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Cross Border Mergers and Acquisitions - Trends and Implications in Indian Companies

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Abstract

The globalization of business over the past one decade has generated a search for competitive advantage that is worldwide in scale. In India, the policy of liberalization in the 1990's has facilitated Merger and Acquisitions (M&As), including cross border Merger and Acquisitions. As a result, the M&A activity have boomed over the past few years. In 2005, India recorded total M&A deals worth $18.2 billion, including private equity deals. The year 2006 has marked some of the most remarkable deals in the history of Indian M&As. These deals embraced all sectors including Steel, Cement, Pharmaceuticals, Automobiles and Ancillaries, Telecom and IT. The developmental implications of this trend need to be examined and analyzed. This paper makes an attempt to map out the recent M&A activity in the Indian Corporate Sector associated with foreign enterprises.

Introduction

The globalization of business over the past one decade has generated a search for competitive advantage. The companies have followed their customers who are going global themselves as they respond to the pressures in a rapidly consolidating global economy. Merger and Acquisitions (M&As) have become increasingly important channels of cross-border industrial restructuring all over the world. In India, the policy of liberalization in the 1990's has facilitated M&As, including cross-border M&As. As a result, the M&A activity has boomed over the past few years. Some of the reasons for this growing tendency of adopting M&A tactics are due to the increasing needs to achieve economies of scale, brand building, expanding branch networks over a wider geographical area, acquire synergies of expert management and also to solve the problems associated with capital adequacy norms.

The year 2006 has marked some of the most remarkable deals in the history of Indian M&As. It is interesting that M&As deals have not been confined to just one or two sectors. Rather they embrace all sectors, including Steel, Cement, Pharmaceuticals, Automobiles and Ancillaries, Telecom and IT. The domestic firms in emerging economies like India are struck by the most compelling scenario of either to **'Perform or Perish'**. So, size does matter in today's business. The companies aim at growing bigger and better.

The well established companies, by means of over subscribed IPOs, find easy finance from foreign countries. They prosper in domestic markets and have a reserve on their balance sheet which prompts them to invest and buy wisely. In short, organizations look forward to make hay while the global economy is shining bright.

Strategic Logic for Acquisitions

In recent years, "strategic" mergers are famous in the corporate world. While the price paid for a company is a critical determinant of the success of the resulting acquisition, there is no inherent reason why mergers that are strategically well-conceived should lose. The strategic logic is two fold.

(1) Size and market power are required to compete against other major companies

(2) Significant cost savings can be realized by eliminating duplicate facilities and employees, and by rationalizing purchasing and cutting overhead.

Merger and Acquisitions appear to have a solid strategic logic, and indeed is considered a blueprint for similar deals amongst rivals. The highest potential cross-border M&As are likely to be between firms that share similar or complementary operations in such key areas like production and marketing. When two companies share similar core businesses, there are often opportunities for economies of scale at various stages (e.g., R&D, manufacturing, sales and marketing, distribution, etc.)

The strategic logic of combining complementary assets can also be compelling. These assets, which extend to complementary competencies in technology and know-how, offer great opportunities for companies to create values. Thus, economies of fitness arising from complementary operations of competencies can be an important source of value creation in M&As.

Fundamental Imperatives

There are two essential things that must be highlighted in cross-border merger and acquisitions.

(1) The companies engage in M&As for realizing a combination of synergy realization a repositioning and competitive strategy to increase revenues and growth.

(2) Both the synergy realization and competitive strategy goals cannot be achieved without significant attention to the challenge of acquisition integration. The managers need to fully understand and embrace these two imperatives.

India Inc: Coming of Age

The globalization and non-discriminatory multilateral trade have opened new doors for Indian corporates. Earlier there was restriction on inward flows like FDI, portfolio investments, joint ventures and collaborations with the growing Indian market, and also technology transfers for enhancing competitiveness of Indian firms. Now, the scenario has changed. There is a growing realization that the future growth of Indian companies will be influenced by the share that they can garner in the world market, not only by producing in the country and exporting, but also by acquiring overseas

assets, including intangibles like brands and goodwill, to establish overseas presence and to upgrade their competitive strength in overseas markets.

The overseas acquisitions was originally started on a small scale but now they have reached globally visible levels with big acquisitions announced by large corporates regularly. As stated earlier, industrial goods, steel, automotive components, beverages, cosmetics, pharmaceuticals, mobile communications, software and financial services are some of the sectors where considerable interest has been shown by Indian corporates.

Need of the Study

In India, the Merger and Acquisitions during 2006 surprised many. India's growth story continues to attract overseas investors and has also paved the way for Indian corporates to execute global strategies by acquiring companies both within and outside India so as to remain competitive and achieve scale. This background shows that there is a need to analyse cross border merger and acquisitions.

Objectives of the Study

The objectives of this study are:

1. To study the trends in cross border deals in India.

2. To overview the sector-wise cross border mergers in India during 2006.

Period of the Study

The study attempts to cover a period of one year i.e., January, 2006 to December, 2006.

Cross Border Merger and Acquisitions by Indian Corporates

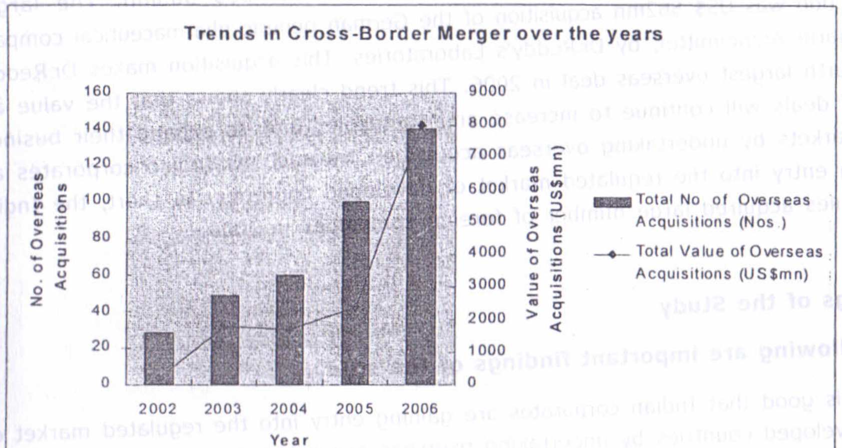
Table-1- Trends in Cross-Border Merger during 2002 to 2006

Year	Total No. of Overseas Acquisitions (Nos.)	Total Value of Overseas Acquisitions (US $ mn)
2002	28	209
2003	49	1,789
2004	60	1,700
2005	100	2,370
2006	140	8,000

Source: INDATA

Table-1 explains the trends in cross-border mergers undertaken by the Indian corporates during the period from 2002 to 2006. It is important to note that a large number of Indian corporates realized the advantages of expanding their operations overseas. In 2002, the number of overseas acquisitions was 28 with the value of US$ 209mn, which increased at an average of 50 percentages every year. The number of overseas acquisitions increased to 140 in 2006 from 28 in 2002. It is also clear from the Table that not only the number of deals increased substantially in the last five years, but also there is a significant increase in the value of overseas acquisition from US$ 209mn in 2002 to US$ 8000mn in 2006. It clearly demonstrates that the Indian companies raised the required funds for overseas acquisitions with the help of the sustained growth of the domestic market. The cross-border mergers undertaken by the Indian corporates are given in **Exhibit- 1,** which is self explanatory.

Exhibit-1- Trends in Cross-Border Merger during 2002 to 2006



Sector-wise Cross-Border by Indian Corporate Sector

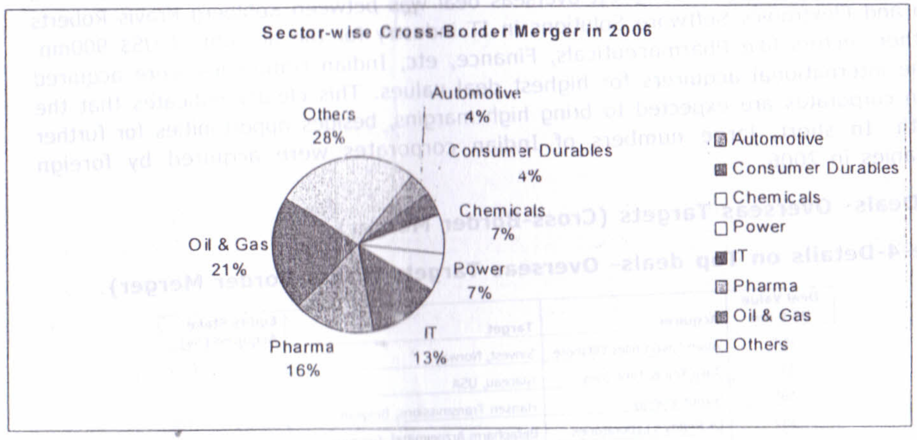
Table-2-Details on Sector-wise Cross-Border Merger undertaken by Indian corporate sectors in 2006

Sector	No. of Deals	In percentage (%)
Automotive	6	4
Chemicals	10	7
Consumer Durables	6	4
IT	18	13
Oil & Gas	30	21
Others	38	27
Pharma	22	16
Power	10	7
Total	**140**	**100**

Source: INDATA

The sector-wise summary of cross-border mergers undertaken by Indian companies in 2006 are presented in **Table-2**. It is understood from the Table that the Oil and Gas Sector dominated the cross border activity in 2006 with a share of 22 percentages in deal value. The Pharmaceuticals and Health Care was equally aggressive with 20 deals and a share of 16 percentages in value while IT sector stood at 13 percentages. Automotive and Consumer Durable Industries were involved in less number of overseas deals i.e. only six deals. Other sectors like Steel, Telecom, Finance Industries, etc together had an aggregate share of 27 percentages in deal value. The sector-wise summary of cross-border mergers is shown in **Exhibit-2** which is self explanatory. It is found that in future there will be further deals in sectors such as Steel, Pharmaceuticals, IT and Automotive Companies as Indian companies fulfill their global ambitions. By acquiring companies abroad, the Indian companies acquire advanced manufacturing technologies for reducing the cost of production, new product mix, deployment of excess production resources, better yield on assets, value addition to the product profile, etc.

Exhibit-2-Details on Sector-wise Cross-Border Merger undertaken by Indian corporate sectors in 2006



Top Deals- Indian Targets

Table-3- Details on Top deals- Indian Targets (Cross-Border Merger)

Deal Value US$ mn	Acquirer	Target	Stake Acquired (%)
1,194	Oracle	i-Flex Solutions	33.5
979	Aditya Birla Group	Idea Cellular	48
900	Kohlberg Kravis Roberts&Co	Flextronics Software Solutions	85
748	Mylan Laboratories	Matrix Laboratories	71
675	Citigroup	Housing Development Finance Corporation Ltd (HDFC)	12.9
628	Petronas International Corporation Ltd	Cairn India	9.8

Source: INDATA

Table-3 depicts the top overseas acquisitions undertaken by international on the basis of its deal value. It is clear that acquisition of i-Flex Solutions by Oracle for US$ 1,194mn was the biggest deal in 2006. The acquirer acquired 33.55 percentages of stake in i-flet solutions. The highest cross border deal in telecom sector in the year was 48 percentages of stake acquisition of Idea Cellular by Aditya Birla Group for a value of US$ 979mn. Third highest overseas deal was between Kohlberg Kravis Roberts & Co and Flextronics Software Solutions in IT industry for the amount of US$ 900mn. In other sectors like Pharmaceuticals, Finance, etc, Indian companies were acquired by the international acquirers for highest deal values. This clearly indicates that the Indian corporates are expected to bring high margins, besides opportunities for further growth. In short, large numbers of Indian corporates were acquired by foreign companies in 2006.

Top Deals- Overseas Targets (Cross-Border Merger)

Table-4-Details on Top deals- Overseas Targets (Cross-Border Merger)

Deal Value US $ mn	Acquirer	Target	Equity Stake Acquired (%)
800	Aban Loyd Chiles Offshore	Sinvest, Norway	66.24
677	Tata Tea & Tata Sons	Glaceau, USA	30
565	Suzlon energy	Hansen Transmissions, Belgium	100
562	Dr.Reddy's Laboratories	Betapharm Arzneimittel, Germany	100
446	Aban Loyd Chiles Offshore	Sinvest, Norway	33.76

Source: INDATA

Table-4 illustrates the top overseas acquisitions made by Indian companies on the basis of its deal value. It is understood that Sinvest Company of Norway acquired by Aban Loyd Chiles Offshore was the largest overseas deal in 2006 with the amount of US$ 800mn. The acquirer acquired ...

company. It is important to note that the Tata Group has been aggressively following overseas acquisitions strategy in recent years. The Group's largest deal in 2006 was the US$ 677mn acquisition of 30 percentages stake in US-based Glaceau by Tata Tea & Tata Sons. The next important transaction was Suzlon Energy which acquired Belgium-based Hansen Transmissions International for US$ 565mn. The largest transaction was US$ 562mn acquisition of the German generic pharmaceutical company, Betapharm Arzneimittel, by Dr.Reddy's Laboratories. This acquisition makes Dr.Reddy's the fourth largest overseas deal in 2006. This trend clearly shows that the value and size of deals will continue to increase and companies look to expand their business and markets by undertaking overseas acquisition transactions Indian corporates are gaining entry into the regulated market of developed countries. In short, the Indian companies acquired large number of foreign companies in 2006.

Findings of the Study

The following are important findings of the study.

- It is good that Indian corporates are gaining entry into the regulated market of developed countries by undertaking overseas acquisition transactions.
- Transfer of technology is another issue behind overseas investments. The manufacture of certain products requires technology that is not available to the Indian companies. Therefore, Indian corporates, by acquiring companies abroad, acquire advanced manufacturing technologies that further help reduction in the cost of production.
- It is interesting to know that Indian companies are going abroad to obtain a new product mix or to acquire products that will otherwise require huge investments.
- In view of liberalization of trading, Indian corporates have to look for overseas ventures for enhancing their R&D to cater to developed markets. Indian industries are capable of meeting its commitments as well as going for high end valuable resources to meet its requirements.
- Through cross border mergers, Indian corporates learn how to manage a multi-location global business with a multi-cultural workforce along with the corresponding pitfalls.
- With the continued strength of the Indian economy and stock markets, India is likely to participate fully in the anticipated global Merger and Acquisitions bull market in 2007.
- Indian companies are likely to move larger steps globally ...

Conclusion:

It is significant to note that there is great dynamism amongst Indian corporates to globalize in the years to come. These will include not only the large corporates but also medium size corporates. It is important that Indian companies have to determine the most optimal method for funding these acquisitions as this has implications for the domestic balance sheets of the acquiring companies and external debt profile depending on the source of funding.

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AN ANALYSIS OF THE SIGNIFICANT FACTORS THAT MAKE SUCCESSFUL IMPLEMENTATION OF SIX SIGMA

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Abstract

Firms are facing an increasingly competitive, changing and fast-paced world. High quality products and low operation costs are the essential ways that help firms surviving in the global market. To increase the competition, firms apply many quality programs or initiatives such as TQM, Lean Production and so on. In recent years, an aggressive breakthrough strategy named Six Sigma provides a series of interventions and statistical tools to help companies obtain breakthrough in profitability. This study aims to examine the significant factors for the successful implementation of Six Sigma and its operational performance.

Key Words: TQM, Lean Production, Breakthrough Strategy, Six Sigma, Statistical tools, DMAIC

1. Introduction

1.1 Background

Firms are facing an increasingly competitive, changing and fast-paced world. High quality products and low operation costs are the essential ways that help firms surviving in the global market. To increase the competition, firms apply many quality programs or initiatives such as TQM, Lean Production and so on. Some manufacturers created their own quality system standard, which is expected to be followed by their suppliers to make sure maintain the high quality in products. However, well-known quality assurance programs like ISO 9000 and QS 9000 provide the guidelines to help firms improve quality and competition as well. In recent years, an aggressive breakthrough strategy named Six Sigma provides a series of interventions and statistical tools to help companies obtain breakthrough profitability and gains in quality. This quality initiative did help a lot of companies across the globe to save money from operation costs and cultural change.

Six Sigma is defined by the gurus, Mikel Harry and Richard Schroeder, as "a business process that allows companies to drastically improve their bottom line by designing and monitoring everyday business activities in ways that minimize waste and resources while increasing customer satisfaction." Dr. Snee defined Six Sigma as "a business approach that seeks to find and eliminate causes of mistakes or defects in business processes by focusing on outputs that are critical importance to customers." The origin