

Mergers and Acquisitions in Entrepreneurship for Gaining Strategic and Competitive Advancements

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Abstract

The entrepreneurial development in any economy is the key to economic development. In any type of entrepreneurial venture to derive competitive advantage, one basically needs to be creative and innovative, so as to reduce the cost of production, or maintain quality, introduce differentiation, enhance customer benefits and to gain ultimately a considerable market share. Gaining competitive advantage in any market is the key to sustain and to earn profits, thereby satisfying the shareholders by paying them higher dividends. Therefore risk taking is an in burst imperative for an entrepreneur, because one cannot expect to gain something in the future without taking the risk of facing uncertainties and imponderables. In this era of advancements where the organisations are striving hard for going global and cross their nation's borders in a short span of time Mergers and Acquisitions/Takeovers/Strategic alliances/Joint Ventures has become an inevitable choice. A critical question for any entrepreneurial venture is to sustain and knock down the competition and that is why the most stated justification for doing M&A's is diversification. Complementing the goal of diversification; the other sensible motives for deals are economies of scale, economies of vertical integration, risk reduction, complementary resources, unused tax shields, surplus funds and eliminating inefficiencies. All these synergies in one way or another are becoming the objective for any entrepreneurial activity from an economic perspective. These are the trade off's that can make M&A as a good option in an enterprise to gain strategic advancement. As a researcher it becomes imperative to critically analyse this innovative trend of gaining advancements adopted by enterprises. This paper attempts to build a strong theoretical background that's why there is a need of adopting the strategy of M & A's as a tool of gaining strategic advancements for enterprises. It also attempts to propose a model which small and medium scale enterprises could adopt for growth and diversification.

Keywords: Strategic Advancements, Mergers and Acquisitions, Shareholders

Introduction

Theoretical Considerations based on Literature Review

Budding economies follow high-growth flight mainly due to entrepreneurial activity. As the economy opens up, new areas of economic activities can be seen to flourish. In such a scenario, market, innovation, and attaining market efficiency become extremely important for the growth of an economy. Entrepreneurial ventures take the lead in grabbing new opportunities and that is why they help in contributing towards the growth of an economy. These ventures are in response to fill the gap for products/services pertaining to a particular market. An innovation in products and service offering is also done by entrepreneurs, which ultimately leads to economic growth. The concept is based on the theory of innovation economics. It is a theory which emphasises on entrepreneurship and innovation. This theory is based on two pillars one is that the central objective of any economic policy should be to stimulate higher productivity by promoting greater innovation and any market relying on

input and price signals alone will not be always effective in stimulating higher productivity thereby promoting economic growth.

Schumpeter (1911) established the concept of "entrepreneur as innovator" who is a key figure in driving economic development. The innovative activity of entrepreneurs fosters a creative "destruction process" (Schumpeter, 1942) by causing regular instability or disturbance to an economic system in equilibrium, thereby creating opportunities for economic rent. For achieving again the state of equilibrium, other innovations flourish and spur up and more new entrepreneurs enter into the economic system. In this way, Schumpeter's theory predicts that an increase in the number of entrepreneurs leads to an increase in economic growth.

Emerging economies like India and China in general pose for accelerated economic growth and strive for becoming superpowers as they get tremendous opportunities in the liberalised and globalized era. The most critical input that can take these economies to the greater heights in the global

economy will be the entrepreneurial, mind set of their human resources. The role of an entrepreneur is to innovate and create employment opportunities for others. But this objective cannot be fulfilled until the government assumes the role of supporter and creates a conducive and a fulcrum environment of dynamic enterprise creation environment and induce a well functioning market.

The future of any enterprise will depend upon the knowledge market and its sharing. This is not possible without thinking in a creative manner. Creativity leads to innovation and ultimately it leads to the economic development. Every enterprise seeks to create wealth for its shareholders. The concept of wealth maximisation has always superseded the concept of profit maximisation. Therefore wealth creation, economic development and entrepreneurship are interdependent to each other. The efficient utilization of the economic resources like land, labour, capital lies in the efficiency of an entrepreneur. Thereby it becomes imperative for an entrepreneur to be creative which paves way for innovation.

Economies are now moving towards activities like creativity, innovation and entrepreneurship (van den Broeck et al.2008). Globalisation has created opportunities and its only creativity which can enable an entrepreneur to act on these opportunities positively and ultimately gain competitive advantage over the competitors. Only creativity can lead the basis of innovation and business growth (Bilton 2007).

Amabile 1988 has viewed creativity a process of construction of ideas or new products which are unique, new and are useful. Every entrepreneur strives to gain competitive advantage by combining a unique mix of resources in order to earn profits. The products developed are unique, competitive and useful in the market. His creative thinking plays a pivotal role in innovations and commercialising innovations to sustain the enterprises. There are various traits of an entrepreneur to lead him towards success of a venture. His risk taking ability, proactive thinking, unique thoughts, innovative abilities play an imperative role. Through how profitable is the innovation depends on the market response.

Entrepreneurs identify and develop business and create opportunities for its success. Entrepreneurs are risk takers. In their risk taking abilities a new trend to establish, grow and diversify is the mergers and acquisition activities. It can be in the form of pure mergers, acquisitions, joint ventures, strategic alliances or takeovers. All such activities are

strategic business decisions by such people who recognize the strengths, weaknesses, opportunities and threats of their enterprise and build opportunity for its success. Their decisions are based on better information and experience than that of an average observer. What others perceive as risky may not be as great a risk to those who bare more information and skills. (Colombo Plan Staff College 1998). Entrepreneurs are free thinkers, who combine a large element of creativity and experience. They have knowledge of economic, social, psychological and demographic trends. They have experience and are comfortable with new technology and change. In any strategic business decision it has become imperative that the entrepreneurs act as agents of change who can effectively live with uncertainty and stimulate and implement lasting changes.

Entrepreneurs are the leaders of industrial development. For these developments in a short span of time Mergers and Acquisitions has become a strategic tool for them. They are necessary to create employment and to contribute to the economic growth. Entrepreneurship is often defined as "the process of starting and running one's own business". It may be unique, different and includes all such ventures which allow the existing enterprises to grow and diversify.

Creativity is the ability to generate innovative ideas and convert them into reality. It basically involves imaginative and original thinking and implementing that into reality. It basically involves the ability to think and design something new, solve problems in new and different ways and to give shape to an abstract idea in the mind based on an original, new or unconventional approach. The term creativity includes human innovation, especially in the arts and sciences. Creative thinking is a mental process that involves creative problem solving and discovery of new ideas and new concepts or new ways of looking at the existing things through conscious or unconscious insight. It is looking at the same thing as everyone else but thinking something different. Thus creativity is a process, technique or a mindset that helps in the creation of an innovative concept, design or a product. It is an act of turning new and imaginative ideas into reality.

In any entrepreneurial venture the thrust should be to seek opportunity and the focus should be on building the capability to detect and seize them, and the potential to transform them into a venture. According to GEM Report, in the global level there are countless opportunities available for development, but how these could be transformed in successful ventures depend upon various factors like individual attributes, social values and the entrepreneurial

ecosystem. Creative solutions to solve the problems of resource utilisation, creating efficiency, cost reduction, expand, increase shareholders return are very important these days.

In today's scenario it is becoming imperative for a developing nation like India that to create a sustainable environment of growth economic activity in the form of entrepreneurship development should be promoted. But GEM report 2013 states that in India it is a less desirable career choice as compared to BRIC and other factor driven economies.

Justifying the Rationale of Mergers and Acquisition Activity

A critical question for any entrepreneurial venture is to sustain and knock down the competition and that is why the most stated justification for doing M&A's is diversification. Complementing the goal of diversification; the other sensible motives for deals are economies of scale, economies of vertical integration, risk reduction, complementary resources, unused tax shields, surplus funds and eliminating inefficiencies. All these synergies in one way or another are becoming the objective for any entrepreneurial activity from an economic perspective. These are the trade off's that can make M&A as a good option in an enterprise to gain strategic advancement.

Ravens craft and Scherer (1987) stated that operating synergies will be created only in mergers between related industries.

Agarwal et.al (2006) stated that industry and regulatory shocks play a key role in determining merger activity in developed countries. By considering this framework they attempted to analyze merger activity in India, using a thirty-year period, from 1973-74 to 2002-03. They identified clustering of merger activity in India, which indicated that mergers may arise in a response to industry and regulatory shocks. They also analysed that amendment in MRTP Act laid a significant effect on the behaviour of mergers. Most of the mergers were done to expand the business. Expansion is a strategic business decision and in a cut throat competition businesses are using poison pills, standstill agreements, proxy fights like tactics to expand and diversify in a very short span of time.

Increasingly, M&A's are attracting the attention of governments also in many countries and has become an issue of concern as it requires pondering upon the matter of

public interest. In most of the countries antitrust agencies offer pre merger analysis in which it is suggested that a proposed merger will be acceptable or not in the view of public interest. For collaborations and strategic alliances of various types, various perceived synergies are first analysed. Using a "when" and "how" framework the teams go to decide that what strategic and tactical choices are achieved if the deal is closed. Analysing the current scenario on the basis of mergers and activities e commerce sector in India is showing a huge trend to diversify only through mergers and acquisitions. Players like Flipkart, Mantra, Snapdeal all have shown that to diversify in this line of business Mergers and Acquisition is the right choice to gain strategic advantage over their competitors. Most of the merger activities were earlier done by large scale organisations only, but after the liberalisation and privatisation regime in many countries including India these activities have become popular in medium scale enterprises also. Much integration vertically or horizontally can be seen in medium scale industries as their growth and diversification strategy. Not only in manufacturing and production sector but in service sector also various economies have witnessed a rise in such activities. In India Mergers in Banking Sector has become an important strategic tool to increase the customer base. ICICI bank came in top three Banks on the basis of market capitalisation as well as on the basis of customer base only via Mergers and Acquisition activities. Globalization poses various threats as well as opportunities to small and medium scale enterprises. Issues like the risk to enter in a new market, technological advancements, managing and handling cultural diversities could be managed in lesser period only by entering into collaborative arrangements in the forms of joint ventures or strategic alliances. The weakness of one organisation could be the plus of another organisation. Thereby if both are combined various synergies could be created. The basic proposition behind the philosophy of entering into such arrangement is only gaining synergies out of it. A model has been proposed for medium scale industries as to how if these industries want to grow could strategise on the basis of their goals to move forward for gaining competitive advantage in the industry

It is based on the premise that every enterprise first will have to decide the decision criteria that at what basis it wants to adopt the strategy of Mergers and Acquisition for its growth and diversification. The reasons may be varied from gaining various operational, managerial and financial synergies to reduction of cost.

Diversification and Growth Model for a Medium Scale Industry



Most of the organisations strive for entering into such arrangement for reducing their per unit cost and ultimately increasing their revenues. Perhaps it is the most justified reason which entrepreneurs often provide for entering into such agreements. Lacking in technology, improper workforce, less production capacity, using tax shields, reduction of risk of failure may be the other valid justified reasons depending upon organisation to organisation. Many organisations can enter into these activities for gaining strategic advancements like achieving economies of scale, becoming the market leader, cutting down the competition, restricting the entry of new entrants or eliminating perceived risks of the market. Sustainability is yet another ground for the support of the strategies. Once an organisation has decided the objective the next step is to locate the target that could satisfy the perceived objective. However it is critical to prioritise the said benefits for an enterprise. To make the integration decisions a simple set of criteria should be established to complement the strategic intent of the firm, the M&A strategy and the intended benefits of the deal. All such things should be analysed where synergies could be created. The choice is of the enterprise to make it a friendly or a hostile deal. It can be a merger, acquisition, takeover, collaboration, integration or other arrangements.

While closing any deal of Mergers and Acquisition many factors play a pivotal role in determining the success level of the deal. Undoubtedly the real success could be determined in the post merger scenario only that whether the enterprise was able to reap the perceived benefits or not financially or otherwise. Still achieving a win-win situation is the dream of any enterprise striving hard for achieving or gaining some sort of synergy through entering into takeover or other related deals. The vision and the commitment level of the top management plays a strong role in the success of such deals as their commitment level could only reduce the anxiety level of the personnel and facilitate decision making processes. Most reluctant situations could be overcome by strong leadership. Retention of assets and employees becomes one of the major concerns in such deals. Therefore a clear focus on this area should be created to avoid wrong decisions. Communication is yet another factor for satisfying all the stakeholders of the deal at various stages. The important aspect related with this is to ensure that the stakeholders like government, shareholders, employees, customers, industry receive appropriate information timely for the success of the deal. An explicit focus on synergies should be created, whether cost, financial, tactical, and managerial or otherwise are to be considered. The proper timing looking at various market conditions is another important contributing factor for deriving the perceived benefits from the deal. There must be a distinct end to the process initiated to avoid wastage of time and resources. All

the activities should be value creating and not value destroying. Only then the any medium scale enterprise can achieve all the synergies and gain strategic advancements by entering into any entrepreneurial activity.

Conclusion

Increasingly mergers and acquisition activities have become an innovative tool for gaining strategic advancements. They have become tremendously important phenomenon in business because of their prevalence in market and value involved. As the markets are progressing in the globalised scenario new and innovative trends are coming up to start, grow, diversify or sustain the establishments. Most of the long term projects involve long gestation periods there by the risk and uncertainty level of the success of projects also increase. Through mergers and acquisitions enterprises have found a unique and creative solution of advancements where it is not necessary to wait for a long period of time. Though it has its own drawbacks also and it's not an easy job. Valuation of assets, methods used for valuations, brand value, tax considerations, antitrust laws, regulatory framework, high level of uncertainty are certain factors which make this strategy dicey and complicated. Still if planned properly it can prove to be a wonderful strategy to gain strategic advancements. Every corporate action is undertaken with the objective of maximising shareholder's return and merger's can be no exception.

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