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MERGERS AND ACQUISITIONS (M&A): THE STRATEGIC CONCEPTS FOR THE NUPTIALS OF CORPORATE SECTOR.

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ABSTRACT

Mergers and acquisitions have become a common phenomenon in recent times. Companies have been actively involved in mergers and acquisitions domestically as well as internationally. The increased competition in the global market has prompted the Companies to go global for mergers and acquisitions as an important strategic choice. Mergers & Acquisitions (M&A) are the strategic growth devices in the hands of more and more Companies not only to stay in the competition but also to extend their margins, market share and dominance globally. The scale and the pace at which merger activities are coming up are remarkable. In the sense, mergers and acquisitions has become a strategic concept to grow quickly for a number of leading companies' world over. The booms in mergers and acquisitions suggest that the organizations are spending a significant amount of time and money either searching for companies to acquire or worrying about whether some other company will acquire them.

Objective of the Study

The objective of this paper is to provide the theoretical framework of Mergers & Acquisitions (M&A). Besides, this paper aims to look at the Mergers & Acquisitions (M&A) as the strategic concepts for the nuptials of Corporate Sector.

INTRODUCTION

In the fast changing business world, companies have to strive hard to achieve quality and excellence in their fields of operation (Pinto, Prakash and Balakrishna C.H.,: 2006, pp. 29-35). Every company has the prime objective to grow profitably. The profitable growth for the companies can be possible internally as well as externally. The internal growth can be achieved either through the process of introducing or developing new products or by expanding or by enlarging the capacity of existing products or sustained improvement in sales (Mallikarjunappa, T. and P. Nayak,: 2007, pp. 53-69). External growth can be achieved by acquisition of existing business firms (Ghosh, A. and B. Das,: 2003, pp. 543-545). Mergers and Acquisitions (M&A) are quite important forms of external growth (Mallikarjunappa, T. and P. Nayak,: 2007, pp. 53-69). In today's globalized economy, mergers and acquisitions are being increasingly used the world over as a strategy for achieving a larger asset base, for entering new markets, generating greater market shares/additional manufacturing capacities, and gaining complementary strengths and competencies, to become more competitive in the marketplace (Mantravadi, P. and A. Reddy,: 2007).

Mergers and Acquisitions (M&A) are an extensive worldwide phenomenon (Pinto, Prakash and Balakrishna C.H.,: 2006, pp. 29-35) and Mergers and Acquisitions (M&A) have emerged as the natural process of business restructuring throughout the world (Prasad, 2007). The last two decades have witnessed extensive mergers and acquisitions as a strategic means for achieving sustainable competitive advantage in the corporate world (Pinto, Prakash and Balakrishna C.H.,: 2006, pp. 29-35). Mergers and Acquisitions (M&A) have become the major force in the changing environment. The policy of liberalization, decontrol and globalization of the economy has exposed the corporate sector to domestic and global competition (Selvam, et. al., 2009). Mergers and Acquisitions (M&A) have also emerged as one of the most effective methods of corporate structuring, and have therefore, become an integral part of the long-term business strategy of corporate sector all over the world (Mallikarjunappa, T. and P. Nayak,: 2007, pp. 53-69). Almost 85 percent of Indian companies are using M&A as a core growth strategy (Rizvi, Y., 2008; Iyer, V.P., 2008).

All our daily newspapers are filled with cases of mergers, acquisitions, spin-offs, tender offers, and other forms of corporate restructuring. Thus important issues both for business decision and public policy formulation have been raised. No company is regarded safe from takeover possibility. On the more positive side Mergers and Acquisitions may be critical for the healthy expansion and growth of the company. Successful entry into new product and geographical markets may require Mergers and

Acquisitions (M&A) at some stage in the company's development. Successful competition in international markets may depend on capabilities obtained in a timely and efficient fashion through Mergers and Acquisitions (M&A). Many have argued that mergers increase value and efficiency and move resources to their highest and best uses, thereby increasing shareholder value (www.krchoksey.com, April 27th 2010, 5:50 pm). To opt for a merger is a complex affair, especially in terms of technicalities involved. Thus, Mergers and Acquisitions (M&A) for corporate sector are the strategic concepts to take it up carefully.

REVIEW OF LITERATURE

"It is clear that you cannot stay in the top league if you only grow internally. You cannot catch up just by internal growth. If you want to stay in the top league, you must combine." -- Daniel Vasella, Chief Executive Officer, Novartis, July 2002

The topic of mergers & acquisitions (M&A) has been increasingly investigated in the literature in the last two decades (Appelbaum et al., 2007) in response to the rise in M&A activities as well as the increasing complexity of such transactions themselves (Gaughan, 2002). Corporate mergers and acquisitions (M&A) have long received a lot of attention from the corporate world, the public as well as the academic world. Many corporations across the world have been considering M&A strategies to realize cost synergies against increased competition, pricing pressures, gaps in product mix and asset concentration (Hoang, Thuy Vu Nga Lapumnuaypon, Kamolrat, 2007). Mergers and acquisitions (M&A) as an external growth strategy has gained spurt because of increased deregulation, privatization, globalization and liberalization adopted by several countries the world over. Mergers and acquisitions (M&A) have become an important medium to expand product portfolios, enter new markets, acquire new technology, gain access to research and development, and gain access to resources which would enable the company to compete on a global scale (Yadav, A. K. and B.R. Kumar,: 2005, pp. 51-63). However, there have been instances where Mergers and acquisitions (M&A) enter into for non-value maximization reasons, i.e., to just build the company's profile and prestige (Malatesta, P. H.,:1983, pp. 155-181; Roll, R.,: 1986, pp. 197-216). Even though different companies have diverse reasons for engaging in mergers and acquisitions, the main purpose is to create shareholder's value over and above that of the sum of two companies (Sudarsanam, 2005). Prakash and Balakrishna (2006) consider mergers and acquisitions as a strategic means for achieving sustainable competitive advantage in the corporate world but Prakash and Balakrishna (2006) investigate that the gains to be derived from M&A have increasingly become dependent upon the successful integration of cultures of the combining organizations and people, the role of human factors in determining merger outcomes has assumed greater relevance. Maquieira, Megginson, and Nail (1998) examine 260 mergers in the US between 1963 and 1996 and record significant net synergistic gains in non-conglomerate mergers and insignificant net gains in conglomerate mergers. The study of Bradley, Desai, and Kim (1988) empirically examine that a successful merger offer increases the combined value of the merged entity by an average of 7.4%. A comparative study of mergers and other forms of corporate investment at both industry and firm levels in US has been performed by Andrade and Stafford (2004) in order to investigate the economic role of mergers. Merilise Smit (2007) identifies that the success of a merger between two or more companies depends as much on cultural fit as it does on strategic fit and financial fit and the proper management of change and employee response thereto. Swami Prasad (2007) analyses the trends, direction and composition of cross border M&A in India and also throws light on certain issues in cross border M&A deals. The aim of the doctoral thesis of Christina Oberg (2008) is to identify categories and patterns of how customers impact and are impacted by an M&A. Christina Oberg (2008) emphasizes that the customers are important elements of the motives behind M&A and they are rarely seen as actors affecting and being affected by an M&A. The synergy motive is regarded as the most popular motive for M&A (Wang, J.,: 2007, p. 17). One important source of synergy is from the transfer of some valuable intangible assets, such as know-how, between targets and acquirers (Seth, et al.,: 2000, pp. 387-405; Wang, J.,: 2007, p. 17). Most companies pursue to save production cost through M&A, because low costs are vital for corporations' profitability and success. Economies of scale can help companies achieve that goal. Economies of scale refer to the average unit cost of production going down as production increases (Brealey, et al.,: 2006; Seth, A.,: 1990, pp. 99-115; Wang, J.,: 2007, p.19). M&A appears to become a greater part of corporate strategy (Blunck, B. W.,: 2009, p.10) on account of modern deal design and anti-trust regulation, as well as specific changes in business models and competition brought on by the shareholder value paradigm, ongoing computerization, deregulation and globalization (Jensen, M. C.,: 1993, pp. 831-880; Sudarsanam, S., 2003). One of the strategies for growth which companies in the top 100 of the fortune 500 list 2007 , such as Wal-Mart Stores, Exxon Mobil, Royal Dutch Shell, ING Group, Proctor and Gamble, AT & T, Barclays, Vodafone and Mittal Steel have adopted, is by merging and acquiring (Rizvi, Y., 2008). The above literature of review indicates that the M&A has become the important strategic concepts for the nuptials of corporate sector as these strategic concepts help companies achieve value maximization and non-value maximization objectives.

Development of Mergers & Acquisitions (M&A) - Local & Global

The development of mergers & acquisitions (M&A) is not an invention of recent times. The first appearance of M&A in a high frequency evolved at the end of the 19th century. Since then, cyclic waves are observed with different waves emerging due to radical different strategic motivations (Jansen, 2002, in Picot 2002). The following table 1 draws out the timeline of M&A development and clarifies strategic motivations underlying each wave (Hoang, Thuy Vu Nga Lapumnuaypon, Kamolrat, 2007).

Table1: *Five merger & acquisition waves, 1880-Y2K+*

#	Period	Strategic background
1st wave	1880-1904	Realization of monopoly rents by horizontal takeovers
2nd wave	1916-1929	Vertical integration to gain control of the complete value chain
1940s-1950s:		the increase in the number of M&A deals was small and the value was not significant
3rd wave	1965-1969	Anti-cyclical portfolio building to harmonize different industry-driven economic downturns
1970s		drastic downward trend in the number of M&A announcements
4th wave	from 1981	'Back to core business' through divestures and carve-outs
1985-1989		Speculative gains from financial acquirers (e.g. Leveraged buy-out)
5th wave	from 1993	Increasing shareholder value and globalization
2000 onwards		Talents technology and consolidation of the 'New Economy'

[Source: Gaughan (2002), and Jansen (2002, in Picot 2002)]

Currently M&A is undergoing its fifth wave with one of the main features being the rise of the 'mega-merger' with new corporate behemoths being formed in many industry sectors (Angwin, 2001). Profound examples are Glaxo/SmithKline in pharmaceuticals, AOL/Time Warner in infotainment, and Royal Dutch Petroleum/Shell Transport & Trading in oil and petroleum.

In the last three decades, there have been three major waves of surging cross-border M&A transactions. The first wave was seen in the late 1980s, the second big cross-border in the latter half of the 1990s and the third in 2007. As globalization continued, and multinational companies sought to increase market share, eliminate competitors, or gain control of suppliers, the third wave of rising M&A in 2007 were witnessed (Rizvi, Y., 2008). Table 2 and Table 3 indicate global M&A activities over last 10 years.

Table 2: Largest M&A deals worldwide 2000-2006 *(Rizvi, Y., 2008)*

Rank	Year	Acquirer	Target	Deal Value (in million USD)
1	2000	*Merger* : America Online Inc.(AOL)	Time Warner	164,747
2	2000	Glaxo Wellcome Plc.	SmithKline Beecham Plc.	75,961
3	2004	Royal Dutch Petroleum Co.	Shell Transport & Trading Co.	74,559
4	2006	AT&T Inc.	BellSouth Corporation	72,671
5	2001	Comcast Corporation	AT&T Broadband & Internet Svcs	72,041
6	2004	Sanofi-Synthelabo	SA Aventis SA	60,243
7	2000	*Spin-off* : Nortel Networks Corporation		59,974
8	2002	Pfizer Inc.	Pharmacia Corporation	59,515
9	2004	*Merger* : JP Morgan Chase & Co.	Bank One Corporation	58,761

(*Source: Institute of Mergers, Acquisitions and Alliances Research, Thomson Financial)*

Table 1 shows the nine largest M&A deals worldwide for the period from 2000 to 2006. The largest M & A deal between 2000 and 2006 was between American Online Inc and. Time Warner. The second largest deal was between Glaxo Wellcome Plc.and SmithKline and the third largest deal was between Royal Dutch Petroleum Co. Shell Transport & Trading Co.

Table 2 shows that the volume of global deals fell 9 per cent year-on-year in to 60,914 transactions, driving value down 4 per cent to USD 3,238 billion. As a result, 2011 was the weakest deal-making year since before the financial crisis: both volume and value were at lows not recorded since 2004. The decline was driven by less activity in growth economies such as China, Russia and India (Bureau Van Dijk and Zephyr Annual M&A Global Report, 2011).

Table 3: Global deals by volume and value

Deal yearly value (Announced date)	Number of deals	Aggregate deal value (million USD)
2006	71,569	4,402,095
2007	77,679	5,617,896
2008	68,363	4,222,556
2009	72,356	3,774,679
2010	67,183	3,382,734
2011	60,914	3,238,312

(*Source:* Bureau Van Dijk and *Zephyr Annual M&A Global Report, 2011*).

Chart 1: Global Deals by Volume (Table 2: Number of deals)

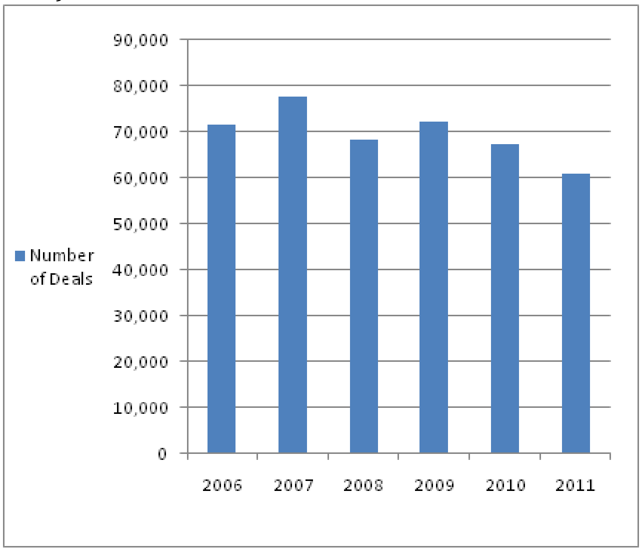
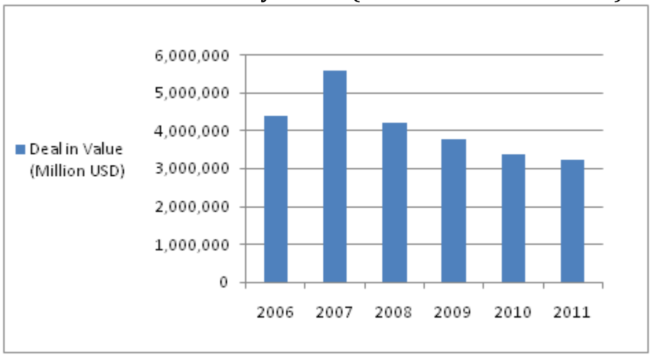


Chart 2: Global Deals by Value (Table2: in Million USD)



The ZEW-Zephyr M&A Index calculated by the Centre for European Economic Research (ZEW) and Bureau van Dijk (BvD) tracks the development of mergers and acquisitions transactions conducted worldwide since 2000. This index offers a much more precise picture of the level of M&A activities in the world than can be attained by observing transaction values alone. The reason for this is that a firm's value on the stock exchange has a strong influence on the transaction value, particularly as many acquisitions are paid for by means of an exchange of shares. As per weekly M&A report of *Bureau Van Dijk and Zephyr week in review* commencing 9th January, 2012 and 16th January, 2012 indicate the below-mentioned companies involved in M&A deals globally.

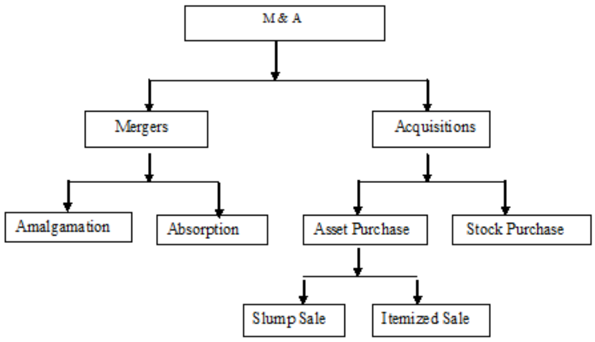
1. AmeriGas acquires US propane retailers Target: Heritage Operating LP; Titan Energy Partners LP; Titan Energy GP LLC; Heritage GP LLC Value: USD 2,851 million Completion date: 12th January 2012 Target region: US Target business: Retail propane dealers	**2. Colfax closes Charter International buy** Target: Charter International plc Value: USD 2,332 million Completion date: 13th January 2012 Target region: UK Target business: Welding, cutting, automation and air and gas handling equipment manufacturer and wholesaler
3. Gilead completes Pharmasset takeover Target: Pharmasset Inc. Value: USD 11,178 million Completion date: 17th January 2012 Target region: US Target business: Anti-viral and anti-cancer drugs developer and manufacturer	**4. Sumitomo Mitsui Banking agrees RBS Aviation Capital buy** Target: RBS Aviation Capital Value: USD 7,300 million Announced date: 17th January 2012 Target region: Ireland Target business: Aircraft leasing services

AmeriGas Partners has completed its purchase of four retail propane dealers for a consideration which comprised USD 1,460 million in cash, USD 1,320 million in common units and debt assumption of USD 71 million. The targets are based in the states of Montana, Texas, Kentucky and Oklahoma. Charter International has been delisted from the London Stock Exchange after a successful takeover bid by pump manufacturer Colfax. The offer put a premium on Charter shares of 6 per cent over the closing price on 14th September 2011, the last day of trading before the deal was announced. Biopharmaceutical group Gilead Sciences closed its public takeover of Pharmasset, a deal it said should allow it to speed up its work on hepatitis C therapies. Gilead paid USD 137 for each share in the target, an offer that equated to a 19 per cent premium over the last closing price before the deal was announced, around two months ago.Japanese financial institution Sumitomo Mitsui Banking is to buy RBS Aviation Capital for a cash sum. Vendor the Royal Bank of Scotland was rumoured to be looking for a buyer as long ago as early 2009.

ABC of Mergers and Acquisitions (M&A)

M&As are taking place all over the world irrespective of the industry, and therefore, it is necessary to understand the basic concepts pertinent to this activity (Mallikarjunappa, T. and P. Nayak,: 2007, pp. 53-69). The given below (Figure 1) is the clear presentation of the notion of M&A.

Figure 1: M&A as explained by KRC Research Team-Weekender.



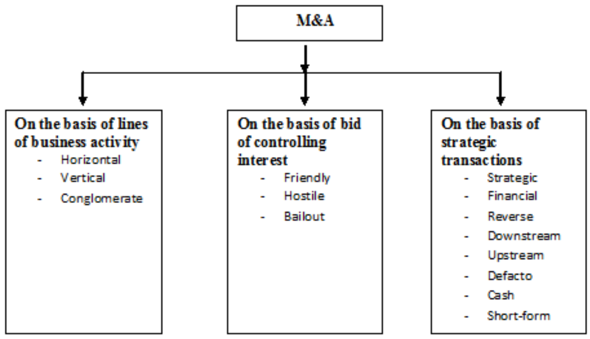
(Source: www.krchoksey.com)

Merger is said to occur when two or more companies combine into one company. Merger is defined as a 'transaction involving two or more companies in the exchange of securities and only one company survives'. When the shareholders of more than one company, usually two, decide to pool resources of the companies under a common entity it is called 'merger'. If as a result of a merger, a new company comes into existence it is called as 'amalgamation' (Kishore, Ravi M.,: 2009, pp. 1067-1096). The merger of Bank of Punjab and Centurion Bank resulting in formation of Centurion Bank of Punjab; or merger of Indian Rayon Ltd, Indo Gulf Fertilizers Limited (IGFL) and Birla Global Finance Limited (BGFL) to form a new entity called Aditya Birla Nuvo is an example of amalgamation (Mallikarjunappa, T. and P. Nayak,: 2007, pp. 53-69). As a result of a merger, one company survives and others lose their independent entity, it is called 'absorption' (Kishore, Ravi M.,: 2009, pp. 1067-1096). The merger of Global Trust Bank Limited (GTB) with Oriental Bank of Commerce (OBC) is an example of absorption. After the merger, the identity of GTB is lost. But the OBC retains its identity (Mallikarjunappa, T. and P. Nayak,: 2007, pp. 53-69).

Acquisition is an act of acquiring effective control by a company over the assets (purchase of assets either by lump sum consideration or by item-wise consideration) or management (purchase of stocks/shares or gaining control over Board) of another company without combining their businesses physically. Generally a company acquires effective control over the target company by acquiring majority shares of that company. However, effective control may be exercised with a less than majority shareholding, usually ranging between 10 percent and 40 percent because the remaining shareholders, scattered and ill organized, are not likely to challenge the control of the acquirer (Mallikarjunappa, T. and P. Nayak,: 2007, pp. 53-69). Takeover is considered as a form of acquisition. Takeover is a business strategy of acquiring control over the management of target company- either directly or indirectly (Kishore, Ravi M.,: 2009, pp. 1067-1096).

Kinds of Mergers and Acquisitions (M&A)

Figure 2: Kinds of M&A as explained by Ravi M. Kishore.



When two or more companies dealing in similar lines of activity combine together then horizontal M&A takes place. The merger of Tata Oils Mills Company Ltd. (TOMCO) with Hindustan Lever Ltd. (HLL) is a horizontal merger. A vertical M&A is one in which the company expands backwards by M&A with a company supplying raw materials or expands forward in the direction of the ultimate consumer. The vertical M&A will bring the companies of same industry together who are involved in different stages of production, process or operation. Vertical M&A may take the form of forward or backward M&A. The merger of Reliance Petrochemicals Limited (RPCL) with Reliance Industries Limited (RIL) is a vertical merger with backward linkage as far as RIL is concerned and the merger of Cement manufacturing company with civil construction company is also a vertical merger with forward linkage. Conglomerate M&A involves the integration of companies entirely involved in a different set of activities, products or services. The merger of Mohta

Steel Industries Limited with Vardhaman Spinning Mills Limited is a conglomerate M&A (Kishore, Ravi M.,: 2009, pp. 1067-1096).

When the management of acquiring and target companies mutually and willingly agrees for takeover, it is called friendly M&A. The acquisition of the controlling interest (45 percent shares) of Universal Luggage Mfg. Company Ltd. by Blow Plast Ltd. (Sinha, Pradip K.,: 2009, pp. 473-503) and Ranbaxy by Daiichi Sankyo are the examples of a friendly M&A (Godbole, Prasad G.,: 2009, pp. 58-68). When the acquisition is 'forced' or against the will of the target management, it is called hostile M&A. Hostile M&A takes the form of tender offer wherein the offer to buy the shares by the acquiring company will be made directly to the target shareholders without the consent of the target management (Mallikarjunappa, T. and P. Nayak,: 2007, pp. 53-69). The takeover of Shaw Wallace, Dunlop, Mather & Platt and Hindustan Dorr Oliver by Chhabrias and the takeover of Ashok Leyland by Hindujas are the examples of hostile M&A (Sinha, Pradip K.,: 2009, pp. 473-503). Bailout M&As are resorted to bailout the sick companies, to allow the company for rehabilitation as per the schemes approved by the financial institutions (Kishore, Ravi M.,: 2009, pp. 1067-1096). Strategic M&A involves operating synergies, i.e., two companies are more profitable combined than separate. In financial M&A, the bidder usually believes that the price of the company's stock is less than the value of company's assets. Reverse M&A is the merger of a large (financially sound/ profit-making) company with a small (financially weak/ loss-making) company. Downstream M&A is the merger of a parent company with its own subsidiary. Upstream M&A is the merger of a subsidiary company with its own parent company. Defacto M&A has economic effect of merger as per legal provisions, but is entered in the form of acquisition of assets. Cash M&A occurs when certain shareholders accept cash for their shares, while other shareholders receive shares in the surviving company. Short-term M&A takes place when a parent company acquires the total voting power in a subsidiary (Kishore, Ravi M.,: 2009, pp. 1067-1096).

Objectives of Mergers and Acquisitions (M&A)

A survey among Indian corporate managers in 2006 by Grant Thornton found that Mergers and Acquisitions (M&A) are a significant form of business strategy today for Indian Corporates (Mantravadi, P. and A. Reddy,: 2007). The main objects, in particular (Table 4), behind any M&A transaction are shown below.

Table 4: Objects of Indian Corporates for M&A

Objects	Responses (in Per Cent)
To improve revenues and profitability	33
Faster Growth in scale and quicker time to market	28
Acquisition of new technology or competence	22
To eliminate competition and increase market share	11
Tax shields and investment savings	3
Any other reason	3

(Source: Grant Thornton, 2006)

However, in general the objects of the M&A can be explained as follows (Kishore, Ravi M.,: 2009, pp. 1067-1096):

- Focus on core strength, operational synergy and efficient allocation of managerial capabilities and infrastructure.
- Consolidation and economy of scale by expansion and diversion to exploit extended domestic and global markets.
- Capital restructuring by appropriate mix of loans and equity funds to reduce the cost of servicing and improving return on capital employed.
- Acquiring constant supply of raw material and access to scientific research and technological developments.
- Focus on research and development to reap the fruits of innovation and new technological developments.

Motives, Theories and Synergies of Mergers and Acquisitions (M&A)

Motive: (Raghunandan,B.V.,www.slideshare.net)

1. Strategic Motives

- Growth
- Scale of Operations
- Competition
- Market Share
- Acquiring Size
- Backward Integration
- Forward Integration
- Synergy
- Core Competence
- Diversification
- Reduction of Risk
- Balancing Product Cycle
- Mgt of Recession
- Entry into New Markets/New Segment

2. Financial Motives

- Investment of Surplus Funds
- Higher Market Capitalization
- Reducing Costs
- Tax Planning/Tax Benefits
- Revival of Sick Units
- Increasing EPS
- Creation of Shareholder Value

3. Organizational Motives

- Entrepreneur's Personal Compulsions
- Retention of Management Talents
- Removal of Inefficient Management
- Quality of Management
- Lobby Power
- Emergence as an MNC
- Emergence as a Conglomerate

A study conducted in USA, identified twelve motives that promote M&A activity in order of their priority as shown in Table 5 given below.

Table 5: Ranking of Motives to promote M&A

Motives for Mergers and Acquisitions (M&A)	Rank
Take advantage of awareness that a company is undervalued	1
Achieve growth more rapidly by the internal effort	2
Satisfy market demand for additional products/services	3
Avoid risks of internal start-ups of expansion	4
Increasing earnings per share	5
Reduce dependence on a single product/service	6
Acquire market share or position	7
Offset seasonal or cyclical fluctuations in the present business	8
Enhance the power and prestige of the Owners, CEO or Management	9
Increase utilization of present resources- e.g. physical plant and individual skills	10
Acquiring outstanding management or technical personnel	11
Open new markets for present products/services	12

(Source: Kishore, Ravi M.,: 2009, pp. 1067-1096)

Theory: Friedrich Trautwein, in his paper titled 'Mergers Motives and Mergers Prescription', Strategic Management Journal, 1990, has summarized seven major theories of

M&A. This is shown in Table 6 given below. Trautwein has classified the first four theories as beneficial to the shareholders of the acquirer company. The fifth one has been classified as beneficial to the managers of the acquirer company and not to its shareholders. Trautwein has further grouped the mergers carried out under these five theories as mergers by rational choice. In Trautwein's view, the process theory explains mergers to be an outcome of a process, whereas, by using disturbance theory he tries to explain mergers as macroeconomic phenomenon (Godbole, Prasad G.,: 2009, pp. 58-68).

Table 6: M&A Theories as summarized by Friedrich Trautwein

Merger as a rational choice	Merger benefits bidder's shareholders	Net gains through Synergies	Efficiency Theory
		Wealth Transfer from Target's customers	Monopoly Theory
		Wealth Transfer from Target's shareholders	Raider Theory
		Net gains through private information	Valuation Theory
	Merger benefits bidder's managers		Empire-building Theory
Merger as a process outcome			Process Theory
Merger as a macroeconomic phenomenon			Disturbance theory

(*Source: Risberg, A.2006. Mergers and Acquisitions: A Critical Reader, 1st Ed. New York: Routledge*)

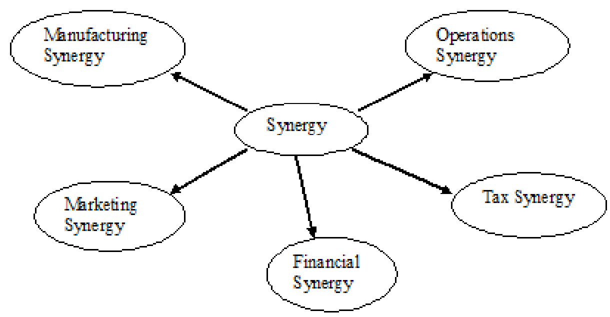
Synergy: The word synergy comes from a Greek word that means to co-operate or work together (Bruner, 2004). Synergy has been described as 2+2=5 (Pearson, 1999). In other words, the whole is greater than the sum of its parts (Sherman, 1998). The concept of synergy can also be explained symbolically as follows- If 'Company A' merges with 'Company B', the value of merged entity called 'Company AB' is expected to be greater than the sum of the independent values of Company A and Company B (Kishore, Ravi M.,: 2009, pp. 1067-1096), i.e.,

$$\{V(A) + V(B)\} < V(AB)$$ Where,

V(A) = Independent Value of Company A, V(B) = Independent Value of Company B V(AB) = Value of Merged Entity

However, the synergistic gains by M&A activity may accrue from more efficient management, economies of scale and scope, improved production techniques, combination of complementary resources, redeployment of assets to more profitable uses, the exploitation of market power or any number of value enhancing mechanisms that fall under the general rubric of corporate synergy (Mallikarjunappa, T. and P. Nayak,: 2007, pp. 53-69). There are five main types of synergies as depicted below in Figure 3 (Godbole, Prasad G.,: 2009, pp. 58-68).

Figure 3: Synergies as explained by Prasad G. Godbole



- **Manufacturing synergy** involves combining the core competencies of the Acquirer Company and Target Company in different areas of manufacturing, technology, design and development, procurement, etc. It could also mean rationalizing usage of the combined manufacturing capacities. Tata Motors acquisition of Daewoo's Commercial Vehicle unit (DWCV), gave it the advantage of producing commercial vehicles in the 200-400 bhp range, whereas earlier Tata Motors had a technology for commercial vehicles upto 200 bhp only.
- **Operations synergy** involves rationalizing the combined operations in such a manner that through sharing of facilities such as warehouses, transportation, software and common services such as Accounts and Finance, HR, Administration, etc., duplication is avoided or logistics are improved leading to quantum cost saving. When Kingfisher Airlines and Jet Airways acquired Deccan Airways and Sahara Airlines respectively, both were expecting to achieve substantial savings through operations synergies such as rationalization of routes, reduction in the combined number of flights on the same routes, sharing of commercial and ground handling staff, reduction in the combined number of airplanes in use and so on.
- **Marketing synergy** involves using either the common sales force or distribution channel or media to push the products and brands of both the acquirer and target companies at lower costs than the sum total of costs that they would incur in independent market operations. It also involves leveraging on the brand equity of one of the two companies to push the sale of the other company's products. When Hindustan Lever Limited (HLL) acquired Lakme's brand and business, it aimed at using its vast distribution network to leverage on the strong brand equity of Lakme in the women's cosmetics market.
- **Financial synergy** involves combining both the acquirer and target companies' Balance sheets to achieve either a reduction in the weighted average cost of capital (WACC) or a better gearing ratio other improved financial parameters. The merger of Reliance Petrochemicals Limited (RPL) with the Reliance Industries Limited (RIL) in 1991-92 and the merger of Reliance Polyethylene Limited (RPEL) and Reliance Polypropylene Limited (RPPL) with the Reliance Industries Limited (RIL) are the cases of financial synergy.
- **Tax synergy** involves merging of loss-making company with a profitable one so that the profitable company can get tax benefits by writing off accumulated losses of the loss-making company against the profits of the profit-making company. [32] The merger of ICICI Ltd. with its banking arm ICICI Bank Ltd. and the merger of IDBI Ltd. with its banking arm IDBI Bank Ltd. are the cases of synergy (Pamarty, M., http://ssrn.com/abstract=1460919).

Strategies or Golden Rules for Mergers and Acquisitions (M&A)

Merger and Acquisition Strategies are extremely important in order to derive the maximum benefit out of a merger or acquisition deal. A sound strategic planning can protect any merger from failure. Through market survey and market analysis of different mergers and acquisitions, it has been found out that there are some golden rules which can be treated as the Strategies for Successful Merger or Acquisition Deal (http://finance.mapsofworld.com/merger-acquisition/strategies.html).

Golden Rules:

- Before entering in to any merger or acquisition deal, the target company's market performance and market position is required to be examined thoroughly so that the optimal target company can be chosen and the deal can be finalized at a right price.
- Identification of future market opportunities, recent market trends and customer's reaction to the company's products are also very important in order to assess the growth potential of the company.
- After finalizing the merger or acquisition deal, the integration process of the companies should be started in time. Before the closing of the deal, when the negotiation process is on, from that time, the management of both the companies requires to work on a proper integration strategy. This is to ensure that no potential problem crop up after the closing of the deal.
- If the company which intends to acquire the target company plans restructuring of the target company, then this plan should be declared and implemented within the period of acquisition to avoid uncertainties.
- It is also very important to consider the working environment and culture of the workforce of the target company, at the time of drawing up Merger and Acquisition Strategies, so that the employees of the target company do not feel left out and become demoralized. Strive to keep the employees informed, encourage feedback, be honest about what's ahead, and make sure people stay focused by ensuring the best possible start for the newly expanded company.

Success or Failure of Mergers and Acquisitions (M&A)

The large volume of local and international research studies available regarding the issue of merger failure and success, despite varying research objectives and methodologies, are consistent in their findings that large numbers of Merger and Acquisition transactions fail to reach potential. However, any specific elements of the merger and acquisition process have yet to be identified as the critical success or failure factor impacting on the performance of a transaction. It is more likely that a range of issues and elements are responsible for M&A failure (Bennett, B.,: 2005, pp. 9-16).

There are basically two broad issues responsible for success or failure of M&A transactions. These two issues are 'Fit' issues and 'Process' issues. 'Fit' issues are those which assess the juxtaposition of the acquirer and the target. The acquirer has limited ability to influence the fit issues; however there are some factors over which control can be asserted. 'Process' issues are those over which the acquirer can exert a large degree of control (Bennett, B.,: 2005, pp. 9-16).

Fit Issues

- ✓ Size
- ✓ Diversification
- ✓ Previous Acquisition Experience
- ✓ Poor Organization Fit
- ✓ Poor Strategic Fit
- ✓ Poor Cultural Fit
- ✓ Striving for Bigness
- ✓ Incompatibility of Partners

Process Issues

- ✓ Lack of Proper Communication
- ✓ Limited Focus
- ✓ Paying too much
- ✓ Poorly managed integration
- ✓ Poor evaluation of the target company's condition in detail
- ✓ Incomplete and Inadequate Due Diligence
- ✓ Inefficient top management

Source: Mallikarjunappa, T. and P. Nayak,: 2007, pp. 53-69)

CONCLUSION

Continuous growth and survival are the ultimate objectives of any organization and M&A is one of the forms of survival strategy. One of the most important ways to grow profitably and maximizing shareholders' wealth is the nuptials of Companies in Corporate World. But painstaking pre-merger planning including conducting appropriate due diligence, valuable communication during the integration, efficient management and committed leadership, and pace at which the integration plan is done, together is required to handle these nuptials of companies successfully. Mergers and Acquisitions (M&A) are the expression of strategic concepts pertaining to the corporate sector. They envisage management of processes related to selling, buying and combining one or more companies for obtaining a common cause. Common cause consists of aiding, financing or assisting a company to grow at a much faster rate.

Corporate Mergers and Acquisitions are very crucial for any country's economy. This is so because the Corporate Mergers and Acquisitions can result in significant restructuring of the industries and can contribute to rapid growth of industries by generating Economies of Scale, increased competition in the market and raise the vulnerability of the stockholders as the value of stocks experience ups and downs after a merger or acquisition. Although the concept of Merger and Acquisition are different from one another but both can be used as engines of growth. As a result, M&As are considered as most strategic concepts to make sure growth for the companies in the Corporate world.

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