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MERGER ACQUISITION AND SOCIAL ISSUES

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ABSTRACT

Mergers and Acquisition are both aspect of strategic management, corporate finance and management dealing with the buying, selling, dividing and combining of different companies and similar entities that can help an enterprise grow rapidly in its sector or location of origin, or a new field or new location, without creating a subsidiary, other child entity or using a joint venture.

From a legal point of view, a merger is a legal consolidation of two companies into one entity, whereas an acquisition occurs when one company takes over another and completely establishes itself as the new owner (in which case the target company still exists as an independent legal entity controlled by the acquirer).

Through this article we want to explain that mergers and acquisitions are success full for the purpose of profit maximization and as per the great economist William Baumol a firm does not full concentrate on profit maximization but they should maximize their sales, but as per our view there are many social issues due to mergers and acquisition due to this we cannot fully achieved to this target.

Key words: social issues, Mergers and Acquisitions, financial performance

1. INTRODUCTION

Mergers and acquisitions across Indian sectors.

Among the different Indian sectors that have resorted to mergers and acquisition in recent times, telecom, finance, FMCG, construction materials, automobile industry and steel industry are worth mentioning. The top Indian mergers and acquisitions are

(1) Flipkart-Myntra.
(2) Asian paints-ESS ESS Bathroom products.
(3) RIL-Network 18 Media and Investments.
(4) Merck-Sigma deal.
(5) Ranbaxy-Sun-pharmaceuticals.
(6) TCS-CMC.
(7) Tata power-PT Arutmin Indonesia.
(8) Tirumala milk-lactalis.
(9) Aditya Birla Minacs-CSP CX.
(10) Sterling India Resorts-Thomas cook India.
(11) Yahoo-Book pad.

Figure 1:

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Objectives of mergers and acquisitions.

The main objectives behind of M&A are they want to expand their business and amount to increases the sale of their product and services, the company mainly target to those countries which has the high population and cheaper labor, they can also adopt the strategy that they manufactures their product at lower cost in second country and then export it in third countries or in their own country.

The following motives are considered to improve financial performance.

(1) Economy of scale:- this refers to the fact that the combined company can often reduce its fixed costs by removing duplicate departments or operations, lowering the costs of the company relative to the same revenue stream, thus increasing profit margins.

(2) Economy of scope:- This refers to the efficiencies primarily associated with demand-side changes, such as increasing or decreasing the scope of marketing and distribution of different types of products.

(3) Increased revenue or market share:- This assumes that the buyer will be absorbing a major competitor and thus increase its market power (by capturing increased market share) to set prices.

(4) cross selling:- for example, a bank buying a stock broker's customers, while the broker can sign up the bank's customers for brokerage accounts or a manufacturer can acquire and sell complementary products.

(5) Synergy:- for example, managerial economies such as the increased opportunity of managerial specialization. Another example is purchasing economies due to increased order size and associated bulk-buying discounts.

(6) Taxation: A profitable company can buy a loss maker to use the target's loss as their advantage by reducing their tax liability. in the united states and many other countries, rules are in place to limit the ability of profitable companies to " shop" for loss making companies, limiting the tax motive of an acquiring company. Tax minimization strategies include purchasing assets of a non-performing company and reducing current tax liability under the tanner white PLLC troubled assets recovery plan.

(7) Geographical or other diversification:- This is designed to smooth the earnings results of a company, which over the long term smoothes the stock price of a company, giving conservative investors more confidence in investing in the company. However, this does not always deliver value to shareholders.

(8) Resource transfer:- Resources are unevenly distributed across firms (Barney,1991) and the interaction of target and acquiring firm resources can create value through either overcoming.

(9) Vertical integration:- occurs when an upstream and downstream firm merges (or one acquires the other) There are several reasons for this to occur one reason is to internalize an externality problem. A common example is of such an externality is double marginalization. Double marginalization occurs when both the the upstream and downstream firms have monopoly power, each firm reduces output from the competitive level to the monopoly level, creating two deadweight losses. by merging the vertically integrated firm can collect one deadweight loss by setting the downstream firm's output to the competitive level. This increases profits and consumer surplus. A merger that creates a vertically integrated firm can be profitable.

(10) Absorption of similar businesses:- Under single management: Similar portfolio invested by two different mutual funds namely money market fund caused the management to absorb united money market fund into united growth and income fund.

SOCIAL ISSUES:

A Social issue (also called a social problem or a social illness or even a social conflict) refers to an issue that influences and is opposed by a considerable number of individuals within a society it is often the consequence of factors extending beyond an individual's control and local geographical environment. In some cases, a social issue is the source of a conflicting option on the grounds of what is perceives as a morally just personal life or societal order. Different societies have different perceptions. Social issues are distinguished from economic issues, however some issues (such as immigration) have both social and economic aspects, There are also issues that don't fall into either category, such as war.

Personal Issues versus social issues:-

Personal issues are those that individuals deal with themselves and within a small range of their peers and relationships. On the other hand, social issues attribute to values cherished by widespread society. for example, the US unemployment rate of 7.8 percent as of October 2012 was a social issue. The line between a personal issues and a public issue may be subjective, however, when a large enough sector of society is affected by an issue, it becomes a social issue. Although one person being fired is not a social issue, the repercussions of 13 million

people being fired are likely to generate social issues.
Different social issues at work place due to mergers and acquisition:-
Occupational stress:- is stress involving work .According to the current world health organization's (WHO) definition, occupational or work-related stress" is the response people may have when presented with work demands and pressures that are not matched to their knowledge and abilities and which challenge their ability to cope.

Prioritizing Social Issues

Generic Social Issues	Value Chain Social Impacts	Social Dimensions of Competitive Context
Social issues that are not significantly affected by a company's operations nor materially affect its long-term competitiveness.	Social issues that are significantly affected by a company's activities in the ordinary course of business.	Social issues in the external environment that significantly affect the underlying drivers of a company's competitiveness in the locations where it operates.

Figure 2:

Categories:-
Categories associated with occupational stress are.
(a) Factors unique to the job.
(b) Role in the organization.
(c) Career development.
(d) Interpersonal work relationships.
(e) Organizational structure/climate.
Occupational stress can occur when there is a discrepancy between the demands of the environment/workplace and an individual's ability to carry out and complete these demands.
Theft: - In common usage, theft is the taking of another person’s property without that person's permission or consent with the intent to deprive the rightful owner of it.
Sexual harassment:-
Sexual harassment is bullying or coercion of a sexual nature, or the unwelcome or inappropriate promise of rewards in exchange for sexual favors, in most modern legal contents, sexual harassment is illegal as defined by the US equal employment opportunity commission “it is unlawful to harass a person (an applicant or employee) because of that person's sex". Harassment can include" sexual harassment" or unwelcome sexual advances, requests for sexual favors, and other verbal or physical harassment of a sexual nature. The legal definition of sexual harassment varies by jurisdiction. Sexual harassment is subject to a directive in the European Union.
Occupational inequality:-
Is the unequal treatment of people bases on gender or race in the workplace? When researchers study trends in occupational inequality they usually focus on distribution or allocation pattern of groups across occupations, for example, the distribution of men compared to women in a certain occupation and income, for example, comparing the income of white with blacks in the same occupation.
Natural sex differences:-
There are natural differences between the sexes based on biological and anatomic factors, most notably differing reproductive roles. Biological differences include chromosomes, brain structure, and hormonal differences. There is a natural difference also in the relative physical strengths (on average) of the sexes.
Co-generic merger:-
Co-generic merger is a kind in which two or more companies in association are some way or the other related to the production processes, business markets, or basic required technologies. It includes the extension of the product line or acquiring components. This kind offers great opportunities to business as it opens a huge

gateway to diversify around a common set of resources and strategies requirements.

Reasons for failure:-

Mergers and acquisitions fail for a variety of reasons, such as.

(1) Expectations are unrealistic.

(2) Hastily constructed strategy, poor planning, unskilled execution.

(3) failure/inability to unify behind a single macro message.

(4) Talent is lost or mismanaged.

(5) Power and politics are the driving forces, rather than productive objectives.

(6) Requires an impossible degree of synergy.

(7) Culture clashes between the two entities go unchecked.

(8) Of transition the underestimation costs.

(9) Financial drain.

(10) Focus of executives is distracted from the core business.

With the recent mergers and friendly and unfriendly takeovers, two important issues have not received sufficient attention as questionable ethical practices. One has to do with the rights of employees affected in mergers and acquisitions and the second concerns the responsibilities of shareholders during these activities. Although employees are drastically affected by a merger or an acquisitions because in almost every case a number of jobs are shifted or even eliminated, employees at all levels are usually the last to find out about a merger transaction and have no part in the takeover decision, second, if shareholders are the fiduciary beneficiaries of mergers and acquisitions, then it would appear that they have some responsibilities or obligations attached to these benefits.

Social issues in mergers and acquisitions:-

The social issues include matters like:

(1) The name of the combined entity.

(2) The location of its headquarters.

(3) The composition of the combined board and most importantly.

(4) Who will lead the combined company after the closing of the transaction.

Some mergers are likely to lessen competition and reduced competition in turn can lead to.

Higher prices, reduced availability of goods or services, Lower quality of products, and less innovation.

Table 1:

Social affects.	Resulting in
(1) Decision making style.	(1) Effective integration requires rapid decision-making (2) Different decision-making styles can lead to slow decision-making, failure to make decisions, or failure to implement decisions.
(2) Leadership style(for example: dictatorial or consultative, clear or diffuse)	(1) A shift in leadership style can generate turnover among employee e who object to the change. This is especially true for top talent, who are usually the most mobile Employees. (2) Loss of top talent can quickly undermine value in integration by draining intellectual capital and market contacts.
(3) Ability to change (willingness to take risk for new things, compared with focus on maintaining current state and meeting current goals)	(1) unwillingness to implement new Strategies. (2) unwillingness to work through the intitable difficulties in creating a New company.
(4) How people work together (for example: based on formal structure and role definitions or based on informal relationships)	(1) Merged companies will create interfaces between functions that comes from each legacy company, or new functions that integrate people from both, legacy companies. If the cultural assumptions of the legacy companies are inconsistent, then processes and hand off may break down with each companies' employees becoming frustrated by their colleague' failure to understand or even recognize how work should be done.
(5) Belief regarding personal" success" (for example: organizations that focus on individual " stars" or on team work, or where people rise through connections with senior practitioners)	(1) Again these didderences can lead to breakdown in getting work done. If people who believe they have to achieve goals as a team integrate with people whose notion of " success" emphasizes individual performance, the resulting situation is often characterized by personal dislike and lack of support for getting the job done.

Human resource issues in mergers and acquisitions.

Merger and acquisition has a great impact on.

(a) The employees working in a company and on working conditions.

(b) The main reason for failure of merger in most of the cases is non-integration of human resources of both the transferor and transferee company.

Some of the significant concerns and issues related to the human resource are.

(a) Due to merger, there is a clash between the companies which pulls them together in to different direction apart from their aims and objectives.

(b) An M&A activity without recognizing the impact on the human element results in lost revenue, customer dissatisfaction, employers attraction issues and so on.

(c) Many personnel issues such as salaries, benefits, pension of employees are also affected due to M&A .

(d) Ego clashes between the top management.

(e) Employees often become withdrawn and frustrated when their potential for future growth within the organization.

(f) M&A affects the CEOs of the company.

(g) Transfer, retrenchment and the loss of position in the hierarchical level.

(h) M&As shift the focus of employees from productive work to issues related to interpersonal conflicts, layoffs, career growth with the acquirer company, compensation etc.

(i) Conflict in values and culture increases stress level among employees.

CONCLUSION

Currently the most significant developments in regional economic integration are occurring in the EU (European Union) and NAFTA (North American Free Trade Agreement). Although some of the Latin American trade blocs, ASEAN (Association of southeast Asian nations),APEC (Asia-pacific economic cooperation, and the proposed FTAA, (Free trade area of America), may have economic significance in the future, the EU and NAFTA currently have more profound and immediate implications for business practice. Similar conclusions, however, could be drawn with regard to the creation of a single market anywhere in the world. For this regard the many companies are going to merged and mostly companies from advance developed and developed countries are targeting to the developing and underdeveloped countries due to low production cost, but there is a problem that in these countries cultures are different and they may create the many social issues, so company should remove this kind of issues.

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