

Mergers and Acquisitions in International Business

Nauman Zahid

Asif Mujtaba Shah

Affiliated with Army Public College of Management Sciences, Rawalpindi, Pakistan,

Abstract

Business is one of the oldest professions that mankind possesses, as time passed and with the advent of technology the earth seemed to squeeze, distances started to minimize, the age of globalization had begun. Businesses operating in different countries and continents could not confine them to a particular area and geography as it was not in line with globalization and it required things to be looked from a global perspective. Progressive businessmen always wanted to be ahead of their counterparts, this zeal of utilizing first mover advantage inspired mighty businessmen to opt for geographical expansions. Some of them did achieve this by going for mergers and acquisitions, which seems a smart move as one gets a running business. These mergers and acquisitions however can backfire as well and cannot prove to be a success story always. In the last decade, businesses from developing countries have started to buy out businesses of developed countries as their economies are doing better compared to the developed world due to low cost of production. Indian and Chinese businessmen are the most aggressive compared to rest in this regard.

Keywords: Merger movement, Geographical expansion, Conglomerate, Cloud computing, Buyout, Corporate restructuring, Redundancy

Introduction

Mergers and Acquisitions have become an integral part of businesses around the globe; businesses are always ready to grasp the opportunity for the sake of competitive advantage, increased profitability, economies of scale. Mergers can be of different natures, it can be a horizontal, vertical or conglomerate merger. Mighty businesses usually tend to increase size by purchasing small or troubled businesses; these acquisitions can be hostile or gentle sometimes. Corporations have developed a new strategy to capture external opportunities by adopting the external restructuring in the form of mergers, acquisitions, consolidations and divestitures.

It all started in 1895, when American businesses started their obsession with Mergers, this concept of business mergers received acceptance and from the year 1895 to 1905, this period of ten years was named as the decade of the “Great Merger Movement”. The phenomenon of mergers and acquisitions has become very popular especially in the last two decades in U.S and other parts of the world. In the late 1990’s, the most number of merger and acquisitions in the US took place as the healthy condition of the U.S stock markets proved to be a viable time for the mergers and takeovers.

These deals can include millions or billions of dollars, they are very crucial for everyone who is some way or the other related to the businesses to be merged or acquired, there are many who are counting on the prosperity of the new shape of a business entity; they are the employees, a company’s top management, suppliers and most importantly the shareholders. All these stakeholders directly get affected with the decisions of a company’s board regarding mergers and acquisitions.

They provide advantages to businesses like the opportunity to diversify, for expanding business operations, for increasing the market share and acquiring some specific expertise of other company which otherwise the acquiring company would have taken a lot of time to reach the level, like the recent \$2.35 Billion acquisition of 3par by HP would enhance HP’s storage portfolio as 3 par being the leader in the enterprise storage products will give HP an edge in the cloud computing markets over its rivals. HP acquired a company that would add

value to its end product. In this way, companies can take advantage of other company's experience and expertise by purchasing its stock.

Similarly HP and Compaq got merged in 2002 with HP paying \$25 billion to Compaq in an attempt to capture a major chunk of PC market.

The acquisition of YouTube by Google is a success story which is very rare in merger and acquisitions. The merger of Nissan with French auto manufacturer Renault has been successful significantly because of the fact that both parties were very conscious and careful before the merger, Nissan was on the receiving end because Renault proved to be its savior, the inception of a successful merger here was achieved through strong and effective leadership commitment which allowed the merger to smoothly implement strategies afterwards. Considering the Renault Nissan alliance, the significant role of leadership can be easily understood here as Nissan being a troubled company was also taken out of unrest position just because the top management of both companies played sensibly.

1. The role of cultural differences:

In general, the perception is that the management does not bother about the problems created by cultural differences, and these differences sometimes can turn into organizational challenges. The change which is to come after mergers and acquisitions is resisted by internal members because top managers usually don't address such changes properly which create confusion and lack of trust between the employees of acquiring company and acquired company. In this way, the cultural differences among the merging firms can disturb the purpose of transition and integration process, thus these cultural differences become a hurdle to achieve the real goal for which the external restructuring was adopted.

Sprint acquired a large amount of Nextel Communication shares in August 2005, to form a merger; the deal seemed to be very juicy and attractive. However, the result of merger started to deviate from the expectations and the main reason behind this scene was that the internal norms of both the companies were quite different and such cultural differences were not preempted by the

heads of both sides properly, thereby the contrasting work environment of both companies created troubles for the employees.

The other problems were related to empowerment and lack of trust between the employees of Sprint and Nextel, because employees of Nextel have to get permission from Sprint's executives in order to execute any decision. As a result of which some executives and mid-level managers of Sprint-Nextel Communication resigned from the posts. All this chaos and conflict gave birth to the un-conducive work environment resulting in one of the largest merger failures.

2. Position of businesses after mergers and acquisition:

One study in the US Pharmaceutical industry indicates that there is an obvious increase in the shareholders wealth in case of post-acquisitions but not for mergers. However, the trend is not similar in case of mergers i.e. mergers in the US Pharmaceutical industry are not that worthy. The similar trend has been observed in the Indian study of Indian mergers where it was concluded that profitability, asset turnover ratio remain the same before and after the merger i.e. mergers in India do not bring exceptional financial prosperity to the firms. Normally, mergers and acquisitions are viewed with the same perspective but according to the above mentioned research mergers are not that fruitful as acquisitions.

Contrary to it, one study in U.K stated that both mergers and acquisitions increase the share price of a target firm even when the negotiations are going on for the final deal. This was clearly observed in the case of Apple and Sony Corporation deal, when Apple was considering the purchase of Sony's gaming division, the share price of Sony went high in the Japanese capital market, although the deal did not strike.

3. Inability to handle takeovers:

In the U.K, research proposed of the top management fears about their organizations inability to handle, manage the change that is to come as a consequence of new alliances, takeovers. Executives are usually confident of

their strategic plans for the overall improvement but they are not trained, experienced and equipped for the international business buyouts, these fears degrade the organizational effectiveness ultimately heading towards the deterioration of financial health. Compared to a domestic buyout, the international buyouts are in fact more difficult to handle and execute. The skills required against the potential risks are usually lacking in the acquiring entities. An American study says that insurance companies opting for international acquisition fail to raise their market returns i.e. neither the corporate restructuring proves to extremely fruitful nor extremely disastrous. The returns of these insurance firms tend to vary with the wealth of the host country. Whenever negotiations are taking place between the two companies, the top management is usually very energetic in getting the deal but they fail to do necessary homework i.e. the top brass does not discuss, foresee strategic goals, does not consider boosting the motivation of employees at work place.

4. HR related issues:

Some of the mergers and acquisitions failures occur due to the ineffective performance of HR functions. In modern business scenario, HR role for business success has become hugely important, so in case of mergers and acquisitions if a business is ignorant of compensation and benefits significance then it would lead to failure of mergers and acquisitions. Whenever any new business setup is created the HR function has to be extra vigilant as it is directly associated with the blood of the company i.e. "employees". So, after mergers, acquisitions, management has to comply with HR practices of fair treatment and has to communicate responsibilities of all the personnel after external restructuring of a firm. Normally mergers, takeovers neglect employee interests due to which there is always a possibility of low job satisfaction and low retention ratio of employees. In this way, a company may lose its intellectual capital in the form of experienced employees who would have incurred training and other related costs. So, the top management has to keep in mind that one of the major hindrances in merger and acquisitions erupts by not properly taking care of people and the functions of HR.

In the end, some important lessons can be learnt by the above discussion, every business is different from other business as all businesses do not have same financial and intellectual resources, competent top management. It is of immense importance that if any business is considering a merger or acquisition then it should assess its internal resources fully and has to develop a strategic goal first and then it can move towards capturing external restructuring (mergers/acquisitions). Analyzing its internal systems, procedures, technologies i.e. are these aspects in line with the acquiring or merging company because mergers and acquisitions seem to be very lucrative but it has a downside as well which could be faced if the management has not studied all the aspects properly. Silicon Valley firms usually end up with high success rates of acquisitions as their targets are relatively small and realistic compared to the large firms like the Sprint-Nextel Communication. Moreover, Silicon Valley acquisitions were lucky enough to have visionary leadership looking forward new and creative ideas. So lastly, it can be stated that strong leadership minimizes the redundancies which occur after the clash of culture differences, this strong leadership also ensures the effective working of HR function and activities.

Analysis:

1. Latest Trends

In the last decade, some developing countries (like China, India and Brazil) have also joined the party due to flourishing G.D.Ps. From the year 2000 and onwards, there has been a tremendous rush towards the buyout of large Western businesses by Indian and Chinese businessmen, this nascent latest trend has really doomed the Western countries as businessmen from developing countries like China, India, Brazil, Mexico are gathering intensive capital day by day and therefore are gaining an edge to take over businesses with Western base in days of crisis. Keeping in view this trend and the way these economies are preceding, it can be said without exaggeration that China, India and Brazil will become the top three countries in terms of G.D.P by 2050.

2. Mergers and Acquisition by Indians:

In this decade, there have been some humongous corporate restructuring by Indian companies and all it started when Tata Group bought Tetley tea in year 2000, the journey of corporate India had begun, who would have thought Tetley Tea was actually a beginning of this step. Then came India's largest acquisition of that time, when Tata Group acquired the Anglo-Dutch firm Corus, the deal struck for \$12 billion to make Indian Conglomerate the fifth largest steel producer in the world. This was followed by another giant Hindalco Industries more commonly known as the Aditya Birla Group another famous Indian conglomerate; this conglomerate acquired the Canadian aluminum company Novelis for \$6 billion in 2007, this deal made Aditya Birla Group the world's largest rolled aluminum producer, these deals are no way micro deals for the Indian economy in the years to come.

The founder of the Indian I.T company, Infosys, once said that "the mindset of Indian businessmen has become highly global and in fact world has become more like a play ground for them". In the year of 2006, Indian companies announced 125 foreign acquisitions with worth of almost \$10 billion. They are also making sure that they do effective succession planning for the growing energy demands of a growing economy, this was clearly reflected when Adani Group of India purchased Linc Energy (Australia's coalmines) to ensure the ample availability of raw material for feeding the power plants.

In 2007, Suzlon Energy India's apex wind mill producer took control of the German wind power producer called Repower, to become the 10th biggest acquisition in India.

Tata again rocked the world with the acquisition of the glorious Jaguar and Land Rover Brands in 2008 from the mother company Ford, this was again a big deal worth \$2.3 billion. This shows the interest of Indian businessmen as far as the global economy is concerned, these stories are impressive as world went in the recession mode whereas Indian businesses continued their belligerent attitude by purchasing overseas corporations even in the year 2010 that jolted economies of Europe and America. Tata Group also acquired British Salt for £93 million in the year 2010. Lakshmi Mittal also aimed for high by buying Zain for

\$10.7 billion to claim the third spot in the list of world's largest telecom service providers. Mahindra Mahindra, an Indian auto manufacturer, took control of the South Korean auto manufacturer Ssang Yong for \$463 million. These were some of the major acquisitions made by Indian businesses when majority of the economies across the globe were having troubled economies. Research suggests that the M&A's by Indian businesses are likely to become ineffective due to excessive diversification.

3. Mergers and Acquisition by Chinese:

Now coming to the Chinese obsession of mergers and acquisitions, critics believe China's success ratio in case of M&A is rare. China has made strategic decisions by buying Angolan Oil fields for securing its energy hungry economy. In 2009, Sinopec commonly known as China Petrochemical Corporation; China's second largest energy company and largest refiner agreed to pay \$7.2 billion to Geneva based Addax Oil Exploration Company. It was the largest overseas acquisition by a Chinese company, smart move to take control of oil wells in Africa which Addax possesses. Similarly in 2010 Sinopec agreed to pay \$7.1 billion which accounts for 40% stake of YPF the Brazilian operation of a Spanish company known as Repsol, this deal is no way a small deal because YPF has reserves in the same area where the biggest oil discovery in the Americas' took place in this century.

Sinopec with the Royal Dutch Shell Plc. agreed to acquire the Australian Arrow Energy Ltd for \$3.1 billion. Yanzhou Coal Mining Co, China's third largest coal producer, completed the legal formalities to take control of Felix Resources an Australian mining company (whose core competency is in coal mining) for \$3 billion. This is China's biggest takeover of an Australian firm.

In 2010 Pacific Century Motors (PCM), a joint venture between Tempo Group and the Beijing municipal government completed the acquisition of General Motors steering parts manufacturing facility Nexteer Automotive. This was the single largest overseas purchase in China's automobile parts industry and the deal accounted for \$450 million. Industrial & Commercial Bank of China Ltd (ICBC), the world's largest bank by market value, acquired a 97.24% stake in

Thailand's ACL Bank with about \$545 million. The month of August, 2010 marked the 100% acquisition of Volvo Corporation, Swedish subsidiary of the American Ford Motors by Geely Holding Company, for \$1.3 billion. China already has become the largest automaker in the world beating Japan, Germany and the United States.

Like China and India, Brazil is also showing the muscle of its economic prosperity by going after American businesses. In 2010, Brazilian meatpacker Marfrig agreed to acquire Keystone foods for \$1.25 billion making it a key supplier of butcheries for mighty McDonalds and Subway. A survey revealed that the Brazilian businessmen are the most optimistic about global economic recovery in 2011.

Conclusion

At the end, it can be concluded that globalization perhaps has come up with a role to play in businesses. As businesses cannot remain stagnant in a particular area and competency so they have to move on, otherwise someone else will take the lead. Businessmen of the developing countries are fully aware of this and have therefore adapted an aggressive stance when it comes to overseas M&A. Today, as we talk the fact is that, a person from developed world is no more world's richest guy but in fact a Mexican telecom tycoon Carlos Slim happens to be the richest person in the world as of 2010. In the top ten richest people of the world, four persons are from developing countries; two Indians, one Mexican and one Brazilian. For years, Bill Gates dominated the spot which Carlos Slim enjoys today, so it can be predicted that maybe after ten years tycoons from under developing countries will probably knock off the Western tycoons.

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