B−6

# 「Success and Failure of Indian Cross Border M&A」

SEDHAIN Madhav Prasad, Ph.D.（Saravio Cosmetic Ltd.）

## 1. Introduction

It is said that more than 60 percent M&A have failed in the world's dealing markets. The selection decisions are generally driven by financial and strategic considerations; yet many organizational alliances fail to meet expectations due to incompatible culture of the partners (Cartwright and Cooper, 1993). The M&A not only integrate two companies, but also bring together large group of people with their diverse personalities, ambitions, behavioral traits and working methods (Business Review Europe).

This paper shows three examples of success and failure of cross border M&A which includes the success and failure cases of both Indian and foreign multinationals. Firstly, it represents the present scenario of M&A in India. Secondly, it shows three case studies of Indian and Japanese Multinationals. The case study of Tata steel represents the failure case and the case study of Tata motors represents the success case. Tata steel has acquired Corus and Tata motors has acquired Jaguar and Land Rover (JLR). Also, it presents a case of Japanese multinationals who acquired Indian largest pharmaceutical company, Ranbaxy laboratories, and explains how it failed.

## 2. The Present Scenario of M&A in India

After the introduction of Indian economic reform in 1991, Indian companies have started showing their presence in both national and international markets. The concept of M&A also seems to have erupted after mid 1990s. Mainly the Indian industrialist sectors like pharmaceuticals, IT, telecommunications, Automobiles, steel etc. have proved their worth in the international scenario.

Three-fourths of the acquisitions made by local firms have failed to create substantial value from the deals; while 59 percent of the acquirers have actually destroyed value within a year of closing a deal (KPMG). The study of 750 deals conducted by listed companies in India between 2005 and 2011 help to understand how these companies have been successful in creating value post-merger. Acquisition value of a deal was more than 25 percent of the acquirer's market value. Between 2005 and 2011, Indian companies did about 1,100 deals with a total deal value of about $ 75 billion (Grant Thornton). The study also found that Indian acquirers were more successful at acquiring and integrating domestic targets as compared to outbound targets.

## 3. Case Study

### 3.1 Daiichi Sankyo and Ranbaxy Laboratories

Daiichi Sankyo acquired 64 percent of Ranbaxy share with total deal value worth $ 4.6 billion in 2008. Problems emerged soon after the acquisition when Ranbaxy plants came under scrutiny by the US Food and Drug Administration (FDA) in 2008. The FDA halted import of 30 different drugs from two of Ranbaxy plants in India because, the drugs were considered unfit for the American market; moreover, it did not fulfill

the prescribed manufacturing standards. Finally the deal failed because of the cultural problems. In September 2013, the FDA again issued an import alert, restricting further manufacture of FDA regulated drugs at one of the Ranbaxy Laboratories in India. Daiichi Sankyo agreed to pay $ 500 million to resolve the lawsuit and the federal charges that the company sold improperly manufactured drugs. Finally, in 2014, Sun pharma acquired Ranbaxy Laboratories.

### 3.2 Tata Steel and Corus

Tata steel completed acquisition of Corus on April 2007 in UK. Corus sold out its business at a time when the global economy was staring at a further recession. The total deal value was $ 12.1 billion, of which $6 billion was debt. Tata steel paid 608 pence a share, a premium of 34 percent to the original offer price. The steel market started deteriorating from the second half of 2008-09, and the company went for restructuring. The purchase by Tata steel of Corus was four times larger than itself. After acquiring the Corus, Tata steel became the fifth largest steel producer in the world. Tata had to pay a big premium and the timing was also not good. The company had already had financial problems with a large debt burden. At the same time the market demand also slowed down in the European market.

### 3.3 Tata Motors and JLR

Tata motors acquired JLR at $ 2.3 billion. At present, JLR contributes to 50 percent of the overall profits of Tata motors. JLR turnover has been increasing steadily from 4,949 million pounds in 2008-09 to 21,866 million pounds in 2014-15. After the Tata acquired JLR, it has been in operating loss only once in 2008-09. Tata motors consolidated turnover grew 257 percent from 2008-09 to 2014-15. The main reason that Tata motors succeed in Europe is that it made improvement in its cost management, brand image makeover, innovation and new product development, manpower management etc.

## 4. Conclusion

In this paper, I examined the Success and Failure of cross border M&A in India and abroad. The cultural factor is the main reason to fail M&A in India. M&A is good for the market access in very short time but it is difficult to manage two cultures at one place. I found that the primary cause of failure of Indian cross border M&A is cultural difference of two companies. Indian society and its culture are complicated and difficult to understand for the overseas company. Besides other factors like the timing for market entry, deal value etc. are also the secondary factors determining failure or success.

## References

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