

Strategic Leverage: Navigating Growth Through Mergers And Acquisitions

Shivani Gautam¹, Dr. Ashok Purohit²

¹Research Scholar, Institute of Business Management & Commerce, Mangalayatan University
Email ID: - Shivanigautam777@gmail.com

²Professor, Institute of Business Management and Commerce, Mangalayatan University
Corresponding author Email ID: - ashok.purohit@mangalyatan.edu.in

Abstract

The global corporate landscape has undergone significant transformations, necessitating the adoption of various consolidation strategies to address challenges posed by evolving markets. With national and international markets deeply interconnected, companies are compelled to remodel their operations to remain competitive and align with organizational business objectives. In response to these challenges, companies have opted for inorganic growth through diverse consolidation strategies, such as mergers and acquisitions (M&A). The present paper explores the dynamic landscape of M&A as a pivotal catalyst for corporate growth and transformation. M&A activities have become integral strategies for companies seeking to expand market presence, enhance competitiveness, and achieve transformative objectives. The research delves into the relationship between M&A and leverage and examines the perceptions of pharmaceutical representatives and employees regarding relationship between M&A and leverage of firm. The study utilizes a mixed-method approach, combining quantitative and qualitative analyses. Primary data is gathered through a survey involving 200 pharmaceutical employees/representatives and experts from different departments with expertise in M&A processes, for assessing perceptions on relationship between M&A and leverage on firm growth. Secondary data from reports and other literature provides additional context for the research. The analysis encompasses key variables such as financial performance, market presence,

and strategic outcomes associated with organizations employing strategic leverage through M&A.

The findings contribute valuable insights into the strategic decision-making processes, challenges, and successes encountered by organizations leveraging mergers and acquisitions for growth. By examining the multifaceted aspects of strategic leverage, the present research seeks to provide a comprehensive understanding of how organizations navigate the complex landscape of M&A to achieve sustainable and transformative growth.

Keywords: Corporate, transformations, merger and acquisition, pharmaceutical, inorganic, strategic leverage.

INTRODUCTION

In response to the economic reforms initiated by the Government of India since 1991, marking a shift towards liberalization and globalization, the landscape of mergers and acquisitions (M&A) activity in the Indian industry has witnessed a notable acceleration. The Indian economy underwent significant transformation and structural changes post these reforms, with a heightened emphasis on "size and competence" becoming a focal point for business enterprises in India. Recognizing the imperative to grow and expand in familiar business domains to contend with escalating competition, numerous leading corporates in India have embarked on restructuring initiatives, divesting non-core businesses, and consolidating their presence in core areas of business interest. Mergers and acquisitions have emerged as a highly effective method for such corporate restructuring, seamlessly integrating into the long-term business strategy of Indian corporates. Over the past decade, both the number of deals and their cumulative value in mergers and acquisitions within the Indian industry have consistently risen.

According to a 2006 survey conducted by Grant Thornton among Indian corporate managers, mergers and acquisitions have become a significant form of business strategy for Indian corporates. The primary objectives identified behind M&A transactions for corporates today include enhancing revenues and profitability, achieving faster growth in scale with quicker time to market, and acquiring new technology or competence (Mantravadi and Reddy, 2008).

In the post-liberalized era, Indian pharmaceutical companies have strategically restructured their business model, placing

emphasis on contract manufacturing, generic formulations, and export-driven growth, particularly targeting the US market. Intense competition from other Asian and European nations, notably China and Eastern European countries, has posed challenges for Indian companies seeking to establish a foothold in foreign markets. Simultaneously, the Indian market has become an attractive destination for foreign companies due to the substantial size and scale of the pharmaceutical industry. Consequently, Indian companies are confronted with robust competition domestically, prompting a realization of the imperative to embrace new and innovative technologies, particularly in terms of research and development (R&D) activities. Recognizing the need to ascend the value chain, Indian firms are focusing on developing core competencies and innovating their products. To achieve this, many Indian companies have undertaken mergers and acquisitions (M&A) activities, aiming to enhance capacities and leverage technological advancements. The rationale behind such strategic moves lies in the creation of a competitive advantage through synergistic effects when two entities join forces. These alliances are geared towards increasing market share, achieving economies of scale, introducing new technologies, and diversifying product portfolios, ultimately resulting in heightened revenues (Vyas et al. 2012). In the context of this study, leverage specifically relates to the financial structure and indebtedness of a firm. The researcher carries the present research with the following objective:

1. To study the relationship between merger and acquisition and leverage of the firm.

LITERATURE REVIEW

Rani, Yadav, and Jain (2015) scrutinized the financial performance of mergers and acquisitions in India, revealing a noteworthy enhancement in the acquiring firms' profitability post the M&A period. Author also highlighted improved cash flows following M&A. Ismail et al. (2010) discovered statistically significant gains in corporate performance metrics, "such as profitability, in the years subsequent to Merger and Acquisition. Similarly, Ndung'u (2011) investigated the impact of merger and acquisition on financial performance using data from sixteen banks that underwent such processes in Kenya between 1999 and 2005, concluding that there was an upturn in financial performance after the merger.

Wanguru (2011) explored the effect of mergers on the profitability of Kenyan firms that underwent mergers between

2004 and 2008, observing varied financial performance outcomes post-merger. Kilelo (2013) deduced that banks pursue mergers and acquisitions to enhance their capital base, market niche, and returns on investment, serving as a strategic entry point into the industry.

Mantravadi and Reddy (2008) conducted a study on the impact of mergers on the operating performance of acquiring firms in India, utilizing various profitability ratios and the debt/equity ratio. The results revealed differences in the impact on operating performance post-mergers across different industries in India. In a case study, Kioko (2013) explored mergers and acquisitions as an entry strategy employed by CFC Stanbic bank in the Kenyan market, noting that the merger facilitated the bank's successful penetration into the Kenyan market.

Numerous studies have delved into the motivations behind a company's decision to engage in M&A beyond performance considerations. While the creation of value through synergy is a frequently cited motive, other factors include the integration of new technologies, expansion into new markets, and management self-interest, among others (Vazirani, 2012). Speculative motivations for mergers and acquisitions are diverse, but notably, these activities are often initiated to generate operational and financial synergies, thereby fostering corporate growth, increasing profitability, and enhancing shareholders' wealth (DePamphilis, 2011).

Martynova, Oosting, and Renneboog (2007) undertook a study to examine the long-term profitability of business takeovers in Europe. It was found that both the acquiring and target companies showed considerable outperformance relative to the average companies in their industry prior to the takeovers. Nevertheless, the merged company's earnings significantly declined after the acquisition. Significantly, this decline became insignificant after accounting for the performance of the control sample consisting of peer enterprises.

In addition, Kruse, Park, and Suzuki (2003) examined the extended operational effectiveness of Japanese corporations by studying a group of 56 mergers that involved industrial enterprises between 1969 and 1997. The analysis found evidence of enhanced operating performance by assessing the cash-flow performance during the five-year period following the mergers. The study found a strong association between the performance of Japanese enterprises before and after a merger. However, the analysis concluded that the long-term operating performance of these firms after mergers was good,

but not statistically significant. Furthermore, a robust association between the performance before and after the merger was noted.

RESEARCH METHODOLOGY

The present study employs a mixed-method approach, encompassing both quantitative and qualitative data collection methods. Primary data is gathered from randomly selected 200 respondents from pharmaceutical employees/representatives and experts from different departments of pharma, who possess an understanding of mergers and acquisitions. This data is analysed to fulfil the research objectives. Secondary data, obtained from the existing literature done in related field. Qualitative insights are derived from the analysis of responses and a review of existing literature in the relevant field. The quantitative analysis involves application of the mean, median, mode, standard deviation and other statistics to assess the relationship between mergers and acquisitions and leverage.

RESULT AND ANALYSIS

Relationship Between Merger and Acquisition and Leverage

The researcher aims to explore the intricate relationship between mergers and acquisitions (M&A) and the leverage of a firm. Mergers and acquisitions represent critical strategic decisions for companies, involving the consolidation or integration of businesses. Understanding how these activities correlate with a firm's leverage, which refers to the use of debt to finance operations and investments, is essential for gaining insights into financial structures and risk management strategies. The research delves into the various dimensions of M&A transactions, such as their impact on a firm's revenue into profit, earning per share, market value and growth potential, level of debt-equity, and debt to total assets.

Researcher considered following questions with variables to study the relationship between merger and acquisition and leverage of firm:

1. V1 - The Financially leveraged merger impacted the company's ability to convert revenue into profit?
2. V2 - The financially leveraged merger has impacted the company's ability to distribute earnings among its shareholders on a per-share basis?
3. V3 - The financially leveraged merger has impacted the company's current market value and its growth potential?

4. V4 - The company's current level of debt to equity is healthy in the long-term perspective?
5. V5 - The company's level of debt is reasonable in proportion to its total assets?

By investigating this relationship, the study aims to contribute valuable insights to the broader understanding of corporate finance and strategic management.

Table: 1.1 Descriptive statistics

Statistics		V1	V2	V3	V4	V5
N	Valid	200	200	200	200	200
Mean		3.00	3.08	3.00	2.87	2.94
Median		3.00	3.00	3.00	3.00	3.00
Mode		3	5	3	2	2
Std. Deviation		1.400	1.457	1.420	1.422	1.418

Source: Created by researcher from the responses received

Table: 1.2 One-Sample test statistics

One-Sample Test						
	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
V1	22.882	114	.000	3.017	2.76	3.28
V2	23.923	114	.000	3.104	2.85	3.36
V3	23.352	114	.000	3.122	2.86	3.39
V4	21.151	114	.000	2.722	2.47	2.98
V5	22.423	114	.000	2.983	2.72	3.25

Source: Created by researcher from the responses received

The above table 1.1 and 1.2 shows the statistics of the variables considered by researcher for fulfilling the objectives and below are the analysis and interpretation of the of the table:

1. **V1:** The Financially leveraged merger impacted the company's ability to convert revenue into profit-The t-statistic for V1 is very high (22.882), indicating that the sample mean of V1 is significantly different from 0. The p-value (Sig.) is very close to 0, which means that the result is statistically significant. The mean difference is 3.017, and the 95% confidence interval suggests that the true population mean of V1 is likely to fall between 2.76 and 3.28.
2. **V2:** The financially leveraged merger has impacted the company's ability to distribute earnings among its shareholders on a per-share basis- The t-statistic for V2 is very high (23.923), indicating that the sample mean of V2 is significantly different from 0. The p-value (Sig.) is very close to 0, which means that the result is statistically significant. The mean difference is 3.104, and the 95% confidence interval suggests that the true population mean of V2 is likely to fall between 2.85 and 3.36.
3. **V3:** The financially leveraged merger has impacted the company's current market value and its growth potential- The t-statistic for V3 is very high (23.352), indicating that the sample mean of V3 is significantly different from 0. The p-value (Sig.) is very close to 0, which means that the result is statistically significant. The mean difference is 3.122, and the 95% confidence interval suggests that the true population mean of V3 is likely to fall between 2.86 and 3.39.
4. **V4:** The company's current level of debt to equity is healthy in the long-term perspective- The t-statistic for V4 is relatively high (21.151), indicating that the sample mean of V4 is significantly different from 0. The p-value (Sig.) is very close to 0, which means that the result is statistically significant. The mean difference is 2.722, and the 95% confidence interval suggests that the true population mean of V4 is likely to fall between 2.47 and 2.98.

5. **V5:** The company's level of debt is reasonable in proportion to its total assets-The t-statistic for V5 is relatively high (22.423), indicating that the sample mean of V5 is significantly different from 0. The p-value (Sig.) is very close to 0, which means that the result is statistically significant. The mean difference is 2.983, and the 95% confidence interval suggests that the true population mean of V5 is likely to fall between 2.72 and 3.25.

In summary, the statistically significant results across all variables suggest a substantial impact of financially leveraged mergers on the financial metrics considered, emphasizing the importance of careful consideration and strategic planning in such financial decisions.

CONCLUSION

In conclusion, the comprehensive analysis of the financial metrics presented sheds light on the profound impact of financially leveraged mergers. Across all variables—profit conversion, earnings distribution, market value, long-term debt-to-equity perspective, and debt proportion to total assets—the statistical measures, including high t-statistics and low p-values, consistently indicate significant differences in sample means from zero. Positive mean differences signify notable impacts on various financial aspects. The narrow 95% confidence intervals further enhance the precision and reliability of these estimates.

Specifically, financially leveraged mergers are found to significantly affect a company's ability to convert revenue into profit, distribute earnings per share, influence market value and growth potential, maintain a healthy long-term debt-to-equity perspective, and regulate debt proportion to total assets. These findings underscore the critical importance of strategic planning and careful consideration when engaging in financially leveraged mergers. As organizations navigate such transformative financial decisions, the presented insights provide valuable guidance for understanding and managing the multifaceted impacts on key financial indicators.

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