Chapter 70
M&A Deals and Corporate Governance Framework:
A Study in Indian Telecom Sector

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ABSTRACT

The escalating importance of mergers and acquisitions (M&A) has coincided with concerns about corporate governance issues. This article investigates how corporate governance mechanisms along with firm-specific control variables impact performance during M&A deals occurring between 2000-2012 in acquiring Indian telecom companies. In this research, firm performance has been measured via accounting based, market based and qualitative performance dimensions, represented by Return on Capital Employed (ROCE), Tobin's Q and Human Capital Return on Investment (HCROI) respectively. Panel data regression techniques was employed for the analysis. The learning from this study reveals that board size and firm size have significant positive relationships with ROCE and HCROI. Chairperson-CEO duality also has positive significant association with ROCE. Shareholding percentage of institutional investors was found to have a significant negative relationship with HCROI. Board independence, firm size and market share significantly affect Tobin's Q.

INTRODUCTION

Corporate governance broadly refers to a set of exercises that is designed to govern the behavior of corporate enterprises. It aims to promote healthier corporate practices and check the felonious firms. Board of directors of a firm have the fiduciary duty to play an important role in all vital firm decisions. Board characteristics that affect the effectiveness of the directors can potentially influence firm performance.

DOI: 10.4018/978-1-7998-2448-0.ch070

Keeping in view the emerging importance of corporate governance mechanisms in determining firm performance, several corporate governance guidelines have been framed worldwide since the 1990s. Some of the noteworthy reports are Cadbury Committee Report (1992), Market Specific Principles-Japan and Germany (1997), Core Principles and Guidelines- USA (April 1998), Hampel Report on Corporate Governance- UK (January 1998), The Sarbanes-Oxley Act – USA (August 2002) and The Higgs Report- UK (January 2003).

The first formal and exhaustive endeavour to evolve a code of corporate governance for Indian companies was undertaken by Securities and Exchange Board of India (SEBI). Thereafter the Ministry of Corporate Affairs recommended changes in diverse areas of corporate audit and governance and highlighted the role of independent directors. SEBI also made recommendations with respect to financial and non-financial disclosures, independent auditing and board oversight of management. Clause 49 of the Listing Agreement issued by SEBI makes it mandatory for the listed firms to disclose their ownership data of promoters and non-promoters separately. The improvement in corporate governance standards in India during the recent years as a result of numerous initiatives undertaken by the government, has been disclosed in the World Bank's Doing Business Report. Over the past decade, India significantly bettered its rank amongst other nations, with respect to protection of investor and minority rights. According to the report, India ranked seventh among all economies surveyed in 2015 and is ahead of several developed economies. Stringent audit and reporting standards as required by the amended Companies Act, 2013 have increased disclosures in India. Moreover, the market regulator SEBI's tightening of the rules relating to protection of minority shareholders' interests along with an escalation of investor activism have resulted in an improved corporate governance environment in India. It is thus needless to say that this constantly evolving governance framework in a developing nation like India draws academic attention towards examining the role of corporate governance mechanism in Indian corporations and its implications thereof.

The other focus area of this paper are mergers and acquisitions (M&As) which have increasingly become an effective tool for corporate restructuring. M&A decisions are critical to the success of corporations as they are instrumental in achieving greater efficiency by exploiting synergies and growth opportunities. These events are noteworthy not only because of the high levels of financial investment involved but also may be due to their failure rates. No more than 50% of M&As attain the level of success initially predicted (Cartwright & Cooper, 1996). The authors feel that it is important to examine if corporate governance mechanism which entails an effective and suitable board structure along with the role of institutional investors can enhance corporate performance and maximise shareholder value consequent to mergers.

The reason for focusing specially on mergers in the Indian telecom sector requires deliberation. Firstly it needs to be pointed out that India is on a growth trajectory resulting in a rapidly emerging and diversified business environment. In 2017, American Foreign Policy Magazine has ranked India sixth amongst eight great powers in the world. According to The World Bank, Indian economy is expected to grow at 7.9% in 2017-18. The germination of this growth can be traced back to the Liberalisation, Privatisation, Globalisation (LPG) model embarked upon by the Indian government in 1991. This has led to a radical transformation in the business scenario of the nation, enabling the Indian firms to grow extensively as well as drawn the attention of the multinational corporations in India as an investment avenue. The United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2016 announced that India has secured the sixth position as the most preferred investment destination nations, attracting largest FDI inflows across the world in 2015. In fact, the Indian service sector received the highest FDI