>
<tr>
<td>1991</td>
<td>71</td>
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<tr>
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<td>1993</td>
<td>222</td>
</tr>
<tr>
<td>1994</td>
<td>324</td>
</tr>
<tr>
<td>1995</td>
<td>426</td>
</tr>
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</table>

Source: IIM, Calcutta
Motives for Mergers and Acquisitions

1. The most fundamental corporate objective is the survival of the firm. To ensure survival a firm has to grow. Growth in assets/turnover/profit/influence can be achieved through mergers and acquisitions. There are certain disadvantages attached to the option of setting up green-field projects for internal development. Major disadvantages of setting up green field projects as compared to the growth through mergers and acquisitions are loss of time, high cost, loss of rhythmical momentum of the firm, shortage of personnel/facilities to set up or run projects, non-availability of or difficulties in getting licenses/permits, lack of or insufficiency of necessary infrastructural facilities, and lack of historical record of performance.

When the costs versus benefits analysis of setting up a greenfield project compared to the costs versus benefits analysis of going in for mergers and acquisitions favors the later, a firm may prefer to
go in for mergers and acquisitions. Often decades old large global corporations merge. It is near impossible to think of the option of setting up greenfield projects in such cases. Setting up a greenfield project also increases the total capacities in an industry. This in turn increases the competition even for the firm that goes in for a greenfield project.

2. Through mergers and acquisitions a firm can acquire assets and dependable sales turnover in one go. This can help it build required market share within a short time. A firm can gain further, if addition of assets helps it achieve optimum size which generate benefits of economies of scale of operations.

3. Through mergers and acquisitions a firm can generate financial, production, R&D or marketing synergies. These can help it increase productivity, efficiency and profitability. A firm with declining profit performance can acquire another high profit earning firm to check its own declining trend of profit performance.

4. Through mergers and acquisitions a firm can takeover the business of an existing competitor, buyer or supplier. This can help the firm eliminate an existing competitor, and thus reduce competition. Acquiring a buyer can help the firm have captive market and increase its effectiveness in downstream marketing and gain buyer’s margins. Acquiring a seller can help the firm increase its control over quality as well as supply of raw materials and gain seller’s margin.
5. A firm generating surplus cash from its business operations has to invest it outside to earn interest. Investing cash outside is not without the risk of loss of interest or even the capital itself. A new business acquired through mergers and acquisitions can offer the firm avenue to employ its surplus cash. The returns on such investments can be higher. The invested capital can also be safer. At least, the management can exercise better control over its investments and feel more secured. Such investments can offer more flexibility to the management with respect to its term because, even if earlier withdrawal becomes necessary, question of charging penalty does not arise. If the invested cash in the new business is used to build new assets, depreciation can be claimed against profits of the acquired or merged firm. This can increase the profit after tax.

6. A profit making firm can gain two direct benefits by merging with a loss making firm which is incapable of absorbing its losses. One, this can make it possible to absorb the accumulated losses of the loss making firm and hence increase in profit after tax of the merging company relatively and two, such merger generate social value i.e. goodwill of the employees, creditors, buyers, suppliers, government and other concerned parties who benefit from the continuity or refunctioning of the loss making firm.

7. A firm can regain or better its balance through mergers and acquisitions if the equation of competitiveness or dominance in the
market-place is changed by its competitor.

8. Due to varieties of reasons, liquidity crunch being the main, a business may be available for sale at a discount. A cash rich firm can acquire such business to avail benefit of the discount so available.

9. Considering the growth vectors as propounded by Ansoff, a firm may face alternatives of market penetration, market development, product development or diversifications — horizontal; vertical; market/technological related; or conglomerate. The firm can go in for mergers and acquisitions if the target firm offers opportunities of the type of growth as required by the acquiring firm.

10. Through mergers and acquisitions a firm can acquire the required brands, patents, and copy rights.

11. A firm can acquire another if its assets are undervalued or even if not undervalued, are of special value to the acquiring firm. Firms having underutilized assets can go in for mergers and acquisitions to ensure higher utilization of the assets.

12. A firm can acquire another if it has rare technical knowhow or is on the verge of achieving a breakthrough in R&D or has R&D facilities and/or qualified/skilled/experienced personnel required but lacked by the acquiring firm.
13. A firm can acquire another which has been functioning for long term profitability at the cost of short term profitability and does not have the means to defend hostile takeover.

14. A firm can acquire another to gain control over its production capacity and reduce the utilization of less efficient production capacity to gain overall during recessionary market conditions.

15. A firm can go in for mergers and acquisitions if the environmental factors, especially the governmental/political or legal, have changed or are likely to change radically.

16. A firm having linkages with foreign/parent company can go in for mergers and acquisitions following the strategy of the foreign/parent company.

17. A large business group, especially conglomerate giant, having picked up an arch competitor (another giant or potential giant) can go in for even seemingly indiscriminate mergers and acquisitions to reduce, nullify or stall each growth directed move of its arch competitor to phase out the competitor as soon as possible irrespective of the costs versus benefits of such mergers and acquisitions in the short or even medium term.

18. A firm having a strong political backing can go in for mergers and acquisitions of public sector units on a favorable terms. A firm may also acquire another if its spin off benefits include
increase in political backing. Political backing can be of immense help in business in a less transparent economies, such as in India.

19. Mergers and acquisitions can be as a result of personal reasons. A company can acquire another business even if it is damaging to the interest of the company. Such mergers and acquisitions may serve the self interest of the decision makers who effect such mergers and acquisitions. Some mergers and acquisitions can also be based on other considerations like prestige issue, taking revenge, helping or accommodating friends or relatives managing other firms and face saving.

Reasons for Avoiding Mergers and Acquisitions

1. A firm may avoid growth through mergers and acquisitions if the options available to it lack the goodness of fit compared with the strategy of the firm. Major reason could be the sub-optimal level of locations of the plants.

2. Merger or Acquisition faces many obstacles. It needs special resolution of each merging company. It has to pass through positively the legal scrutiny of the High Court (in India, Elsewhere other regulatory authority) that it would not result in harming the interest of creditors or employees. In India ownership psyche strongly favors control even at the cost of business or self interest. Another major legal obstacle is that of antitrust laws. A firm has to prove that mergers and acquisitions has not or will not
result into monopoly or significantly lessen the competition detrimental to the interest of the suppliers or buyers.

3. Goodwill of the merging firm is lost in mergers and acquisitions.

4. One major dimension of problems faced in mergers and acquisitions is that of people-related problems. People are the most subtle element to manage in the whole post merger/acquisition process. Almost all mergers and acquisitions cause leadership vacuum in the acquired firm. The delay in filling up this gap causes demoralization of employees. Loss of momentum among employees is difficult to regain. This can upset the calculations of merger/acquisition.

5. It is difficult to manage merged or acquired business. The information about a firm available before merger/acquisition is only the tip of iceberg. Also whatever information was available could be at variance with the realities. This would require rebuilding the whole scenario, which could consume substantial time and loss of momentum. Each organization develops a culture of its own. It is difficult to change it. Merging of culture is more difficult.

6. Mergers and acquisitions of large organizations increase inflexibility due to larger size of the merged or acquired entity. Major problem faced here is that of coordination. This further aggravates
the function of control. Reduced control results in inefficiencies at various levels affecting negatively the productivity and the profitability of the organization/group.

7. All business firms have their own administration set up. Some may have their own R&D facilities. Mergers and acquisitions would result in duplication of these set ups/facilities and efforts, at least for the time being, resulting in the loss of productivity.

8. Merger or acquisition of a sick firm sometimes proves to be infectious and takes toll of a healthy firm too. Otherwise also, it takes tremendous amount of time, money and energy to turnaround a sick firm.

9. A firm may have well defined strategy for growth through mergers and acquisitions. The firm still cannot go in for a merger or acquisition if no suitable option is available at all.

Reasons for Relinquishing Control of Firm by the Management or Divestiture

It would be pertinent to consider also the reasons for the management to relinquish control of firm or divestiture of a business as the same also occur in most mergers and acquisitions. They are as follows:

1. In case a management controls only a low level of equity holdings, in a hostile takeover attempt if the shareholders support the bidder's proposal and bidder acquires a controlling stake, the
management is compelled to relinquish the control of the firm involuntarily.

2. A conglomerate group may decide to change its portfolio or deconglomeratise the group. Management in such cases willingly relinquish the control of the firms not fitting to its portfolio plan.

3. Radical changes in the environmental factors especially governmental/political, legal or technological which the management is incapable of coping with can trigger divestiture.

4. A large group may decide a strategy where it would not like to continue business of firms which do not enjoy leadership positions can cause divestitures of otherwise well performing firms.

5. Managing business is managing liquidity. A sudden unexpected liquidity crunch that may jeopardise the whole business group can compel the management to divest some of its firms, at times even better performing firms.

6. Financially weak firms/groups simply divest to generate funds, if no other alternative is feasible to improve the financial status.

7. Real or perceived threat to business can trigger divestiture if management feels difficulties in handling future business.
8. A firm facing sudden increase in its liabilities or management suffering a loss of face can compel the management to relinquish the control.

9. Changing competitors' or competitor's profile can trigger divestiture by the management.

10. A firm having seasonal/unbalanced product line can be divested if the management is unable to complement the same.

11. If management has not been able to develop strong second line of control capable of resuming the business independently and if vacuum is created at the top level due to some constraints, management can relinquish control to save the firm getting sick and loose value.

12. Labor or employee problems may turn personal to the extent that it may become extremely difficult for the management to run the firm and is compelled to relinquish the control.

13. Awarding of a license/permit to a firm may create a premium value especially to another firm wanting such rights desperately. Management can relinquish the control to encash such premium prospects.
15. A young, profitable, and fast grown firm may have reached its optimum size. The management having entrepreneurial spirit to take on other challenges, and not interested in getting bogged down to the safe but routine management of the firm can relinquish the control to start new venture with extra funds.

16. A management controller may simply like to retire from business and pursue other non-business objective and hence relinquish the control.

17. A stalemate among the promoters or family quarrels among the owners often lead to divestiture only aimed at ending such stalemate or family quarrels.

18. Following privatisation drive, control in a public sector undertaking may be divested in favor of private sector group to induce competitiveness of a private sector business.

19. A politician or a political party in power can induce divestiture of a public sector firm at a substantial discount for ulterior motives.

Evaluation Factors of Acquisitions.

The most important parameters which a firm may keep into consideration before going in for acquisitions (Hutchison, 1968) are as follows:
1. The position of the candidate company in its industry.

2. The operating performance of the company to be acquired.

3. The potential return on investment.

4. The capital structure of the candidate company. Especially the debt structure and need for capital investment after acquisition.

5. The nature of the management to be acquired.

6. An essential asset in the acquisitions candidate may be technical know-how to add value to the firm in the same market place or in new market area or a good investment for the generation of fund.

7. The cost of purchase with emphasis on the degree of dilution of the stockholders' equity.

8. The acquisition or merger should increase competition in a market and better serve society's demands.

**Legal Perspective**

A higher degree of non-regular dealing with the agencies external to a firm is involved in a merger or acquisition. Legal agencies perhaps are the most crucial of them. There are peripheries laws within which only a firm can effect its merger or acquisition. An excellent proposal of
merger or acquisition from business consideration would fail to materi-
alize if the same is outside the peripheries of the laws governing
mergers and acquisitions. The laws governing mergers and acquisitions
generally cover the interest of not only the acquirer or the acquiree
but that of the concerned investors, shareholders, creditors, suppliers
and buyers. Laws in the US, the UK and Switzerland normally facilitates
mergers and acquisitions. Other developing countries generally have
 stricter regulations. The MRTP Act in India was main obstacle to mergers
and acquisitions for large business groups. Now that it is amended,
mergers and acquisitions in India is less complicated affair compared to
even developed countries such as Australia. SM Datta, chairman Hindustan
Lever Limited rightly stated that, "The series of acquisitions by the
Lever group would not have been possible in the controlled era." (Thak—
kar and Shah, 1996).

In the UK, mergers and acquisitions are so common that a "City Code",
containing rules of mergers and acquisitions, was adopted in 1968 as
self-regulatory measure so as to develop and follow healthy and fair
practices and protect the interest of the investors and shareholders.
Similarly, in the US, all mergers and acquisitions have to be approved
by the Securities Exchange Commission to ensure fair play non-detrimen-
tal to the investors.

A permissive attitude towards mergers seems to have been adopted by the
European Commission (George, 1990). The permeable to the draft EC
regulations, for instance, seems to encourage mergers: "the dismantling
of internal frontiers can be expected to result in major corporate

235
reorganizations in the community, particularly in the form of concentra-
tions ... and such a development must be welcomed as being in line with the requirements of dynamic competition and liable to strengthen the competitiveness of European industry...."

Most of the developed countries have legislation controlling mergers and acquisitions. Only Switzerland has no merger control rules which require the consent of the Swiss Antitrust Commission or any other government body for a merger or an acquisition. A divestiture of a business in Switzerland, therefore, regardless of the size and market position of the parties involved, may take place without even notification to the Commission. Commission may, however, according to Article 30 of the Swiss Antitrust Act, begin an inquiry if an acquisition or merger creates or reinforces a dominant position in the market. After such an inquiry the commission may issue a recommendation to enjoin the acquirer from using his dominant position. If an acquirer does not voluntarily accept the recommendation, the Federal Department of Economy may issue an enforceable order, which will become legally binding unless it is revoked by the Federal Supreme Court upon appeal (Schenker and Berdoz, 1991).

In India, despite unfavorable economic environment that had existed before liberalization in 1991, mergers and acquisitions have not been uncommon. Mostly, mergers have been in the spirit of law as Companies Act, 1956 provides the procedure for friendly amalgamations and the Income-tax Act, 1962 carries incentive of carry forwarding losses to the merged company. The major hurdle for large MRTP companies was MRTP Act
and for foreign companies FERA. Hence, the mergers and acquisitions activity was low in India. But now conditions for mergers and acquisitions have changed radically.

The government in India had made it mandatory by The Monopolies and Restrictive Trade Practices (MRTP) Act, 1969 for business groups (inter-connected undertakings) commanding assets of Rs.100 crore or more (Rs.20 crore or more from 1969 to 1985) to obtain prior approval of the Central Government for expansion, establishment of new undertakings, merger, amalgamation, take over and appointment of Directors. The MRTP Act was restructured in 1991 and above requirement of prior approval was eliminated. Another act Foreign Exchange & Regulation Act (FERA) restricted equity holding of a foreign company in companies in India to 40 per cent. It was relaxed so that 40 per cent limit of equity holding by the foreign companies has been increased to 51 per cent in most cases. In special cases it can be even more than 51 per cent subject to the permission of the Foreign Investment Promotion Board (FIPB).

This has made it easy for the companies both Indian and foreign to go in for growth of business through mergers and acquisitions. It has resulted into number of mergers and acquisitions since then.

At present two sets of regulations govern takeovers. Clause 40 (A&B) of the listing agreement and SEBI Takeover Code 1994. The clause 40 provided for making a public offer to the shareholders of a company by any person who sought to acquire 25 per cent (revised to 10 per cent in 1990) or more of the voting rights of the company.
As per the takeover code the acquiring firm has to disclose its plans before the takeover. Different countries have different legal requirements. In India, as per the SEBI Takeover Code, 1994 as soon as the equity holding of the acquirer is about to cross the five per cent limit there is a provision for mandatory disclosure to the target company and the stock exchanges. That duty continues till the holding is less than 10 per cent. The moment the 10 per cent threshold is likely to be crossed, the acquirer has to make a public offer through a merchant banker to purchase at least 20 per cent of the capital of the target company at the market rate. This is to ensure the protection of the interest of every shareholder. As against this the management of the target company is restrained from indulging in asset stripping or issuing further securities. The role of shareholders is significantly important in takeover. It may happen that the shareholders of the target company take the lead and the management may be found to be a helpless and mute witness to the whole takeover process. The acquirer's disclosure and other duties ceases with the crossing of 75 per cent threshold. The SEBI Takeover Code, 1994 was criticized by various quarters for its insufficient comprehensiveness. Also this code coupled with the clause 40 (A&B) of the listing agreement caused much confusion as there exists some inconsistency between the two as well as there are unaddressed gaps concerning takeovers.

SEBI had, thus, constituted a committee under the chairmanship of former Chief Justice of the Supreme Court of India, Shri P.N. Bhagwati to review SEBI (Substantial Acquisitions of Shares and Takeovers) Regula-
tion 1994. The terms of reference of the committee were to examine the areas of the deficiencies in the existing regulations, and to suggest amendment in the regulations with a view to strengthening the regulations and make it more fair, transparent and unambiguous and also to protect the interest of investors and all parties concerned in the acquisitions. The committee released the draft code on takeovers on 23 August 1996. The draft code on takeovers is expected to be notified soon and will be enforceable thereafter. Until then the clause 40 (A&B) of the listing agreement and the SEBI Takeover Code 1994 will be in force.

The new takeover draft differs from the existing one on certain important aspects. Preferential allotments to the promoters have been specifically exempted from the requirement of public offer. 'Change in control' has been made ground for public offer. Open market acquisitions by acquirer will be permitted during the offer period, subject to highest acquisition price is to be paid to the shareholders under public offer. The minimum offer price shall be the highest of either the negotiated price, the six-month average of highs and lows, or the price paid by the acquirer for buying shares in the target company in last one year. The acquirer will have to deposit or provide bank guarantees or securities with appropriate margins of 10 per cent of total offer amount in an escrow account, which could be forfeited in the event of default. Directors of target company will be allowed to make recommendations on the offer to shareholders. Public offer could be revised to include upward revision of price and quality of shares. Offer letters will not be required to be vetted by SEBI. The competitive bid can be announced within 21 days of the public announcement of the first offer. The origi-
nal acquirer can withdraw or revise his offer within 14 days of the announcement of the competitive bid. If offer is withdrawn no fresh open offer will be allowed by the same acquirer for the next six months.

The revised takeover code is likely to increase corporate takeovers. Exit policy in India is yet to be relaxed. Eventually it will be as it is only the logical conclusion of the liberalization process. When this is done and 'asset stripping' becomes easy the number of takeovers in India would increase substantially.

The mergers and acquisitions face another important dimension of antitrust laws. Basic federal antitrust and trade regulation law policy in the US is set forth in four laws—the Sherman Act, 1890, the Federal Trade Commission Act, 1914, the Clayton Act, 1914, and the Robinson-Patman Act, 1936. The Sherman Act condemns contracts, combinations, and conspiracies in restraint of trade, and monopolizing, attempts to monopolize, and combinations and conspiracies to monopolize. In 1914, Federal Trade Commission Act was enacted with its creation of an administrative body for policy development and its broad prohibition against unfair methods of competition. Also, this year the Clayton Act was enacted with its specific prohibitions against price discrimination, exclusive dealing arrangements, corporate acquisitions of stock, and interlocking directorates. These acts were subsequently amended and expanded to include unfair or deceptive acts or practices (false advertising etc.), and prohibition against acquisitions of assets.

Basic federal antitrust and trade regulation policy contain no affirma-
tive regulation to bring business activities and practices within the concepts of the antitrust and trade regulation policy. Rather, the approach is negative, that is, prohibiting agreements, activities, or practices which conflict with a policy which is grounded in the laws and developed day-by-day by the courts and by the Federal Trade Commission (Trade Regulation Reports, 1989).

In the US, the antitrust laws started losing their edge with the Ronald Reagan and Republican party coming to power in 1980s. The government was favorable to the business, and business and industry had their ways with the management of them. The grip of antitrust laws started loosening. Almost all kinds of mergers and acquisitions were allowed to take place. Even after Bill Clinton and Democratic party coming to power the things have not been changed significantly, though the Democrats are known for having bias for regulations especially concerning business. Now the general approach of the government in the US reflects the mentality of the government that the regulations are harmful. However, the only notable recent case of antitrust action on any business organization is that of American Telephone and Telegraph (AT&T). AT&T was forced to break up due to its monopoly status under antitrust legislation. A recent proposed US $5.4 billion merger of two of the oldest railroads in the US, Union Pacific and Southern Pacific raillines which would create the biggest railroad in the Western Hemisphere has attracted antitrust scrutiny in the US, and may fail to materialize if not approved by the Surface Transportation Board. And even if approved it will be subject to the appeal by the Justice Department.
Unlike in the US, the government in India had made it mandatory by the Monopolies and Restrictive Trade Practices (MRTP) Act, 1969 for business groups ( interconnected undertakings) commanding assets of Rs.100 crore or more (Rs.20 crore or more from 1969 to 1985) to obtain prior approval of the Central Government for expansion, establishment of new undertakings, merger, amalgamation, take over and appointment of Directors. The MRTP Act was restructured in 1991 and above requirement of prior approval was eliminated. Another act, Foreign Exchange & Regulation Act (FERA) restricted equity holding of a foreign company in companies in India to 40 per cent. It was relaxed so that 40 per cent limit of equity holding by the foreign companies has been increased to 51 per cent in most cases. In special cases it can be even more than 51 per cent subject to the permission of the Foreign Investment Promotion Board (FIPB).

This has made it easy for the companies both Indian and foreign to go in for growth of business through mergers and acquisitions. It has resulted into number of mergers and acquisitions since then. The foreign bidders have been more aggressive in tapping the mergers and acquisitions as a route of growth. As against 80.6 per cent of the Indian bidders, the foreign bidders were 19.4 per cent of all mergers and acquisitions in India during 1986-1990. During 1991-1994 Indian bidders were down to 73.8 per cent whereas the foreign bidders were up to 26.2 per cent (Thakkar and Shah, 1996- Source: IIM Calcutta). This has made the study of mergers and acquisitions much relevant, even in India.

Managing Mergers and Acquisitions

Setting objective of growth rate is one of the most important aspects of strategic planning. Having fixed-up such growth rate for the firm it
becomes necessary for the management to probe the future business of the firm and its growth rate. The firm may realize that the present growth rate may lose its momentum in near future or in the medium term and requires support from other supplementary activities. In such case the firm may consider the option of growth through mergers and acquisitions.

Two main types of benefits attributed to mergers and acquisitions are a reduction in production and transaction cost, and an improvement in the efficiency of the management but against these potential benefits can also be set possible inefficiency resulting from mergers and acquisitions. The pitfalls awaiting the larger merged organization are poor communications, sour industrial relations, corporate culture clashes, costly duplication, inefficient co-ordination and finally, lack of flexibility (Jacquemin, 1990).

Integration of the acquired and the acquiring entities is important. The timely and smooth integration process would create conducive atmosphere for capability transfer. Inflexibility would only jeopardize the integration process and would reduce the value creation. Generally, leadership vacuum is found in the organization of a merged or acquired entity. This would damage morale of the employees which would reduce the value creation.

Managing acquisitions is not easy and because all acquisitions differ from one another. It is essential that managers have high capacity for learning. On the other hand there are cases where some business groups have mastered the skills of managing acquisitions so much so that they
have ensured exponential growth for their groups through mergers and acquisitions. MR Chhabria group, RP Boenka (RPG) group, Rajarathinam (AGNI) group are cases in the Indian business where they have shown trailblazing growth. Though not all mergers and acquisitions of these groups have been success, the importance of mergers and acquisitions cannot be underestimated.

All firms with surplus cash on hand are not likely to be equally successful with their acquisitions as certain ingredients are necessary for the firm to have fruitful acquisition activity. A firm is at advantage whose management has decentralized approach, flexible structure, integrative format and is strong on human relations. On the other hand a firm’s acquisition activity is more likely to run into rough weather if the management is highly centralized. It would become extremely difficult for a controller or a few top managers to take care of all the relevant aspects of acquisition. A rigid structure of the acquirer firm would pose many problems while undergoing restructuring exercise after the process of acquisition is complete. A firm weak on human relations would face a lot of resistance from the employees without whose active cooperation no acquisition could be a success. A firm lacking integrative format would be found struggling to maintain balance in both the companies.

Managing people related aspects perhaps is the most important function of the management of a merged or acquired group. Also important is to maintain high degree of flexibility in the post merger/acquisition period. Insufficient flexibility would be counter productive.

244
Research Findings on Mergers and Acquisitions

Little noteworthy research has been done in India on mergers and acquisitions covering a large number of samples. The basic reason being there are not many mergers and acquisitions which can provide the required sufficient historical data base to carry out testing of various relevant hypotheses.

Recently, a survey was conducted by the Capital Market (Thakkar and Shah, 1996) to ascertain the attitudes, sentiments, views and perceptions of chief executives of leading Indian companies towards mergers and acquisitions. Based on the responses received from 37 companies in India, it may be concluded that only a small minority would like to aggressively go in for hostile and negotiated takeovers. A majority would like to seek only negotiated acquisition opportunities.

The most preferred acquisition proposal was for expansion of capacities/business, followed by vertical integration (forward/backward). None were interested in unrelated diversification. This is in sharp contrast with the actual practice in the industry before liberalization. The Indian industry was subject to the licensing system which was based on the socialist philosophy of the government to restrict concentration of economic power and factors of production. This compelled the companies to go in for growth through any-which-way possible and that used to be the unrelated diversification, generally.
The majority wanted the present legal framework for acquisitions to be substantially liberalized and felt that in hostile takeovers (financial) institutions should take a side beneficial to the shareholders and the company. The majority also felt that acquiring a BIFR (sick) company should be avoided as it is too cumbersome. The majority also did not like to acquire a PSU (Public Sector Unit) on an as-is, where-is basis. The majority also believed that mergers and acquisitions will flourish but there will not be any boom in India.

Extensive research has been done on mergers and acquisitions in the US and Europe testing various hypotheses representing the commonly held beliefs about mergers and acquisitions. The findings of these researches are surprising and shocking.

Merger hypotheses that do not presume profit increase are: Schumpeter (1934) placed the 'the dream... to found a private kingdom'; at the head of his list of entrepreneurial goals. Marris (1964) linked the pecuniary and nonpecuniary rewards of managers to the growth of their firm. Mergers are the quickest way to grow, and thus may be undertaken by managers even if they do no promise profit and shareholder wealth increases. Young firms or those in rapidly growing industries may have sufficient opportunities to grow internally so that they need never resort to mergers to achieve this managerial goals. Mergers to increase or to avoid declines in company size are most likely for mature firms in slow-growing or declining industries with sufficient cash to finance this type of expansion (Mueller, 1969, 1972; Jensen, 1986).
Corporate managers who face the possibility of being fired after a hostile takeover often complain, both directly through the media and indirectly through their political representatives, that takeovers are damaging to the morale and productivity of their organizations. Based on the premise that the market systematically undervalues long-term earnings potential ('short-term myopia'), takeovers are said to force an excessive preoccupation with short-term profits at the expense of long-term planning, research and development (R&D). However, this myopia theory is contradicted both by the evidence on efficient markets in general and by the literature on acquisitions. For example, the market undervaluation hypothesis is rejected by the empirical finding that the initial offer-induced gains to target shareholders on average are offset by a post-offers price decline if the offer fails and the target remains independent (Bradley, Desai and Kim 1983). Furthermore, the capital market appears to encourage R&D spending increases in general (McConnell and Muscarella, 1985), and there is no empirical indication that high R&D expenditures increase the probability of becoming a takeover target (Hall, 1987).

Two approaches have been commonplace in the finance literature on the performance of takeovers. The first is to employ accounting data on profitability and compare the weighted average performance of acquiring and target firms prior to takeover with the post-takeover profitability of the merged group (Meeks, 1977 in the UK, and Ravenscraft and Scherer, 1987 in the US). The second is to examine the share price reaction of target and acquiring firms around the announcement of takeover (Jensen and Ruback, 1983). It should be noted that there are more serious meas-
The two sets of tests give quite different results. A majority of the accounting studies, at least those in the UK, point to a poor performance of takeovers; the post-takeover performance of merged firms is often worse than that of the two separate firms prior to takeover. In contrast, the share price studies find substantial gains to the shareholders of the target firm around the announcement of the bid.

There have been attempts to examine the share price performance of merged firms over an extended period after the acquisition has occurred. However, such tests are complicated by problems of identifying benchmarks against which to measure the performance of merged firms. The results of these tests are yet not strongly support the proposition that takeovers have acted to the benefit of shareholders.

In Europe also the theoretical argument about the contribution of mergers to the productivity of business assets does not yield a general presumption in their favor. During the 1960s and 1970s, most mergers in Europe were horizontal, rather than vertical or conglomerate. The little research that has been done in this area found that merger activity considerably increased national industrial concentration ratios (De Jong, 1976). In recent years there has been a new wave of mergers and acquisitions in Europe, stimulated partly by the completion of the European internal market, and the majority of these have occurred in already concentrated industries.
A merger that increases efficiency should lower price and lead to an
 expansion in output. Thus efficiency increases should be followed by
 increases in market share or growth of sales. But company growth rates
 and market shares have been found either to decline (Mueller, 1980b,
 1986) or at best to remain unchanged (Goldberg, 1973) following mergers
 in the 1950s and Sixties. If these conglomerate mergers affected effi­
 ciency, they reduced it. Consistent with this interpretation is the
 finding that plants of more diversified firms have lower productivity
 (Caves and Barton, 1990).

The easiest efficiency gain to envisage in a merger is between two firms
 in an industry with significant scale economies. However, merging firms
 tend to be bigger than the average company, casting a shadow on scale
 economies as a general explanation for horizontal merger (Mueller,
 1980b). Merger waves can also occurs in declining industries to rational­
 ize production by assuring that the least efficient production capaci­
 ty is retired first (Dutz, 1989).

Vertical integration through merger can increase efficiency by (1)
 eliminating price distortions in factor inputs, when upstream producers
 have market power, (2) reducing the transaction costs of contracting
 between vertically linked firms, when asset specificity is present, and
 (3) reducing bargaining costs between vertically linked firms in the
 presence of asymmetric information (Williamson, 1989; Perry, 1989).
As for the effects in terms of profitability and growth, many studies point to the absence of substantial efficiency gains. A comparative study, directed by Mueller (1980), of results from various EC countries concerning full legal mergers concluded that: (1) Tests to identify economies of scale as a possible objective proved it was not significant: for one thing, the size of acquiring firms was usually already greater than the minimum optimum scale for the industry. (2) The tests of post-merger profitability suggested that the mergers had little or no effect on the profitability of the merging firms in the three or five years following the merger: This confirms the results obtained in many American studies (Scherer, 1980). (3) It also suggested that the cost of the changes in organization (difficulty of "digesting" the acquisitions, diseconomies of large organizations) are often greater than the benefits claimed by the promoter of takeovers.

This last point is confirmed by detailed studies of mergers in the UK (Cowling, 1980; Meeks, 1977). Studies by management consultants come to similar conclusions. Coley and Reinton (1986) looked at the US and British companies in the Fortune 250 list and the Financial Times 500, which in the past had made acquisitions to enter new markets. They concluded that only 23 per cent of the 116 firms analyzed were able to recover the cost of their capital or, better still, the funds invested in the acquisition program. It also appears that the higher the degree of diversification implied by the take-over, the smaller the likelihood of success. For horizontal mergers in which the acquired firm is not large, however, the success rate is around 45 per cent. The main reasons for failure: too high a price paid for the acquisition, over-estimation
of the potential of the acquired business in terms of synergy and market position, and inadequate management of the process of integration after the acquisition. The economic and social consequences of wrong mergers and acquisitions are not simply a question of shareholders' interests, but can affect a large number of stake-holders, employees, as well as local and national economies.

Mergers do not generally increase profits. Moreover, this is true even for the first two great merger waves dominated by horizontal acquisitions (Markham, 1955; Hogarty, 1970a; Reid, 1968).

The proper way to measure the effects of mergers on profitability is to compute the weighted average profit rate of the merging firms before the merger and compare it to the profit rate of the merged company afterward using a control group to adjust for changing economic conditions (Hughes, Mueller and Singh, 1980). Of the six studies that measure the effects of mergers over the post-World War II period using this procedure, only one using after-tax profits, found an increase in profitability (Mueller, 1980B). But the same study found a relative decline in before-tax profits suggesting a decline in efficiency. The most ambitious study in terms of sample size, time span and care in holding the data concluded unequivocally that profitability of acquired firms declined after they were acquired (Ravenscraft and Scherer, 1987; Piper and Weiss, 1974; Conn, 1976; Mueller, 1986; Rhoades, 1987). Thus a century's experience consistently rejects the hypothesis that mergers increase efficiency and thereby profitability.
Concerning shareholder, it appears that there is a striking contrast between ex ante event studies of corporate mergers' potential gains, and the ex post evaluations of the effective results. In his introduction to a special article on mergers, Mueller (1989) concludes that prior to the mergers the share of acquiring firms tend to outperform the market. At the time of the announcement, there is little change in the acquiring firm's share price. The post-acquisition performance of acquiring company share prices is below their pre-merger performance, and in many studies below that of the market. This post-merger performance matches the constant or declining performance of the acquired units measured in profitability, market share or productivity. This pattern appears to be characteristic of mergers in Europe and Japan.

A change in share prices as a result of a merger should indicate the market's expectation of the effect of the merger on future profits. Findings from 19 studies indicates that the easiest results to interpret are for acquired firms' shareholders. They are big winners with a median gain of 19.7 per cent. On the other hand, the immediate impact of merger announcements on acquiring firm share prices are of conflicting signs, and often are statistically insignificant. Continuing for up to several years after the mergers, acquiring firms' shareholders suffer substantial losses (Newman, 1994).

Mergers and Acquisitions in India

There have been a number of mergers and acquisitions in Indian industry. They occurred due to varieties of reasons. Most of the notable mergers and acquisitions are discussed here under different groupings.
Exploiting Legal Loopholes or Bypassing Legal Constraints

Some mergers and acquisitions have taken place in India either to exploit loopholes in the laws or to bypass legal constraints for business advantages. A so-called merger wave of business firms took place in India around 1970 due to the sole reason of bypassing one legal constraint. The government passed a law limiting the number of companies that can be managed by managing agents under managing agency to 20. This was done essentially to restrict the concentration of economic power and factors of production. Many managing agents having more than 20 companies under their control went in for mergers of the companies and observed the restriction of number of 20 companies at the same time bypassed the legal constraint.

Credential Finance Limited, an unlisted company, plans reverse merger with Bloom Field Builders and Construction Co. Limited. The merger proposal is awaiting clearance by the Bombay High Court and the swap ratio has been worked out at one share of Credential for each share of Bloom Field's. The reverse merger route gives it an opportunity to get listed without undergoing the scrutiny related to the primary market disclosure requirements or close scrutiny of its prospects or have the need for a merchant banker. SEBI does not interfere in private placement deals since there is no public involvement.

Since licensing is strictly regulated in liquor business growth through mergers and acquisitions is the attractive route for the liquor compa-
nies. This has led both Chhabria group and Mallya group to go in for mergers and acquisitions with many loss making liquor units. Unfortunately for both the groups there was intense competition among them for the leadership position which led them to go in for mergers and acquisitions indiscriminately. Many of the units have accumulated huge losses and some of them have now negative net worth. This has caused damage to the financial conditions of both the groups. While Chhabria is compelled to divest many of his acquired units to generate funds to keep the group going, Mallya reportedly had been approaching the international ace portfolio manager George Soros' group for divesting equity stakes but without success.

Sick Unit Takeover For Tax/Fiscal Advantages and Capacities

There have been a good number of mergers and acquisitions of sick firms for tax/fiscal advantages. Some have them have been turned around too. Notable among them arranged by the Board for Industrial and Financial Reconstruction (BIFR) are Punjab Anand Batteries Limited's takeover by ITC Limited, Kothari Electronics by Saha group, Alind (Aluminum Industries Limited) by Somani group, Jayawanti Chemicals by Shri Krishna Keshav Labs. Limited, Kamani Tubes by Workers Co-operative, CBS Gramophones by RV Pandit, Swadeshi Cement by Sitari Finance & Leasing Co., Sagar Spinning by RP Tantia, Southern Hydro Carbons by Kaveri Engg Industries, Kunal Machinery by Laxmi Machinery Works, Tripur Cotton by Shanmugam Chettiar and Mewar Sugar by Arun Dhandhania Ratnesh Enterprises. These takeovers are institutionally motivated mergers. The terms and conditions in these cases are decided by the creditor institutions.
and banks in consultation with BIFR.

Apollo Tyres Limited (ATL) the leading company in the truck tyre segment has pumped in Rs.100 mn. in equity and Rs.200 mn. in working capital as part of the BIFR rehabilitation package for Premier Tyres at Cochin. The added capacity of Premier Tyres has enabled ATL to enhance production in short time.

In 1977 section 72A of the Income-tax Act was added where the mergers entitled to concession of fiscal incentives were in the form of sick units taking over the healthy units where the sick unit survives and the healthy unit extinguishes. As a consequence, the profits of healthy units are adjusted against the losses (including depreciation and investment allowance) of the sick surviving unit. This is known as reverse merger. Some of the undertaking went in for reverse mergers are Kirloskar Pneumatic Limited with sick unit Kirloskar Tractors Limited; Atul Products Limited with sick unit Gujarat Automatic Compound Limited; and Asian Cables Limited with sick unit Wiltech Limited In all these cases the merged undertaking carried the name of the sick unit for a year or so and after filing one tax return the name was changed to healthy unit’s name.

Mahindra and Mahindra was incorporated as a private limited company in 1947 and is a leader in the jeep and agriculture tractor markets in India. BIFR sanctioned the merger of Allwyn Nissan, the loss making Indo-Jap LCV maker, with M&M in 1995. The merger is expected to entitle M&M tax benefits to the extent of Rs.23.17 crore.
Genelec, one of the Chhabaria's many acquisitions which has turned sick will be merged with Shaw Wallace soon. Genelec's accumulated losses as of 31st March 1995 were to the extent Rs.38 crore which after adjustment of reserves and surplus are currently at Rs.20 crore. Shaw Wallace will be entitled to benefits of Income Tax write-off to the extent of Rs.9.77 crore which would offset the impact of loss absorption.

Wimco Limited, the only company in the country to manufacture match boxes in the organized sector had accumulated losses of Rs.14.5 crore by March 1991. The company was taken over by the Japan based Jatia group in 1991, with the company's foreign collaborator, Swedish Match AB, selling off its stake of 39.41 per cent equity. The new management turned around the company by hiking the price of their products simultaneously cutting down the costs and wiped off all carry forward losses as well as paid 10 per cent dividend to shareholders, after a gap of nine years.

In 1994 the international fund management group Bearbull AB of Zurich took over the 47 per cent overseas equity block of Guest Keen Williams Limited, Calcutta from its parent company Guest Keen Williams plc of the UK. The same year KK Bangur group of Calcutta acquired 9 per cent of total equity from the stake and took over the management of the company. The Bangur management turnaround the company. The notable feature of the post acquisition management is that the employee strength was reduced from around 11,000 to 6,000 and may further be reduced to 4,500.
IFCA Laboratories Limited was a sick unit and came up for sale in 1975. Ajitabh Bachchan, Amitabh’s younger brother and business advisor thought it would be a good investment. This was also pointed out by the Bachchan’s chartered accountant who considered it a good buy since it exported 90 per cent of its production and agreed to run it along with the current managing director. The Bachchans controlling 36 per cent stake is currently valued at Rs.130 crore against Rs.15 lac paid in 1975 for the entire equity. IPCA with its product Lariago, has a 43 per cent share in the fast growing anti-malaria market. The company acquired a running bulk drug unit at Indore as well as an export oriented psyllium husk (isabgol) unit at Sidhpur in 1995. This acquisitions would create production and marketing synergy as already is in export business having wide contacts as well as IPCA has a good marketing network of 12 depots, 750 stockists supplying to around 1,25,000 retailers.

Incorporated in 1958, Special Steels Limited (SSL) manufactured wires at its Bombay plant. The Tarapur plant was set up for wire manufacture in 1976, and a wire rod mill was added in 1989. Simultaneously, SSL took over Gogte Steels, a sick mini mill manufacturing billets at the same location. However, delays and poor operations tuned it into a sick company. In 1984, TISCO acquired a 57 per cent stake and turned SSL around in two years through steady raw material supply and better manpower utilization. In 1995, Navsari-based HR and CR-coil manufacturer Tata Metals & Strips merged with SSL, TISCO’s stake came down to 44 per cent.

Mardia Chemicals Limited incorporated in 1979 to manufacture earth moving equipment was taken over by the Mardias in 1987 and the land at
Vatwa (Ahmedabad) was used to set up a dye intermediate plant. Incorporated in 1954 Amar Dye-Chem (ADC) started with the production of reactive dyes. ADC faced labor unrest during the 1980s and had to face shutdowns and soon came under BIFR purview. Through ICICI the operating agency, ADC was taken over by the Mardias in 1993. The takeover was challenged by an NRI group but the company still remains with the Mardias after a court ruling. The takeover by the Mardias is expected to generate synergies with the other successful company of the group Mardia Chemicals.

Hostile Takeovers

There have been some mergers and acquisitions in Indian industry through hostile takeovers. Notable cases of hostile takeover include that of the liquor giant Shaw Wallace & Co. Limited (SWC). In a hostile takeover bid SWC was taken over by NRI MR Chhabaria by acquiring the controlling stake from foreign company Sine Derby.

Ruia brothers of Essar group had built up a considerable stake in the Tamilnadu Mercantile Bank following a triangular split between Nadar promoters from Tuticorin, Sivakasi and Virudhunagar. Nadar dominated board resisted the transfer of shares. This was challenged by Ruias in the Company Law Board which has recently passed the order to the board of directors of the bank to transfer the shares.

Some cases of hostile takeover attempts which failed notably include the famous hostile takeover attempt by London based NRI Swaraj Paul for
Delhi based DCM and Escorts. The attempt was resisted by the management and resulted into longdrawn litigation involving the Reserve Bank of India and the Central Government. Ultimately an out-of-court settlement ended the stalemate where the management bought the shares at Rs.95 as against the average purchase price of Rs.60 by Swaraj Paul. The management had to pay additionally the interest on investment and dividends amounting to a total outgo of Rs.9 crore.

Recently Khemka group had made a conditional public offer to acquire a minimum of 30 million Rs.10 fully paid up shares of ModiLuft Limited at a price of Rs.29 representing 47.32 per cent equity of the company. This was opposed by Prof. Manubhai Shah, Managing Trustee, Consumer Education & Research Centre, a leading investor protection NGO because earlier, the Khemkas had defaulted in complying with, the condition to buy back the equity shares of its group company NEPC Papers and Boards Limited with 15 per cent interest, and kept the investors guessing and waiting. The Securities and Exchange Board of India (SEBI) chairman DR Mehta finally rejected the offer by the Khemkas of the NEPC group to take over ModiLuft Limited, on the ground that it was a conditional offer.

Khemkas were, however, successful in their takeover bid to takeover Damania Airways but not without revising the offer price substantially as per the SEBI directives. Another controversial but inconclusive takeover bid is that of Torrent group’s bid for Ahmedabad Electricity Co. Limited’s shares. As against the prevalent market rate of Rs.45, Torrent had offered Rs.65. Bombay Dyeing Mills followed with offer of Rs.90. The Torrent was, hence, compelled to revise its offer to Rs.132,
little over double its original offer. Controversy is still unsettled about the validity of the Bombay Dyeing Mills' offer. SEBI on its part has already invalidated the takeover bid of the Bombay Dyeing Mills on the grounds that it was a conditional bid.

Horizontal Integration

Some mergers and acquisitions in India created horizontal integration availing the benefits of scale economies and/or restricting competition to some extent. Firms so consolidated in India notably include the merger of Brooke Bond India Limited and Lipton India Limited both being Unilever food companies. The merged company was named Brooke Bond Lipton India Limited (BBLIL). Both the companies were in the food business with special concentration on tea business.

Shri Ram Fibres' (SRF's) Rs.355 crore acquisition of CEAT's nylon tyre cord division is the largest takeover in India corporate history, surpassing the acquisition of Union Carbide by BM Khaitan group. The move will result in SRF commanding a 38 per cent market share in the 55,000 tons per annum nylon tyre cord market. SRF has an existing plant with a capacity of 11,000 tpa. The CEAT plant has a capacity of 10,000 tpa. This would help SRF have a capacity close to world class levels and would benefit substantially as the automobile sector in India is expected to witness high growth.

Voltas Limited a company dealing in refrigerators acquired the refrigerator manufacturing unit of Hyderabad Allwyn two years ago. This acquisi-

260
position would help it compete more effectively with competitors like Godrej, Whirlpool, Kelvinator (Electrolux), BPL, and Videocon.

Colgate-Palmolive (India) Limited acquired the oral hygiene business of Hindustan Ciba-Geigy Limited (Cibaca division) in 1994 as part of its expansion plans. Colgate is engaged in the manufacture and sale of dental care products, hair care products and other personal care products such as talcs, creams and lotions. Colgate has a dominant market share of around 51 per cent (per acquisition) in the Rs.10 bn dental cream market.

Telco Dealers Leasing & Finance Company (TDLF) is merged with Tata Finance Limited (TFL) to have synergy of operations. Both the companies are Tata group companies. The merger is expected to make TFL become stronger to face the competition in the finance market.

Balarampur Chini Mills Limited (BCML) was set up by the Saraogis in 1975. BCML took over Babhanan Sugar Mills in 1991, a loss making private company until then. After the merger of Babhanan with the company, BCML’s free sale entitlement has increased to 77 per cent. Sugar sold through free sale fetches better realization for the company.

Vertical Integration

Arvind Mills the leading denim fabric manufacturer took over the Quest Apparels Manufacturing Company engaged in manufacturing denim jeans. PIL was merged with NOCIL. RPPL and RPEL were merged with Reliance Indus-
tries Limited. All these mergers are vertical integrations.

Consolidation

Mafatlal Fine Spg. & Mfg. Co. Limited was merged with Mafatlal Industries Limited. This is a case of consolidation of business as both the companies belonged to the same group, Arvind Mafatlal Group. Amending of the MRTF Act has made it possible for many business groups in India to consolidate their group companies and reduce wastage of duplication of facilities and efforts.

Marketing/Technology Related Concentric Diversification

Some of the mergers and acquisitions were aimed at market/product development and creating geographical locational advantages through, marketing/technology related concentric diversifications. Shaw Wallace of the MR Chhabria group acquired a number of distilleries and breweries throughout the country. This would ensure the production facilities have the nearness to the markets and market development. MR Chhabria’s arch rival Vijay Mallya merged nearly two dozen breweries and distillery companies into three large companies — UB Limited, McDowell and Herbertsons. He also acquired MR Chhabria’s brother Kishor Chhabria controlled BDA Distilleries divesting 26 per cent stake in Herbertsons in favor of Kishor Chhabria. In the beer segment, a strategic acquisition of brewing capacity across the country in the early 1980s propelled UB to the top of the beer market. The company now controls around 39 per cent of the market. Imposition of prohibition in Andhra Pradesh has
affected UBL. To offset the effect the group company Herbertsons located in the high consumption state of Maharashtra will soon be merged with UBL.

**Diversification**

Some mergers and acquisitions in India have been for diversification. Asea Brown Boveri (ABB) has taken over ACC Babcock Limited (ABL), a public sector company, with one critical provision. ABB has agreed not to retrench ABL's 5,000 strong workforce. ABB paid Rs.60 crore for a 76 per cent stake in ABL - the boiler manufacturer. This is the first significant take-over of a state-owned enterprise by a multinational. For ABB, having a stake in the boiler manufacturing company is market related concentric diversification as it has plans to put up some turbine plant and having facilities to manufacture turbines and boilers will enable ABL to bid for contracts on a turnkey basis.

The Essar group has acquired 80 per cent equity in Sterling Computers at price of Rs.212.90 crore from three investment companies of the Sterling group. The Sterling computers in turn hold 51 per cent Sterling Cellular Limited. The Cellular licensee for Delhi. By virtue of its having acquired majority stake Sterling, Sterling Computers, the Essar group has also acquired the Cellular company. This is the conglomerate diversification of the Essar group into computer and telecom industries.
Linkages With Parent/Foreign Company

Some mergers and acquisitions could be attributed to the company's linkages with parent/foreign company irrespective of business synergy of such mergers and acquisitions. This could be a part of consolidation or divestiture by the parent/foreign company or business group. Firms so consolidated in India notably include the merger of Brooke Bond India Limited and Lipton India Limited both being Unilever food companies. The merged company was named Brooke Bond Lipton India Limited (BBLIL). This company too was soon merged with the Hindustan Lever Limited (HLL), the Unilever flagship detergents and soaps company in India. The merger of another Unilever group cosmetics and soaps company Pond's India Limited with HLL is on the cards. These mergers have been an extension of Unilever's consolidation strategy. The HLL has already become the largest Multinational Company (MNC) and also the largest private sector company in terms of market capitalization in India.

Another large company so formed is the multi-product, multi-location electrical engineering company Asea Brown Boveri Limited (ABB). ABB was formed in 1989 as a result of the merger of Asea Limited and Hindustan Brown Boveri Limited, following the merger of their parent companies overseas. The company is a partly owned subsidiary of ABB, Zurich.

Glaxo India Limited (GIL), a 51 per cent subsidiary of Glaxo plc of the UK - the world's largest pharma company, is the largest Indian pharma company and the biggest subsidiary of the parent company in Asia. The US $14.2 billion takeover of Wellcome group in early 1995 by Glaxo plc has
made the pharma company Burroughs Wellcome (India) Limited (BWIL) an affiliate of Glaxo plc. The primary consideration in the merger was a reduction in cost of R&D, sales and marketing. Glaxo has appointed a new MD and two executive directors on the board of BWIL. This will help GIL to have synergies with Burroughs Wellcome India. BWIL may merge with Glaxo in the future and also become a sourcing point for its parent company which will enhance BWIL's exports.

The Swiss pharmaceutical giants Sandoz and Ciba, announced their US $27 billion merger recently which will make it second only to Britain's Glaxo Wellcome. The merger is expected to generate R&D synergies and increased distribution and marketing power. Consequent on this merger, it is expected that both Sandoz and Hindustan Ciba Geigy in India will also merge their operations.

The white goods giant Kelvinator of India Limited was taken over at $100 million, and thus became the 51 per cent subsidiary of the $8.1 billion Benton Harbour, Michigan, US-based Whirlpool Corporation. This happened because the Swedish collaborator Electrolux was not prepared to shell out more than $35 million for increasing its stake in the company from 12 per cent to a majority 51 per cent and this was not acceptable to the then Indian management. The Kelvinator of India Limited renamed Whirlpool of India Limited (WOI) in March, 1996 is merging with its loss-making subsidiary Expo Machinery Limited. Merger of Whirlpool Washing Machines - formerly TVS Whirlpool, another 51 per cent Whirlpool subsidiary - with WOI is also on the cards. This would enable Whirlpool to consolidate its Indian operations. Electrolux, on the other hand, decided to reenter the
Indian white goods market on its own and acquired plants from a small manufacturing company called Maharaja International.

The US investment bank Merrill Lynch has taken over British stockbroker Smith New Court (SNC) from NM Rothschild at $839 million. SNC's Indian firm, hence, is likely to merge with its arch competitor DSP Financial Consultants, the joint venture between the DSP group and Merrill Lynch.

Three Case-studies Highlighting the Processes of Mergers and Acquisitions in India.

Hindustan Lever Limited

SM Datta, chairman Hindustan Lever Limited articulated the gameplan clearly in one of his interviews (Srivastava and Gupta, 1996), "our basic strategy is very clear - growth. And in each market that we are present or want to be present, we have done the mapping of what is the likely growth. Once the growth targets become clear, then mergers, acquisition become only a part of the total strategy..."

The HLL group has strangulated its hold in market after market or simply beaten back competitors that showed signs on treading on its territory. In 1992, when Brooke Bond picked stake in Kothari General Foods, it used the new capacity to beat back Nestle's low priced coffee gambit. Once again, the acquisition of Kissan and Dipy's put paid to Nestle's aggressive inroads into the sauce market.
Till the middle of 1993, BBLIL was a virtual non-entity in ice creams. In July 1993, it bought Dollops from Cadbury's. In December 1994, it signed an alliance with Kwality and then in April 1995, it patched together a marketing pact with Milkfood. And that left it with an overwhelming share of 53 per cent of the ice-cream market.

In the mainline soaps and detergents market, where global competitor, Proctor & Gamble had entered into an alliance with Godrej Soaps, HLL moved swiftly to stymie its opponent by picking up stake in Tomco. This took its share in the 450 ton soaps market to about 65 per cent.

The merger catapults HLL right to the top of the corporate rankings as the company with the highest market capitalization of Rs.16,000 crore, the third largest in terms of annual sales of Rs.5,800 crore and with the reserves of Rs.1,000 crore. This new Lever megacorp is a market leader in most of the product categories it has a presence; soaps and detergents, ice-creams, ketchup and tea.

Unilever's plans to transform its Indian operation to one single megacorp, have long been in the making. This exercise has been taking place systematically in the past five years ever since the policy restrictions on foreign investment were eased. Pre-1991, Unilever in India was a house divided into seven companies. Mergers, including this recent one, have brought down the number of subsidiaries in which the parent has a direct holding to two. The other is Ponds India where the foreign stake is 47.7 per cent. Operationally, a big chunk - sales and distribution - is already handled by HLL making its merger with HLL a mere formality.
that awaits a court decision on the issue of a preferential allotment to Quest, a former subsidiary which was merged with Ponds.

This hectic mergers and acquisitions activity is the external manifestation of the fact that the group is run almost seamlessly by a common management pool. The Leverization process at BBLIL was completed with managers being routinely transferred between group companies. Consequently, this merger won’t result in a culture shock of the kind that took place when the more laid back Tomco was merged with HLL.

HLL’s sales grew 16.5 per cent last year to Rs. 3,775 crore, while profit before tax rose 23 per cent at Rs. 372 crore. BBLIL on the other hand recorded sales of Rs. 2,108 crore in 1995, a bare 12 per cent growth, just about in line with inflation. Growth in PBT was even lower - 6.5 per cent at Rs. 153 crore.

HLL-BBLIL merger’s main synergy is a financial one. The HLL generates surplus cash of about Rs. 100 crore a year. BBLIL, with its ambitions plan to expand its food business, is hard put for the resources that it needs to increase processing capacities, setting up a distribution cold chain and the marketing outlay for entering new product segments. These investment is estimated at Rs. 70 crore annually. Setting up a cold chain required for the frozen foods business would alone cost about Rs. 350 crore.

One other benefit is that HLL’s combined strength will give it tremendous clout at the retail level. Distribution synergies will expand the retail presence of products of both HLL and BBLIL. The merger of BBLIL
with HLL necessitated management realignment within HLL and a board restructuring. The company has already applied for a permission to increase the board size from 12 to 18. However, it is likely that, following the pattern of the Unilever board which was recently pruned down, HLL may opt for a trimmer board. One level below, there could be presidents heading each of the ten business divisions.

**Britannia Industries Limited**

In 80s, Nusli Wadia had coveted the biscuit major Britannia Industries and come close to acquiring the company, when Rajan Pillai had side-lined him. In 1983 Wadia through Bombay Stock - Broker's Calcutta Associates, had mopped up 6.76 per cent of the stock in Britannia industries. The quite mop-up was spread over six months, but still the script climbed from Rs.26 to over Rs.40. Wadia initially had an agreement with the UK's Huntley & Palmer (H&P) which would sell 38 per cent of the stock it held in Britannia to him. But before that agreement could be followed up and the permission got for the sale, H&P was acquired by RJR Nabisco. Wadia approached Pillai he had met through a common a friend. Pillai had worked for a Nabisco subsidiary in Singapore and was a close friend of Nabisco's former Chief Executive F Rosse Johnson. Wadia thought Pillai would facilitate his negotiations with Nabisco. What actually happened was that Pillai moved to signed up a deal with Nabisco and edged Wadia out.

Wadia then sold his 6.76 per cent block to BP Goenka of Duncuns, who also believed to have tried to negotiate a deal with Nabisco. The US
food giant was not interested and Goenka finally sold the stock to Pillai who was then busy building up his share holding in Britannia before finally taking charge.

The Singapore-based non-resident Indian (NRI) JM Rajan Pillai fell out with his own Chief Executive Sunil Alagh and partners Groupe BSN of France and former Nabisco, Chief Executive F Rosse Johnson. Wadia soon got in touch with Alagh and BSN and quickly became the French company's ally. The battle lasted for about 9 months inside and outside court room and Pillai was defeated. This helped the French company support Nusli Wadia to become chairman of Britannia industries in 1993.

The Nusli Wadia group recently bought a 50 per cent stake in Associated Biscuits International Holdings, thus becoming a joint owner of BIL along with French collaborator, Groupe Dannone (earlier called groupe BSN). BIL also plans to launch several new products, with the assistance of Group Danone, to further increase its market share.

Wadia was always attracted to the foods business because it is something which does not need government clearance for all manner of things.

Carborundum Universal Limited

Madras-based Carborundum Universal Limited (CUMI) belonging to the Murugappa group acquired Ahmedabad Sterling Abrasives, by buying up 60 per cent stake. More recently, it has come out with an open bid to take over the Madras-based Cutfast Abrasive Tools Limited. The latest move is
likely to give the Rs.151 crore CUMI — an advantage over rival Grindwell Norton. Each enjoy 40 per cent share in the bonded abrasive market at present.

CUMI recently offered to acquire 885,000 equity shares of Cutfast (equivalent to 20 per cent of the paid-up capital) at Rs.1000 each — a sequel to its acquiring 15.15 per cent stake in Cutfast through Carborundum Universal Investment Limited and Teeaye Investment Limited, its investment arms.

CUMI in 1991, completed a hostile takeover of Wendt (India), dislodging the management of the Khataus with the support of a foreign collaborator. CUMI is adopting a similar game plan for Cutfast and as in the case of Wendt (India). The quarrel between promoters of Cutfast has favored CUMI. KV Hebbar, a co-promoter who split with Rao about a year ago, and his brother have reportedly sold nearly 6.7 per cent stake to CUMI. They have managed to get CUMI another 1 per cent from their friends.

CUMI was able to keep its take-over intention under wraps until it had struck a deal with Hebbar. The acquisition of 15.15 per cent stake has cost CUMI about Rs.6 crore and its proposal to acquire an extra 20 per cent via the open offer may cost it a further Rs.8 crore.

Promoted in 1967, Cutfast became a larger entity when Cutfast Bonded Abrasives and Cutfast Grains Limited were amalgamated with it in 1991. The company has been managed by Rao all along, although there are over half-a-dozen other co-promoters with holdings of 1 to 2 per cent. Rao's
personal holding is reportedly in the region of 10 per cent. The public has a 41 per cent holding in the company. Rao failed to anticipate events. Though Hebbar has been selling his shares in installments, Rao did not bother to consolidate his position. Moreover, most of the co-promoters ultimately proved they were just investor, getting rid of their rights shares as soon as the lock-in was over sometime ago.

Sensing Rao's vulnerability, CUMI grabbed the opportunity to—one buy out competition; settle score with Rao, its employee-turned-competitor; and to strengthen the company form global competitors.

With the acquisition of Cutfast, the Murugappa group aims to become the most integrated player in the abrasive market. Wendt can focus on the high end super abrasive market; Sterling Abrasive in bonded abrasive field and Cutfast in the export market and domestic bonded and coated abrasive markets—like CUMI. Cutfast and Sterling can compete effectively in the northern markets. While Cutfast's entry into value added products like zirconia alumina can give CUMI the cutting edge, the former's reputation in the global arena can prove a boon to the Murugappa group to gain visibility in the international market.

Conclusions

Acquisitions should be a part of well thought out corporate strategy. A firm after analyzing and diagnosing the environmental factors may identify the opportunities and threats they offer. Without losing focus of the mission and objectives of the firm it may take into account its
strengths and weaknesses and narrow down various strategic alternatives available to it to increase its competitiveness. These strategic alternatives could be expansion or diversification. When the firm encounters alternatives of expansion and diversification it may go in for setting-up greenfield projects. Setting-up greenfield projects has certain limitations. So the firm may consider the option of mergers and acquisitions to support its growth. The mergers and acquisitions too have their limitations.

Firstly, it is not easy to find a good deal through merger or acquisition. Even if one is found it has to pass through not only complicated processes but as often happens the winner is the looser. It is certainly important for a business to identify right choice as well as assess the right price to be paid for such choice. Having been successful in merger or acquisition of another's business it is important for the management to smoothly integrate the acquired business with that of its own. Special care will have to be taken for managing acquisition business till the whole business assumes the nature of one single entity.

Every merger or acquisition decision making should focus on the value creation. The value creation could be from the capital markets' view, where the most important parameter is the return on the investment from the long term point of view. On the other hand other 'constituents' view is the view of employees, communities, customers and suppliers (Haspeslagh and Jemison, 1991). This in a way counters the capital markets' view and hence there is a tendency to down play value creation from such view. However, value cannot be created from the capital markets' view.
unless reasonable amount of value is created from the other constituents’ view. The managerial perspective of value creation generally should be to strike a middle ground between these two and aim maximization of total value creation.

Any acquisition is likely to attract antitrust action if the acquisition is aimed at or causes concentration of power leading to monopoly or is anti-competitive. In order to avoid antitrust action it is necessary for the acquirer to carefully consider the acquisition move and ensure the desirability (George, 1990): (1) of maintaining and promoting effective competition; (2) of promoting the interest of consumers, purchasers and other users; (3) of promoting, through competition reduction of cost, the development and use of new techniques and new products, and facilitating new entry; (4) of maintaining and promoting the balanced distribution of industry and employment; and (5) of maintaining and promoting competitive activities in the market.

Though the research findings in the US, the UK, and Europe indicate that many mergers engender neither efficiency gains nor market power increases. Their only effects may be to increase company size and to reduce economic efficiency, it is still advisable to go in for mergers and acquisitions, as happening all over the world, on the grounds that they help a firm or group grow. And growth is necessary for survival.

After the First World War, the Indian cement manufacturing companies faced serious threat from the British cement suppliers. Barring one all the Indian cement companies merged to form The Associated Cement Compa-
nies Limited (ACC). This helped the cement companies avoiding competing each other and achieve uniformity in the quality of the cement produced by them. The consolidation of management helped ACC become more flexible and responsive. This helped ACC survive the competition from the British cement suppliers in the post First World War years. ACC not only survived but after the independence of India due to more favorable environmental conditions, especially the governmental, grew substantially and is the largest in the Indian cement market at present and continue to face good growth prospects. Indian industry can learn from the lesson from ACC as globalization is likely to create similar cut-throat competition.

On the other hand one may learn from the negative experience of the Indian textile industry. Most of the small and medium size textile mills closed down in 1970s and 1980s facing difficult environmental conditions. Only the large but flexible textile mills had the capacity to weather such harsh conditions. Some of them failed also but those which survived are on a renewed growth path in the emerging scenario. Calico mills’ decline started in 1982 and ultimately closed down. It took more than a decade for Calico to close down. This much time could be of immense help as cyclical changes often are shorter offering the firm to regain its lost momentum. Calico would still be alive if it had been successfully acquired or merged. Small firms face termination of existence in short time, hence are deprived of taking the advantages of the changed favorable environmental conditions. Some of the small or medium size textile mills which were acquired by or merged in large textile mills are still functioning, only the ownership has changed hands. It is
advisable for many textile mills even today to go in for mergers and acquisitions because in the emerging globalization the firms with global economic scale of operations would only be able to exploit the emerging opportunities to the fullest extent. Divided they are likely to fall. What holds true for textile industry, holds true for the other industries in India too. The environment has changed radically and they may respond or perish.

According to Martin Folley, Chief Executive, Price Waterhouse Corporate Finance (Thakkar and Shah, 1996), "In future, increasing one's capacities and market share through mergers and acquisitions will be crucial to survival in most industries."

Areas for Research in India

The suggested areas of research on mergers and acquisitions in India are as follows:

01. Effects of mergers and acquisitions on profitability, growth rates, market shares, net worth of both acquiring and acquired firms.

02. Similarities and dissimilarities of impact of mergers and acquisitions on horizontal integration, vertical integration, and conglomerate diversification of same and different sized firms/groups.
03. Methods of calculating right price of acquisition and means of raising resources for mergers and acquisitions.

04. Cost verses benefit analysis of mergers and acquisitions.

05. Trends of share prices of acquiring firm and target/acquired firm prior to announcement, on announcement, and after merger and acquisition.

06. Comprehensiveness of the legal framework on takeovers.

07. Relationships between mergers and acquisitions activity and survival of firms and industrial concentration ratios.

08. Extent of actual realization of benefits claimed by decision makers made before mergers and acquisitions.

09. Methods of takeover defenses.

10. Impact of successful and unsuccessful hostile takeover attempts on the business of both acquiring and target/acquired firms before and after such attempts.

11. Proper or improper handling of process of integration of the acquired firms.
12. Impact of mergers and acquisitions on the rhythmical momentum of firms/group.