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E: ISSN NO.: 2455-0817 Remarking An Analisation

Industrial Development by Mergers and Acquisitions as Financial Innovation in Sme and Msme: A Literature Review

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Abstract

The business in SMEs and MSMEs is becoming a substantial and flourishing instrument of the growth of an economy, which made it positioned at an incomparable place in a country. The monetary progress of a state is clear through the trustworthiness of the business. Deregulation in the financial market, liberalization in the marketplace, financial transformations have witnessed astounding disparities in SMEs and MSMEs business leading to incredible contests and technical supremacy prominent to a recently developed age of business. The literature review supported to recognize the numerous factors to be causes and measured to check the consequence of Merger and Acquisitions. This study observes the changes stimulation in the acquiring organizations on the footing of financial grounds and also the general impact of Merger and acquisitions on acquiring business. The outcome of the analysis suggests that the merger has increased over the years and the causes of mergers and acquisitions are diverse which impact the efficacy and functioning of business for better return on equity.

Keywords: Industrial Development, Financial Inclusion, SME, MSME, Mergers and Acquisitions

Introduction

Mergers and Acquisitions (M&As) in SMEs and MSMEs have rapidly increased in recent years, accelerating the globalization of industry and reshaping industrial structure at the international level. In the 1990s, there has been a marked tendency in foreign direct investment towards mergers and acquisitions rather than Greenfield investment. The value of cross-border M&As grew more than six-fold in the period 1991-98, with an increasing tendency towards very large-scale unions. M&As are taking place in a range of industries – including mature manufacturing sectors, high technology fields and service sectors – and reflect a need to restructure and strengthen global competitiveness in core businesses.

The driving forces underlying the trend to cross-border M&As are complex and vary by sector.

Prolonged economic growth in countries such as the United States increases the capital available for Industrial purchases abroad and attracts more inward investment, while the globalization of financial Markets is also a factor. In some mature industrial sectors, international competition and market pressures due to excess capacity and falling demand are driving restructuring. Technological change, particularly in information technology, facilitates the international expansion of firms, which are also seeking to capture new market opportunities in fast-changing technologies and to pool research and development costs. Enterprises increasingly seek to exploit intangible assets – technology, human resources, brand names –through geographical diversification and acquisition of complementary assets in other countries. Government policies such as investment liberalization, privatization and regulatory reform are also increasing the number of and access to industrial targets for acquisition. (Stefano Rossi, Paolo F. Volpin, 2003).

Since 2000, more than 790'000 transactions have been announced worldwide with a known value of over 57 trillion USD. In 2018, the number of deals has decreased by 8% to about 49'000 transactions, while their value has increased by 4% to 3.8 trillion USD. The market of global mergers & acquisitions has again gained momentum after constant financial crisis in beginning of year 2015 deal values of over $854bn surpassing 2007 levels. In 1992 the value of merger and acquisition has been 402 bil. USD in comparison to recent value of M & A in 2018 is 4685 bil USD.

Due to these market conditions the dealmakers have gained the confidence to proceed with large strategic transactions, some of which may have been previously delayed and the trend can be expected to continue. According to the Thomson Reuters league tables, average deal size for global M&A increased 22 percent in 2015[1] from the same period last year. Cross-border merger and acquisitions have also kept pace with the wider market, accounting for 31 percent of global M&A deal activity. However, while deal activity by value has risen by 25 percent in Q1 2015, deal volume by number of transactions is down 3 percent during the same period and has been largely flat in recent years. While buyers are not pursuing more transactions, they are willing to put large amounts into M&A and may pay significant prices for strategic or transformational 'mega deals' designed to improve prospects for growth and competitive positioning going forward.

The global information group added that since records began in 1980, only six transactions had surpassed the $100-billion mark and two of these were announced this year alone. EY, the global consultancy, says its research showed that 42 per cent of all UK executives were "aggressively focusing on growth" and planned to acquire assets in the next 12 months, driven by a need to accelerate earnings. Businesses should review the geographic balance of their portfolios and consider how their M&A strategies should be adjusted to reflect a changing global economy, so they can meet their growth and value aspirations. The changing global economy post the financial crisis means that previously held assumptions on where best to place your bets now need to be challenged.

Motivation behind the Study

The past empirical studies have provided several useful visions that the firms have different motives while moving for cross border acquisitions specifically in case of domestic and inbound mergers and acquisitions. The motive can vary from seeking technology, opportunity, resource based view (market, international expansion and diversification, which is followed by increasing market power and share and acquire strategic resources, Boateng et al., 2008), Institutional theory (the liberalization of the policy regime and the greater access to financial markets, Nayyar 2008), Strategic asset seeking (geographical and vertical expansion and the desire to enter into previously inaccessible market segments), Asymmetries and strategic entrepreneurship theory (highlights the role of learning agility rather than ability as a potential 'asset of emergingness and concluded that acquisitions as an act and form of entrepreneurship).

This motive of entering into merger and acquisition further depends on to which sector or an industry a particular company belongs to. As in case of Technology Sector (resource based view), FMCG (resource seeking view, market seeking view), Pharma and Healthcare (resource seeking, market seeking, Strategic asset seeking view), Banking or Finance Sector (Institutional theory view, resource based view).

On the other side of this study the determinants which influence the cross border and domestic mergers and acquisitions can vary from macroeconomic (exchange rate, bond yields and stock prices), financial (stock market capitalization, credit provided to private sector), institutional (FTA, common language, supply of skilled labour force), industry level (technological intensity, advertising intensity and sales force intensity), firm level (firm size, financial resources, multinational experience, local experience, product diversity and international strategy), country level factors (market growth in the host country, cultural distance, exchange rate, GDP change, political uncertainty, institutional laws).

But the past studies state that all the factors are not significant in mergers and acquisitions in a particular sector. The studies indicate that there are certain factors which can be important from the point of view of a particular sector and may be insignificant in arena of other sector.

Objective of the Study

1. To analyze the different factors defining merger and acquisition in emerging economy like India.
2. To study the significance of the existing factors defining mergers and acquisition in different sectors in India.

Review of Literature

Two organizations with often different corporate personalities, cultures and value systems are bought together (Sudarsanam, 2003). The terms 'mergers' and 'acquisitions' are often used interchangeably. In lay parlance, both are viewed as the same. However, academics have pointed out a few differences that help determine whether a particular activity is a merger or an acquisition.

A particular activity is called a merger when corporations come together to combine and share their resources to achieve common objectives. In a merger, both firms combine to form a third entity and the owners of both the combining firms remain as joint owners of the new entity (Sudarsanam, 1995).

An acquisition could be explained as event where a company takes a controlling ownership interest in another firm, a legal subsidiary of another firm, or selected assets of another firm. This may involve the purchase of another firm's assets or stock (Donald M. DePamphilis, 2008). Acquiring all the assets of the selling firm will avoid the potential problem of having minority shareholders as opposed to acquisition of stock. However the costs involved in transferring the assets are generally very high (Ross, Westerfield, Jaffe, 2004).

There is another term, 'takeover' which is often used to describe different activities. Gaughan (2007) says that this term is very vague. It is a broad term that sometimes refers to hostile transactions and sometimes to both friendly and unfriendly mergers (Gaughan 2007). Takeover is slightly different than acquisition however the meaning of the later remaining the same. When the acquisition is forced in nature and without the will of the target company's management it is known as a takeover.

Mergers and Acquisitions as Corporate Strategy for Global Expansion

Mergers and Acquisitions (M&A) are a tactical choice for the global development of the companies since they make it potential for firms to speedily access new and foreign markets, take benefit of economies of scale and attain essential know-how and capable person. A number of researchers trait the remarkable progression in cross border mergers and acquisitions to mounting globalization of trade, industry alliance, privatization, and the liberalization of nations (Shimizu, Hitt, Vaidyanath, and Pissano, 2004).

Knowledge, as a primary organizational resource and the foundation for elaboration of organizational competences, is participating a key role in motivating these variations. Knowledge associated competences are far more substantial today in organizations than what they were just a span ago. Since associations are an amalgam of proficiencies, a crucial apprehension for firms is how to contour the capabilities they necessitate meeting their development purposes. Firms can nurture progressively or they can involve in acquisitions that deliver them the assets so that they can ensure the objects they would not else undertake (Jay Chatzkel, Hubert Saint-Onge, 2007).

Sudarsanam (2003) has identified that mergers and acquisitions are the processes by which two companies are collective to attain certain planned business purposes. They are connections of huge implication, not only to the companies themselves but also for many other communities, such as workers, managers, competitors, communities, and the economy.

Capron (1990) has used the term "acquisition" to mention to the acquisition by one corporation of alternative Entire Corporation or of an industry from a continuing corporation. He has used the phrase "horizontal acquisition" to explain the acquisition of a firm within the identical industry.

The acquisition access in a foreign market is described as the procurement of the stocks of a recognized firm in the host nation by another firm headquartered exterior the nation, isolated or with one or more companions, in a quantity adequate to converse control (Barkema and Vermeulen, 1998; Kogut and Singh, 1988; Newburry and Zeira, 1997).

Thus acquisition has been one of the leading motivating strengths after progression of Foreign Direct Investment (FDI). Latest inclinations in deregulation in global capital markets have assumed acquisition latest significance as a approach for FDI.

Hennart (1991) has claimed that a greater level of industrial concentration had induced the Japanese manufacturing stakeholders to procure reputable companies in the United States.

Harrigan (1985), Mowery (1988) and Ohmae (1985) indicate that complementarities of partners, which are functioning in different product-markets with possibly minute encounter of benefits, surge the feasibility of the pooled strength. However, assistance among corporations with alike product-market arrangements suggests a developed possibility of a conflict of interests. One mode of resolving this encounter of interest among two partners is discovered in one company captivating grasp of this joint strength through an attainment of the other establishment. Mergers and Acquisitions are generally used tools of boosted alliance or awareness in the industry. The Indian framework has to be explored in positions of the merger and acquisition phenomenon.

Factors Causative to the Choice of the Firm to Increase Worldwide through Mergers and Acquisitions

Most of the M&A transactions are encouraged, by the aspiration to attain financial synergies, to benefit market power, to gain entry to delivery passage or to advance access into innovative geographical area, thereby stating that technological motives do not encourage all M&A. However, in the existing globalized situation there are assured high-tech industries where innovation is vital to competitive edge. Such companies will believe the influence of M&A on technological functioning even when the transaction is not innovation determined; and select the most suitable innovation and financial strategy. Technical Knowhow is suitable as a key to achievement in existing market and causes such as firm size, history and equity suited less and less analytical prerequisite (Gantumur and Stephan, 2007).

One of the foremost purposes for all alliances and restructuring ascending out of the merger and acquisition choice of the firm is to recover and reinforce its financial state known as the synergy influence. These synergies can be in the usage of augmented effectiveness, economies of scale, broadening of markets, better purchasing power and henceforth, lead to considerably improved effectiveness (Catwright, Cooper 1996).

Mergers and Acquisitions also permit greater level of research and development expenditures. The organizational purposes state to the increase of risk as well as the prospect to purchase another company and thus evade being purchased. The subjective reasons are associated to rewards, which are frequently financial and generally grown through enlargement. However, the result of the merger and acquisition strategy does not depend merely on these financial and strategic issues but also on the fluctuations in the environmental situations, technological progresses, and government policy.

Ohmae (1989) claims, Nowadays goods rely on so many diverse analytical know-hows that most companies can no longer sustain critical verge complexity in all of them. Therefore, selecting external bases of know-how develops an essential. Acquisition of prevailing foreign business consents the acquirer to acquire resources such as patent-protected technology, greater organizational and marketing skills, and overcome distinct government rule that generate an obstacle to access for other firms (Errunza and Senbet, 1981).

Conclusion

The present paper suggests that the objective of a SME or MSME firm entering into merger and acquisition can be different from the other firm. Every merger and acquisition in a particular sector is having different motive. But it has been analysed that all the mergers and acquisitions are not a success. So, it is to be further analysed that whether these sector or industry specific motives and determinants are able to explain the mergers and acquisitions in contexts of Indian economy. So the needs and requirements of SMEs and MSMEs in the Mergers and Acquisitions are entirely different and thus we have to take care of all stakeholders in due process so that the actual fruits of benefits should be shared among all the society members.

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