International Journal of Engineering Technology, Management and Applied Sciences

www.ijetmas.com February 2016, Volume 4, Issue 2, ISSN 2349-4476

General Impacts of Merger and Acquisition on Companies

Dr. Sr. B.J. Queensly Jeyanthi, Associate Professor of Commerce
Jayaraj Annapackiam College For Women (Autonomous)
Periyakulam

Miss. C. Kalaivani Asst.,Prof in B.Com(CA)
Ph.D (Research Scholar)
Mother Teresa Women's University, Kodaikanal

Miss. B. Sumathi ,Asst.,Prof in B.Com

ABSTRACT

*Just as mergers and acquisitions may be fruitful in some cases, the "**impact of mergers and acquisitions"** on various sects of the company may differ. In the article below, details of reasons for engage in merger and acquisition, how the shareholders, employees and the management people are affected has been briefed. Mergers and acquisitions are aimed at improving profits and productivity of a company. Simultaneously, the objective is also to reduce expenses of the firm. However, mergers and acquisitions are not always successful. At times, the main goal for which the process has taken place loses focus. The success of mergers, acquisitions or takeovers is determined by a number of factors. Those mergers and acquisitions, which are resisted not only affects the entire work force in that organization but also harm the credibility of the company. In the process, in addition to deviating from the actual aim, psychological impacts are also many. Studies have suggested that mergers and acquisitions affect the senior executives, labor force and the shareholders.*

Keywords: Merger, acquisition, Capital structure, Financial position, Shareholders.

INTRODUCTION

Mergers and acquisitions are among the most effective ways to expedite the implementation of a plan to grow rapidly. Companies in all industries have grown at lightning speed, in part because of an aggressive merger and acquisition strategy. The impact of technology and the Internet has only further increased the pace and size of deals. Buyers of all shapes and sizes have many of the same strategic objectives—to build long-term shareholder value and take advantage of the synergies that the combined firms will create—but each industry has its own specific objectives.

REASONS FOR ENGAGE IN MERGERS AND ACQUISITIONS

Companies become bigger

Many companies use M&A to grow in size and leapfrog their rivals. While it can take years or decades to double the size of a company through organic growth, this can be achieved much more rapidly through mergers or acquisitions.

Pre-empt competition

This is a very powerful motivation for mergers and acquisitions, and is the primary reason why M&A activity occurs in distinct cycles. The urge to snap up a company with an attractive portfolio of assets before a rival does so generally results in a feeding frenzy in hot markets. Some examples of frenetic M&A activity in specific sectors include dot-coms and telecoms in the late 1990s, commodity and energy producers in 2006-07, and biotechnology companies in 2012-14.

Synergies and economies of scale

Companies also merge to take advantage of synergies and economies of scale. Synergies occur when two companies with similar businesses combine, as they can then consolidate (or eliminate) duplicate resources like branch and regional offices, manufacturing facilities, research projects etc. Every million dollars or fraction thereof thus saved goes straight to the bottom line, boosting earnings per share and making the M&A transaction an "accretive" one.

Achieve domination

Companies also engage in M&A to dominate their sector. However, since a combination of two behemoths would result in a potential monopoly, such a transaction would have to run the gauntlet of intense scrutiny from anti-competition watchdogs and regulatory authorities.

Tax purposes

Companies also use M&A for tax purposes, although this may be an implicit rather than an explicit motive. For instance, since the U.S. has the highest corporate tax rate in the world, some of the best-known American companies have resorted to corporate “inversions.” This technique involves a U.S. company buying a smaller foreign competitor and moving the merged entity’s tax home overseas to a lower-tax jurisdiction, in order to substantially reduce its tax bill.

POSSIBLE IMPACTS OF MERGERS AND ACQUISITIONS

The following are the impact of Mergers and Acquisitions on different segments of business.

Impact on Employees

Mergers and acquisitions may have great economic impact on the employees of the organization. In fact, mergers and acquisitions could be pretty difficult for the employees as there could always be the possibility of layoffs after any merger or acquisition. If the merged company is pretty sufficient in terms of business capabilities, it doesn't need the same amount of employees that it previously had to do the same amount of business. As a result, layoffs are quite inevitable. Besides, those who are working would also see some changes in the corporate culture. Due to the changes in the operating environment and business procedures, employees may also suffer from emotional and physical problems.

Impact on Management

The percentage of job loss may be higher in the management level than the general employees. The reason behind this is the corporate culture clash. Due to change in corporate culture of the organization, many managerial level professionals, on behalf of their superiors, need to implement the corporate policies that they might not agree with. It involves high level of stress.

Impact on Shareholder

Impact of mergers and acquisitions also include some economic impact on the shareholders. If it is a purchase, the shareholders of the acquired company get highly benefited from the acquisition as the acquiring company pays a hefty amount for the acquisition. On the other hand, the shareholders of the acquiring company suffer some losses after the acquisition due to the acquisition premium and augmented debt load.

Impact on Competition

Mergers and acquisitions have different impact as far as market competitions are concerned. Different industry has different level of competitions after the mergers and acquisitions. For example, the competition in the financial services industry is relatively constant. On the other hand, change of powers can also be observed among the market players.

Impacts on Capital Structure and Financial Position

For the target company, an M&A transaction gives its shareholders the opportunity to cash out at a significant premium, especially if the transaction is an all-cash deal. If the acquirer pays partly in cash and partly in its own stock, the target company’s shareholders would hold a stake in the acquirer, and thus have a vested interest in its long-term success.

For the acquirer, the impact of an M&A transaction depends on the deal size relative to the company’s size. The larger the potential target, the bigger the risk to the acquirer. A company may be able to withstand the failure of a small-sized acquisition, but the failure of a huge purchase may severely jeopardize its long-term success.

CONCLUSION

In real times, the rationale behind merger and acquisitions is that the two companies are more valuable profitable than individual companies and that the shareholder value is also over and above that of the sum of the two companies. Despite negative studies and resistance from the economists,Merger Acquisition continue to be an important tool behind the growth of the economy. Reason being, the expansion is not limited by internal resources, no drain on working capital can use exchange of stocks, is attractive as tax benefit and above all can consolidate industry increase market power.

REFERENCES

- *Bengtsson, L. and Larsson, R. (2012), "Researching mergers & acquisitions with the case study method: Idiographic understanding of longitudinal integration processes",* In: Y. Weber (eds), Handbook for Mergers and Acquisitions Research, pp. 172-202. Edward Elgar, Cheltenham, UK.
- Haleblian, J., Devers, C.E., McNamara, G., Carpenter, M.A. and Davison, R.B. (2009), "*Taking stock of what we know about mergers and acquisitions: a review and research agenda",* Journal of Management, vol. 35.
- Weber, Y. and Tarba, S.Y. (2012*), "Mergers and acquisitions process: The use of corporate culture analysis",* Cross Cultural Management: An International Journal, vol. 19 No. 3, pp. 288-303.
- www.investopedia.com/university/**mergers**/**mergers**6.asp
- http://finance.mapsofworld.com/merger-acquisition/impact.html
- http://entrepreneurship.org/resource-center/mergers-and-acquisitionss
- http://www.investopedia.com/articles/investing/102914
- www.wikipedia.com