Int. Journal of Management and Development Studies 5(4): 67-73 (2016)
ISSN (Online): 2320-0685. ISSN (Print): 2321-1423
Impact Factor: 0.715

Study on Acquisition and Merger and Its Effects on Employee's Relationship With Reference To Information Technology Industries in India

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Abstract: *The present paper intends to study the change of business ownership and its effects on employee relationship with reference to information technology industries in India. The corporate structure all over the world is restructuring its operation through mergers and acquisitions in an unprecedented manner in order to successfully overcome challenges by globalisation. One of the striking features of the present mergers and acquisitions is the presence of a large number of cross border deals, which is an easier way of internationalisation. Mergers and acquisition are the inorganic growth strategies which have got its significance in today's corporate world due to intensely competitive business environment. In todays globalised economy, mergers and acquisitions are being increasingly used the world over, for improving competitiveness of companies through greater market share, broadening the portfolio, to reduce risk, for entering new markets and geographies and capitalising on economies and scale. From the literature review it is found that there is no conclusive evidence about the impact of mergers and acquisitions on employee relationship. Moreover in recent period acquisition deals have gone up, hence there is a need to look into the trend of acquisitions and its effect on the employees relationship.*

Introduction

The process of mergers and acquisitions has gained substantial importance in today's corporate world. This process is extensively used for restructuring the business organizations. In India, the concept of mergers and acquisitions was initiated by the government bodies. Some well known financial organizations also took the necessary initiatives to restructure the corporate sector of India by adopting the merger and acquisition policies. The Indian economic reform since 1991 has opened up a whole lot of challenges both in the domestic and international spheres. The increased competition in the global market has prompted the Indian companies to go for mergers and acquisitions as an important strategic choice. The trends of mergers and acquisitions in India have changed over the years. The immediate effects of the mergers and acquisitions have also been diverse across the various sectors of the Indian economy. (Merger, Acquisition, Employees, Technology)

Acquisition and Merger

Mergers and acquisitions (M&A) are defined as consolidation of companies. Differentiating the two terms, Mergers is the combination of two companies to form one, while Acquisitions is one company taken over by the other. M&A is one of the major aspects of corporate finance world.

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The reasoning behind M&A generally given is that two separate companies together create more value compared to being on an individual stand. With the objective of wealth maximization, companies keep evaluating different opportunities through the route of merger or acquisition.

Mergers and Acquisitions across Indian Sectors

Among the different Indian sectors that have resorted to mergers and acquisitions in recent times, telecom, finance, construction materials, automobile industry and steel industry are worth mentioning. With the increasing number of Indian companies opting for mergers and acquisitions, India is now one of the leading nations in the world in terms of mergers and acquisitions.

The merger and acquisition business deals in India amounted to $40 billion during the initial 2 months in the year 2007. The total estimated value of mergers and acquisitions in India for 2007 was greater than $100 billion. It is twice the amount of mergers and acquisitions in 2006.With Indian corporate houses showing sustained growth over the last decade, many have shown an interest in growing globally by choosing to acquire or merge with other companies outside India.

Till recent past, the incidence of Indian entrepreneurs acquiring foreign enterprises was not so common. The situation has undergone a sea change in the last couple of years. Acquisition of foreign companies by the Indian businesses has been the latest trend in the Indian corporate sector.

There are different factors that played their parts in facilitating the mergers and acquisitions in India. Favourable government policies, buoyancy in economy, additional liquidity in the corporate sector, and dynamic attitudes of the Indian entrepreneurs are the key factors behind the changing trends of mergers and acquisitions in India.

The Indian IT sector has already proved their potential in the global market. The other Indian sectors are also following the same trend. The increased participation of the Indian companies in the global corporate sector has further facilitated the merger and acquisition activities in India.

Major Mergers and Acquisitions in India

Recently the Indian companies have undertaken some important acquisitions. Some of those are as follows

Hindalco acquired Canada based Novelis. Tata Steel acquired Corus Group plc. Dr. Reddy's Labs acquired Betapharm .Ranbaxy Labs acquired Terapia SA. Suzlon Energy acquired Hansen Group. The acquisition of Daewoo Electronics Corp. by Videocon .HPCL acquired Kenya Petroleum Refinery Ltd. VSNL acquired Teleglobe.

When it comes to mergers and acquisitions deals in India, the total number was 287 from the month of January to May in 2007. Out of these 287 merger and acquisition deals, there have been 102 cross country deals.

History of Merger and Acquisitions

Tracing back to history, merger and acquisitions have evolved in five stages and each of these are discussed here. As seen from past experience mergers and acquisitions are triggered by economic factors. The macroeconomic environment, which includes the growth in GDP, interest rates and monetary policies play a key role in designing the process of mergers or acquisitions between companies or organizations.

First Wave Mergers

The first wave mergers commenced from 1897 to 1904. During this phase merger occurred between companies, which enjoyed monopoly over their lines of production like railroads, electricity etc. the first wave mergers that occurred during the aforesaid time period were mostly horizontal mergers that took place between heavy manufacturing industries.

End of 1st Wave Merger

Majority of the mergers that were conceived during the 1st phase ended in failure since they could not achieve the desired efficiency. The failure was fuelled by the slowdown of the economy in 1903 followed by the stock market crash of 1904. The legal framework was not supportive either. The Supreme Court passed the mandate that the anticompetitive mergers could be halted using the Sherman Act.

Second Wave Mergers

The second wave mergers that took place from 1916 to 1929 focused on the mergers between oligopolies, rather than monopolies as in the previous phase. The economic boom that followed the post World War I gave rise to these mergers. Technological developments like the development of railroads and transportation by motor vehicles provided the necessary infrastructure for such mergers or acquisitions to take place. The government policy encouraged firms to work in unison. This policy was implemented in the 1920s.

The 2nd wave mergers that took place were mainly horizontal or conglomerate in nature. The industries that went for merger during this phase were producers of primary metals, food products, petroleum products, transportation equipments and chemicals. The investments banks played a pivotal role in facilitating the mergers and acquisitions.

End of 2nd Wave Mergers

The 2nd wave mergers ended with the stock market crash in 1929 and the great depression. The tax relief that was provided inspired mergers in the 1940s.

Third Wave Mergers

The mergers that took place during this period (1965-69) were mainly conglomerate mergers. Mergers were inspired by high stock prices, interest rates and strict enforcement of antitrust laws. The bidder firms in the 3rd wave merger were smaller than the Target Firm. Mergers were financed from equities; the investment banks no longer played an important role.

End of the 3rd Wave Merger

The 3rd wave merger ended with the plan of the Attorney General to split conglomerates in 1968. It was also due to the poor performance of the conglomerates. Some mergers in the 1970s have set precedence. The most prominent ones were the INCO-ESB merger; United Technologies and OTIS Elevator Merger are the merger between Colt Industries and Garlock Industries.

Fourth Wave Merger

The 4th wave merger that started from 1981 and ended by 1989 was characterized by acquisition targets that were much larger in size as compared to the 3rd wave mergers. Mergers took place between the oil and gas industries, pharmaceutical industries, banking and airline industries.

Foreign takeovers became common with most of them being hostile takeovers. The 4th Wave mergers ended with anti takeover laws, Financial Institutions Reform and the Gulf War.

Fifth Wave Merger
The 5th Wave Merger (1992-2000) was inspired by globalization, stock market boom and deregulation. The 5th Wave Merger took place mainly in the banking and telecommunications industries. They were mostly equity financed rather than debt financed. The mergers were driven long term rather than short term profit motives. The 5th Wave Merger ended with the burst in the stock market bubble.

Hence we may conclude that the evolution of mergers and acquisitions has been long drawn. Many economic factors have contributed its development. There are several other factors that have impeded their growth. As long as economic units of production exist mergers and acquisitions would continue for an ever-expanding economy.

Review of Literature

Global Literature
There have been numerous studies on mergers and acquisitions abroad, in the last four decades, and several theories have been proposed and tested for empirical validation. Researchers have studied the economic impact of mergers and acquisitions on industry consolidation, returns to shareholders following mergers and acquisitions, and the post-merger performance of companies. Whether or not a merged company achieves the expected performance is the critical question that has been examined by most researchers. Several measures have been postulated for analyzing the success of mergers. Such measures have included both short term and long-term impacts of merger announcements, effects on shareholder returns of aborted mergers hostile takeover attempts and open offers etc. A number of studies were done in developed capital markets of Europe, Australia, and the USA, on evaluation of corporate financial performance following mergers.

Marina Martynova, SjoerdOosting and Luc Renneboog investigated the long-term profitability of corporate takeovers in Europe, and found that both acquiring and target companies significantly outperformed the median peers in their industry prior to the takeovers, but the profitability of the combined firm decreased significantly following the takeover. However, the decrease became insignificant after controlling for the performance of the control sample of peer companies.

Research on post-merger performance in India
The research on post-merger performance following mergers and acquisitions in India thus far has been limited.

Surjit Kaur compared the pre and post-takeover performance for a sample of 20 acquiring companies during 1997-2000, using a set of eight financial ratios, during a 3-year period before and after merger, using t-test. The study concluded that both profitability and efficiency of targeted companies declined in post- takeover period, but the change in post-takeover performance was statistically not significant.

Beenaanalyzed the pre and post-merger performance of a sample of 115 acquiring firms in the manufacturing sector in India, between 1995-2000, using a set of financial ratios and t-test.

The study could not find any evidence of improvement in the financial ratios during the post-merger period, as compared to the pre-merger period, for the acquiring firms.

Pawaskaranalyzed the pre-merger and post-merger operating performance of 36 acquiring firms during 1992-95, using ratios of profitability, growth, leverage, and liquidity, and found that the acquiring firms performed better than industry average in terms of profitability. Regression Analysis however, showed that there was no increase in the post-merger profits compared to main competitors of the acquiring firms. Thus, empirical testing of corporate performance following mergers of Indian companies has been quite limited so far, with some studies that were focused on mergers in manufacturing sector, and study of mergers during short time intervals.

Significance of the study

The study will aid organisations currently undertaking strategic changes through merger and acquisition to design and implement corporate governance policy that will benefit both employees in the acquired firm and that of the parent company. Various insights into how confidence, zeal, commitment and overall production can be affected by merger and acquisition will be clearly high lightened in the study to further enlighten mergers of various organisations and proper ways to go about merging and acquisitions without any risk of productivity of employees. Furthermore the study will serve as a guide to student researchers who may wish to explore more into the affects of merger and acquisition on overall performance of an organisation.

Objectives of the study

As a result of Indian economic liberalization, and rapidly changing business environment there has been a spurt in the merger and acquisitions in India. This gives rise to certain issues in the sphere of merger and acquisitions which need to be investigated. The present research study has taken the following objectives which will be achieved by the researcher:

- To study the effect of merger and acquisition on the employees of the acquired company.
- To study the type of effect, of merger and acquisition on the acquired company.
- To study the employee turnover in the acquired company.
- To study the positive benefit to the growth and development of the nation.
- To study, if acquisition is a disaster or a bright future.
- To study the effort of acquiring company, to maintain employee relationship.
- To study security of the employees future.

Data Collection and Analysis

Secondary data acquired for the past 5 years from the date of acquisition of business of information technology industries i.e. 2009 to 2014 from the records available from the companies. The primary data required for the above study acquired from 500 present employees working as managerial staff, supervisory staff and clerical staff in all the acquired information technology industries head offices situated in Mumbai. This data will be analyzed and required through Average statistical methods used to draw conclusions.

Findings

There is a direct relationship between Employees relationship and merger and acquisition in IT Industries in India. The management takes maximum efforts to build up relationship with the existing employees. Moreover, employees are more enthusiastic and feel proud to be a part of global firm. The employees come in the main stream and are acquainted with high professional standards and quality. They get more opportunities to utilise and show their talents and flourish in the environment. Along with these advantages employees feel suffocation and have to work seriously with long tiring hours. Finally it seriously affects their life expectancy and specially females come across family and health problems.

Suggestions

1. Mergers should take place within the countryfor the safety purpose
2. Such acquisition should be allowed only for the welfare and development of the firm employees.
3. While merging employees should be treated humanely and it should not lead to employees turnover.
4. If the employees and the Top level management relationship is cordial it can avoid undesirous unemployment.
5. The rules should be tightened for the survival of host country’s company as they should not eventually demolish the original company and their employees

Conclusion

There are many acquisition examples taken place upto 2012. The Tata steel’s acquisition of European Steel Major Corus, Hindalco’s acquisition of Novellis, Ranbaxy’s acquisition of Japan’s Daiichi, ONGC acquisition of Russia based Imperial Energy, HDFC bank’s acquisition of Centurion bank of Punjab, Tata Motors acquisition of luxury car maker Jaguar Land Rover. Acquisition that have invested in Indiaare by and large satisfied with their own performance, labour productivity, revenue growth and remains willing to transfer technological resources to the Indian affiliate. Understanding different cultures and where and how to integrate them properly is the vital successof an acquisition or a merger. The mechanism of direct control particularly encompassing, delegation of power and control, responsibility towards management information system, inter-divisional and intra-divisional harmony and achieving optimum results through changes and motivation. The latest Forrester research report says that even the top- tier Indian firms will have to rely on acquisition to compete with global giants like IBM, EDS or CSC. Notable deals such as Vodafone-Hutchinson, Tata-Corus and Hindalco-Novellis have put India in the centre stage of global merger and acquisition activity. As market became global, restructuring must also globalise involving merger between firms from different counties. Another motive for cross border merger and acquisition is the rising cost of research and development. Technology spillover’s are the most widely discussed potential benefits from merger and acquisitions. The Technology transferred should be interpreted in a brad sense to include not only proprietory technologies but also know how, management techniques and other areas.

We can conclude that acquisition has been benefical to employees in particular and the society and the nation as a whole.

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