

Chapter 4

Mergers and Acquisition by Indian Firms: Managerial Perspectives on Challenges and Solutions

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ABSTRACT

Mergers and acquisition (M&A) has been a dominant form of firm growth strategy and a very potent tool of securing strategic growth in business landscape. However, M&As have generally been attributed with a significant amount of failure and value destruction. The author in this exploratory research undertook 24 in-depth interviews using a semi-structured open-ended questionnaire with M&A experts to understand the reasons for value creation and destruction in Indian M&A context. The data was content analyzed for thematic analysis. The results indicated in the Indian context, M&A initiatives provided quick market growth, access to strategic resources, and such benefits. While M&A failures occurred because of the lack of understanding on decision criteria regarding whether to form SA or do a M&A, strategic clarity, cultural insensitivity, lack of due diligence, and poor M&A post management capabilities.

INTRODUCTION

Firm growth is achieved by firms either through expansion of business scope or through increased scale of business (Delmar, Davidsson & Gartner, 2003). Firms can achieve this growth both by organic or inorganic means (McKelvie & Wiklund, 2010). In organic means, firms develop and expand their boundaries slowly over a period of time by incremental addition of resources and capabilities to achieve increased scale or scope (Agnihotri, 2014). Inorganic growth occurs through the practice of Mergers & Acquisitions (M&A) or Strategic Alliances (SA) (Datta & Grant, 1990). M&A comprised of two terms Mergers & Acquisition (Angwin, 2007; Auerbach, 2008; Hitt, Ireland & Harrison, 2001). Mergers stand for the amalgamation of two or more companies of nearly equal size (Galloway, 2017). In mergers two firms integrate their operations in a co-equal basis and in a very friendly manner (Angwin, 2007;

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Auerbach, 2008; Hitt, Ireland & Harrison, 2001). Acquisition occurs when one firm acquires a stake in another firm (Hitt, Ireland & Harrison, 2001). The stake is either exercised in cash purchase or by purchase of stocks (Galloway, 2017). Generally, the acquiring firm is bigger in size than the firm being acquired (Auerbach, 2008; Hitt, Ireland & Harrison, 2001). Acquisitions can be either friendly or hostile (Hitt, Ireland & Harrison, 2001). M&A is a term that is generally used to denote such aggregation (Angwin, 2007; Auerbach, 2008). Literature indicated that doing M&A sometimes creates firm value as well as it also sometimes destroys firm value (Shelton, 1988; Rahman & Lambkin, 2015). Managers who focus on the merit of M&A often become blind to the difficulties of making an M&A work (Buono, Bowditch, & Lewis III, 1985; Shelton, 1988). Indian business landscape in the last couple of decades have witnessed tremendous growth in M&A space (Ghosh & Dutta, 2014; Lebedev, Peng, Xie & Stevens, 2015). This can be attributed to the reason that because Indian economy has been witnessing growth a large majority of Indian private players also witnessed both revenue as well as profit growth (Dutta & Sundaram, 2004; Das, 2000). Further, competition in Indian business landscape also became vibrant (Jalan, 2004; Das, 2000). The sprouting of a large number of competitors induced pressure on securing competitive gains in Indian market (Das, 2000; Jalan, 2004; Dutta & Sundaram, 2004). Organic paths though build strategic resources (Valuable, Rare, Inimitable and Non-substitutable (VRIN)) resources and capabilities but it consumes too much time horizon to get created in firms (Wernerfelt, 1984). In hypercompetitive contexts time is not on the side of the strategy office (Lee, 2017). Thus, strategy level managers are forced to seek alternate means of securing VIRIN resources and capabilities (Wang, & Moini, 2016). A quick time compressing method for securing strategic assets to achieve superior rent in the market comes through acquisition (Angwin, 2007; Auerbach, 2008; Hitt, Ireland & Harrison, 2001). Thus, a firm can secure ownership stake in another firm possessing strategic asset (Hitt, Ireland & Harrison, 2001). In India, the market potential has also been growing in the last two and half decades (Das, 2000; Jalan, 2004; Dutta and Sundaram, 2004). In India there are vibrant regional firms (which restrict their operations to Northern, Southern, Eastern, Central or Western regions of India) (Ghani, Kerr & O'connell, 2014). Often to expand market base from one region to another, firms had adopted M&A as a route towards geographical expansion (Rani, Yadav & Jain, 2015; Kar, Soni & Singh, 2014). From 2005 onwards, Indian firms had also targeted international firms for acquisition to secure strategic resources or expand geographical reach (Lebedev, Peng, Xie & Stevens, 2015).

Mergers & Acquisition (M&A) has for quite some decades become a dominant paradigm in strategic management literature (Shelton, 1988). M & A brings fast inorganic growth to firms (Auerbach, 2008) however M & A also often leads to failures (Rahman & Lambkin, 2015). Thus, M&A activities come with its own share of challenges & benefits (Hitt, Ireland & Harrison, 2001). M&A is also often used as a means of growth in international business strategy (Deng & Yang, 2015). Literature on M&As, has mostly dealt with M&A aspects in developed countries or M&A of developed country firms in the developing and emerging economies (Wang & Moini, 2016). In this study, the author focuses on the M&A activities happening within Indian context. Thus, this paper delves into the phenomenon of M&A challenges confronting Indian companies in India. The history of M&A worldwide and also in India indicated that many of these M&A initiatives though looked lucrative and logical on paper but post acquisition there have been value destruction. The author in this study in the given Indian business context attempts to understand why M&A in present day Indian business landscape are not becoming successful. The next section of this paper presents the literature review.

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