Research Paper MANAGEMENT

Introduction of Merger, Acquisition and Divestitures

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ABSTRACT

Merger and acquisitions are the most popular form of corporate restructuring for expanding or increasing the size and volume of the business. The corporate world today is the witnessing a sudden surge in this form of corporate restructuring, sweeping across all the industries which has totally restructured the market place. It has been prominent in the advanced capitalist countries since the late twentieth century. But only in recent times it becomes a regular phenomenon in developing countries. The total number of merger and acquisitions worldwide increased almost four-fold during 1990 to 2001. This trend is different from earlier scenario wherein the merger and acquisitions was looked upon as a threat and had evoked images of dark shadow and backdoor entries to the corporate world.

Divestitures are a form of retrenchment strategy used by businesses when they downsize the scope of their business activities. Divestment usually involves eliminating a portion of a business. Firms may elect to sell, close, or spin-off a strategic business unit, major operating division, or product line. This move often is the final decision to eliminate unrelated, unprofitable, or unmanageable operations.

KEYWORDS

Merger, Merger through absorption, Merger through consolidation, Process of Merger, Dfine corporate strategies Implementing the corporate strategies , Target Identification Valuation of merger, Merger implimentation, Post-merger integration,Divestiture,

MERGER

Merger refers to a situation when two or more existing firms combine together and form a new entity. Either a new company may be incorporated for this purpose or one existing company (generally a bigger one) survives and another existing company (which is smaller) is merged into it.a merger may occur in two way….,

- Merger through absorption
- Merger through consolidation

Merger through absorption:

Absorption is a combination of two or more companies into an existing company. A ll companies except one lose their identity in a merger through absorption.

An example of this type of merger is the absorption of Tata Fertilizer Ltd.(more companies TFL) by TCL. TCL, an acquiring company (a buyer) ,survived after merger while TFL, an acquired company (a seller), ceased to exist. TFL transferred its assets, liabilities and shares to TCL.

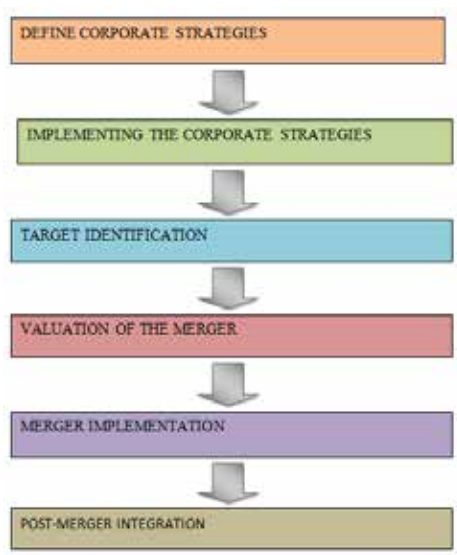
Merger through consolidation:-

A consolidation is a combination of two or more companies into a new company. In this type of merger, all more companies are legally dissolved and a new entity is created. In a consolidation an acquired company transfers its assets, liabilities and shares to the acquiring company for cash or exchange of share.

An example of consolidation is the merger of Hindustan Computers Ltd., Hindustan Instrument Ltd., and Indian Reprographics Ltd. to an entirely new company called HCL Ltd.

So the merger is a combination of two or more organization in which one acquires the assets and liabilities of other in exchange for share or cash or both the organization are dissolved and assets and liabilities are combine and new stock is issued. For the organization which acquires another it is an acquisition. For the organization which is acquired it is a merger.If both the organization dissolved their identity to create a new organization it is a consolidation.

PROCESS OF MERGER



INTRODUCTION OF MERGER, ACQUISITION AND DIVESTITURES

Merger and acquisitions are the most popular form of corporate restructuring for expanding or increasing the size and volume of the business. The corporate world today is the witnessing a sudden surge in this form of corporate restructuring, sweeping across all the industries which has totally restructured the market place. It has been prominent in the advanced capitalist countries since the late twentieth century. But only in recent times it becomes a regular phenomenon in developing countries. The total number of merger and acquisitions worldwide increased almost four-fold during 1990 to 2001. This trend is different from earlier scenario wherein the merger and acquisitions was looked upon as a threat and had evoked images of dark shadow and backdoor entries to the corporate world.

However, at present, it has an international dimension due

to global economic integration and dismantling of barriers to trade and investment. Back to home, merger and acquisitions are not new in the Indian Economy. In the past, companies have also used this form of restructuring strategies to grow. Having spread their wings haphazardly during the days controlled regime, Indian corporate houses of are now refocusing on the lines of core competences market share, and global competitiveness. This process of refocusing has been accelerated by the arrival of the foreign competitors. Naturally, this requires companies to grow and expand in businesses that they understand well. Merger and acquisitions is one of the most effective method of corporate restructuring and has, therefore, become an integral part of the long-term business strategy of corporate enterprises

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PROCESS OF MERGER

Mergers and Acquisitions, in today's world are the most fundamental elements of a corporate strategy, be it for a huge Multinational Corporation in course of taking over a fast growing gazelle company (the recent acquisition of Skype by the software giant Microsoft for a whopping $8.5 billion), or for two equals in the process of undergoing a merger (the merging of the then giant pharmaceuticals Glaxo Wellcome and SmithKline Beecham, to form a new pharmaceutical company, GlaxoSmithKline).

In simple terms, an acquisition is when one company takes over or purchases another company while a merger is a consensual situation wherein two companies agree to continue business operations and go forward as a single new company. By definition, a merger is generally a 'merger of equals' (the firms are about the same size).

In recent years, India has been a very active player in the M&A transactions, both locally and globally. After a dismal 2009, 2010 proved to be just the year for M&As in India. According to an M&A global outlook survey by Bloomberg, companies in the Asia-Pacific region especially China and India, were expected to be the most active buyers in 2011, which is what has exactly happened.

Whether it's Indian companies wanting to expand by capturing foreign markets or foreign companies wishing to acquire market share in India, Mergers and Acquisitions have been used as means to achieve crucial growth and are becoming more and more accepted than ever as a tool for implementing business strategy. Major factors like favorable government policies, buoyancy in the economy, additional liquidity in the corporate sector, and dynamic attitudes of Indian entrepreneurs have helped in facilitating the M&A transactions in India.

DIVESTITURE

"Selling of business in going concern"

The divestiture strategy include sell of business or merger business components. When the retrenchment fails to accomplish desired turn around. Strategic manager often decide to sale the business however because the intent is to find a buyer willing to pay a premium above the value of fix assest for a going concerned, the term marketing for sale is more appropriate.

The partial or full disposal of an investment or asset through sale, exchange closure or bankruptcy. Divestitures can be done slowly and systematically over a long period of time, or in large lots over a short time period.

For the business, divestitures are the removal of assets from the book. Businesses divest by the selling of ownership stakes. The closure of subsidiaries, the bankruptcy of division and so on.

In personal finance, investor selling shares of a business can be said to be divesting their interest in the company being sold.

Divestitures – the sale by a company of a product line or a subsidiary or a division.

Divestment is a form of retrenchment strategy used by businesses when they downsize the scope of their business activities. Divestment usually involves eliminating a portion of a business. Firms may elect to sell, close, or spin-off a strategic business unit, major operating division, or product line. This move often is the final decision to eliminate unrelated, unprofitable, or unmanageable operations.

REASONS TO DIVEST

In most cases it is not immediately obvious that a unit should be divested. Many times management will attempt to increase investment as a means of giving the unit an opportunity to turn its performance around. Portfolio models such as the Boston Consulting Group (BCG) Model or General Electric's Business Screen can be used to identify operations in need of divestment. For example, products or business operations identified as "dogs" in the BCG Model are prime candidates for divestment.

Decisions to divest may be made for a number of reasons: MARKET SHARE TOO SMALL. Firms may divest when their market share is too small for them to be competitive or when the market is too small to provide the expected rates of return.

AVAILABILITY OF BETTER ALTERNATIVES.

Firms may also decide to divest because they see better investment opportunities. Organizations have limited resources. They are often able to divert resources from a marginally profitable line of business to one where the same resources can be used to achieve a greater rate of return.

NEED FOR INCREASED INVESTMENT.
Firms sometimes reach a point where continuing to maintain an operation is going to require large investments in equipment, advertising, research and development, and so forth to remain viable. Rather than invest the monetary and management resources, firms may elect to divest that portion of the business.

LACK OF STRATEGIC FIT.
A common reason for divesting is that the acquired business is not consistent with the image and strategies of the firm. This can be the result of acquiring a diversified business. It may also result from decisions to restructure and refocus the existing business.

LEGAL PRESSURES TO DIVEST. : Firms may be forced to divest operations to avoid penalties for restraint of trade. Service Corporation Inc., a large funeral home chain acquired so many of its competitors in some areas that it created a regional monopoly. The Federal Trade Commission required the firm to divest some of its operations to avoid charges of restraint of trade.

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