

## **“Corporate Strategies in Mergers and Acquisition”**

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### **INTRODUCTION**

Today corporate world is going through tremendous overwhelming change. Change in the factual being, from one entity to another. Formation of new companies, Merging of two companies to form a new one; Demerging from one company into different entities; Acquiring companies; Taking over companies; so many changes to achieve their corporate goals. So many changes led to a trend and a new term was enunciated - ‘Corporate Restructuring’. Yet many will question that how such restructuring may take place. Unless there are any plans, there won’t be any systematic actions and may not yield the required results. And hence strategies were framed to achieve those different goals of restructuring which help a company to revive from its failure and from the concept of going concern to enter into a more developed era. This paper encompasses those methods or blueprints which a company may use in its corporate restructuring for mergers and acquisition.

The last decade has seen numerous mergers and acquisitions, which have often forced organizations to adopt special strategies for tiding over the pressures generated by this trend.<sup>1</sup> First this trend was only seen emerging in United States of America, but later its’ branches have grown and the scope is extended to the world at large and now it has become a global phenomenon. They represent the most critical of all business strategies being persuaded to attain growth and expansion.<sup>2</sup> A plan may not sustain unless examined carefully and implemented with due care. Hence every step under corporate restructuring speaks for its action and hence at last they pay in a better manner. This paper intends to analyze those strategies carefully and examine the potential they hold.

When a company comes across any takeover attempt, its many a time manages to prevent itself from such hostile takeover. Defenses like poison pill, suicide pill, and golden parachute etc, come into picture then. This will also be discussed at a separate chapter in this paper.

This paper is based on extensive research and will be an important tool in helping the readers understand the finer details of the subject and evolve a successful Mergers and Acquisition strategies. The scope of the paper intends to make an analysis of those respective strategies which a corporate might develop while getting into the mechanism of mergers and acquisitions. The project deals with the development and implications of such strategies and also the effective measures taken forward to save a company from hostile takeovers.

One of the main objectives of mergers and acquisition is the growth of the company. This amalgamation creates various synergies leading to growth of business and profits for the corporations.

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<sup>1</sup>Rajinder S. Aurora, Kavita Shetty & Sharad R. Kale, MERGERS AND ACQUISITIONS, (2<sup>nd</sup> ed. 2012, Oxford University Press).

<sup>2</sup>*Ibid.*

But to seek a proper amalgamation a systematic plan is needed. These systematic plans are those strategies which a company may adopt for beneficiary purposes. The objective of this paper is limited to those strategies which will be analysed and studied and an analogy will be drawn that how efficient and effective are these strategies in the process of corporate restructuring.

The researcher has adopted to both primary and secondary sources. The research question need to be analysed after extensive research and a conclusion has been given in this regard. The footnoting pattern followed is uniform method of citation.

### **STRATEGIES IN MERGERS AND ACQUISITION: A STUDY**

Corporate merger and acquisition is defined as the process of buying, selling, and integrating different corporations with the desire of expansion and accelerated growth opportunities.<sup>3</sup> This kind of association in any form plays an integral role when it comes to business and economy as it results in significant restructuring of a business.

So what does a management team of a company need to ensure that they have the right ingredients to enter into merger or acquisition deal which may yield success and optimize best results? Those ingredients are:

- Search and Screening of Appropriate Targets
- Identifying Synergistic Relationships
- Strategy Development
- Financial and Commercial Evaluation
- Negotiation and Acceptance of the deal
- Management of the Post-Deal Transition.<sup>4</sup>

One of the main objectives of corporate mergers and acquisitions is to gain profit by increasing market competition. This can be done in various ways using different methods of merger like horizontal merger, conglomeration merger, market extension merger, and product extension merger. All the types work towards a common goal but behold different characteristics suited to get the best outcome in terms of growth, expansion, and financial performance.<sup>5</sup> Organizations have different work culture and hence differ in tradition too. There can be no single standardized restructuring strategy that will help all organizations attain their restructuring objective. In view of this fact, the following restructuring strategies have been evolved.<sup>6</sup> To decide where to invest, companies typically review the performance

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<sup>3</sup>Ajay Gehi, 'Corporate mergers and acquisitions', <<http://www.mergersandacquisitions.in/corporate-mergers-and-acquisitions.htm>> accessed 25 Mar 2014.

<sup>4</sup>Ramesh Subramaniam, 'Strategic Planning for successful Mergers and Acquisitions', <[www.staplesrodway.co.nz/media/14540/sales.prep4.pdf](http://www.staplesrodway.co.nz/media/14540/sales.prep4.pdf)> accessed 25 Mar 2014.

<sup>5</sup>Ajay (n 3).

<sup>6</sup>Chandrashekar Krishnamurti & Vishwanath S.R., MERGERS ACQUISITION AND CORPORATE RESTRUCTURING, (6th ed., 2011, SAGE Publication Ltd).

of different business units or products and invest in those units or products where growth potential is maximum.<sup>7</sup>

### **FRAMEWORK OF DECISION MAKING**

To hold good position strategically, a company must be in a position to incur and face every challenging situation. Here some of those challenging phases are illustrated:

#### **Size of Target Company:**

A target company has its size. And it depends on the investment budget of the acquirer. Large acquirers can afford to pay large amount of money, whereas mid-market companies cannot, usually, afford to purchase big companies.<sup>8</sup>

#### **Target Company's Competence:**

The current management fad is to view a firm as a portfolio of skills and the general prediction is that those that align their businesses along those skills will win.<sup>9</sup> This practise includes analysing the strength of the target company i.e. whether it is good to acquire or not.

#### **Profitability/Solvency:**

Acquiring a big company with high liabilities like bankruptcy etc will not yield a better acquisition. Hence the acquirer company must also take into consideration the profitability factor with other monetary considerations.<sup>10</sup>

#### **Asset Composition:**

Companies derive their value from two sources: assets-in-place and future growth opportunities.<sup>11</sup> Assets of a company show the capital they hold other than the cash. This is also one of the factors which must be considered by the acquirer company.

#### **Nature of the Industry and the Company's Position:**

Acquiring a company with a good position and repo, yields better growth of the acquirer company.<sup>12</sup> This formulates into more product recognition as well as brand advertising.

### **FINANCIAL ANALYSIS**

Most managerial decisions impact on the firms preferred capital structure. By the same reasoning, one can think of M&A as also having an impact on the financial decisions of

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<sup>7</sup>Chandrashekar, (n 6).

<sup>8</sup>Ibid.

<sup>9</sup>Chandrashekar, (n 6).

<sup>10</sup>Ibid.

<sup>11</sup>Chandrashekar, (n 6).

<sup>12</sup>Chandrashekar, (n 6).

target firms. This is clearly the case when managers of firms targeted by a hostile attempt of takeover increase leverage with the only objective of deterring the impending threat.<sup>13</sup> To finalize a specific company from a list of Targets Company, such company must have a good financial position in the market. Hence the relative market share and sales data of such company might be of use here so that ranking could be given to each and every company. The financial analysis involves the analysis of Income Statement, balance Sheet and Cash Flow Statements to gauge how the company has performed in the recent years.<sup>14</sup>

For financial and commercial evaluation, issues will mainly be around valuation, business, operational risks, the level of management expertise and opportunities to access other market.<sup>15</sup> Some of the common considerations are:

- The impact of investment on acquirer's forecast earnings and cash flow;
- Tax consequences;
- Acquisition size;
- Debt and equity funding to maintain optimal gearing ratio.<sup>16</sup>

### STRATEGIC ANALYSIS

The strategic analysis, with financial analysis is supposed to throw light on the current state of strategy and on what is wrong with it. Generally it is not possible on the part of the acquirer to get every inch of details of the target company. But for a fruitful merger, the acquirer makes some personal touch with the target company so that it can:

- Understand the target company's management and operations better;
- Make sure that assumptions and forecasts which guide the purchase are reasonable;
- Make sure that the assets of the target company are in good condition.<sup>17</sup>

Next comes the step of Due diligence. It is a systematic process of acquiring and analyzing information, which helps a buyer or a seller determine whether to proceed with the transaction or not.<sup>18</sup> The basic principle which can be enunciated in this proposition is caveat emptor. Under due diligence all the details of the company is traced out which is important to the acquirer company to make a decision. Due diligence includes assimilating and processing both the quantitative information like sales, cash flows and other financial data, and

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<sup>13</sup>Helder Valente, 'Financial Strategies in Mergers and Acquisitions (M&A): The Case of Regulated Firms', (Faculty of Economics of the University of Porto Research Centre on Industrial, Labour and Managerial Economics (CETE), 2003), <<http://www.fep.up.pt/investigacao/cete/papers/dp0307.pdf>> accessed on 27 Mar 2014.

<sup>14</sup>Chandrashekar, (n 6).

<sup>15</sup>Ramesh,(n 4).

<sup>16</sup>Ibid.

<sup>17</sup>Chandrashekar, (n 6).

<sup>18</sup>Ibid.

qualitative information like location, quality of management, internal control systems and so on.<sup>19</sup>

Strategies play an integral role when it comes to merger and acquisition. A sound strategic decision and procedure is very important to ensure success and fulfilling of expected desires.<sup>20</sup> Every company as per their trend and tradition have their own type of strategies for merger. Some take experience from the past associations, some take lessons from the associations of their known businesses, and some hear their own voice and move ahead without wise evaluation and examination.<sup>21</sup>

Following there are some of the most essential strategies of merger and acquisition that can work wonders in the process:

- First the foremost thing is to determine the business plan drivers.<sup>22</sup> This strategy has the influential aspect and is very important to convert business strategies to set of drivers or a source of motivation to help the merger succeed in all possible ways;
- Second there should be a strong understanding of the intended business market, market share, and the technological requirements and geographic location of the business. The company should also understand and evaluate all the risks involved and the relative impact on the business;
- Third there is an important need to assess the market by deciding the growth factors through future market opportunities, recent trends, and customer's feedback;
- Fourth the integration process should be taken in line with consent of the management from both the companies venturing into the merger;
- Fifth the restructuring plans and future parameters should be decided with exchange of information and knowledge from both ends. This involves considering the work culture, employee selection, and the working environment as well;
- At the end, ensure that all those involved in the merger including management of the merger companies, stakeholders, board members, and investors agree on the defined strategies. Once approved, the merger can be taken forward to finalizing a deal.<sup>23</sup>

Merger and acquisition process is the most challenging and most critical one when it comes to corporate restructuring. And hence every step counts. If any mistake is made in such process then the whole idea may fall and may have unimaginable effect. Since the idea

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<sup>19</sup>Chandrashekar, (n 6).

<sup>20</sup>Ajay Gehi, '*Strategies of Merger and Acquisition*', <<http://www.mergersandacquisitions.in/strategies-of-merger-and-acquisition.htm>>accessed 25 Mar 2014.

<sup>21</sup>*Ibid.*

<sup>22</sup>Ajay, (n 20).

<sup>23</sup>Ajay (n 20).

behind merger and acquisition is the growth of the company, it should certainly be followed in a way that a company can gain maximum benefits with the deal.<sup>24</sup>

Following there are some of the important steps in the M&A process leading to wealth maximization of a company:

### **Business Valuation**

Business valuation or assessment is the first process of merger and acquisition. The basic concept is to evaluate and examine both the present and future market value of the target company with its credibility in capital gains. A thorough research is done on the history of the company with regards to capital gains, organizational structure, market share, distribution channel, corporate culture, specific business strengths, and credibility in the market.<sup>25</sup> There are many other aspects that should be considered to ensure if a proposed company is right or not for a successful merger.<sup>26</sup>

### **Proposal Phase**

Proposal phase is a phase in which the company sends a proposal for a merger or an acquisition with complete details of the deal including the strategies, amount, and the commitments.<sup>27</sup> This proposal is the base of any merger or acquisition since it is the letter of intent and stipulates on the idea that one company is interested in other.

### **Planning Exit**

When any company decides to sell its operations, it has to undergo the stage of exit planning. The company has to take firm decision as to when and how to make the exit in an organized and profitable manner.<sup>28</sup> In the process the management has to evaluate all financial and other business issues like taking a decision of full sale or partial sale along with evaluating on various options of reinvestments.<sup>29</sup>

### **Structuring Business Deal**

After finalizing the merger and the exit plans, the new entity or the takeover company has to take initiatives for marketing and create innovative strategies to enhance business and its credibility.<sup>30</sup> In this phase as the two companies have to start afresh, they start operation and

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<sup>24</sup> Ajay Gehi, 'Process of Merger and Acquisition', <<http://www.mergersandacquisitions.in/process-of-merger-and-acquisition.htm>> accessed 26 mar 2014.

<sup>25</sup> Ajay, (n 24).

<sup>26</sup> *Ibid.*

<sup>27</sup> Ajay, (n 24).

<sup>28</sup> *Ibid.*

<sup>29</sup> Anil Kumar Kashyap, 'Merger and Acquisition', <<http://www.scribd.com/doc/215713876/Merger-and-Acquisition>> accessed 26 Mar 2014.

<sup>30</sup> *Ibid.*

try to make themselves recognizable in the market. The whole core working deals with the structure business making of the company.

### **Stage of Integration**

This stage includes both the company coming together with their own parameters.<sup>31</sup> This stage contains the documentation phase, where both the companies prepare their documents, signing procedure and finally the negotiation deal. The basic analogy derived is to maintain the future relationship between both the companies.

### **Operating the Venture**

After signing of the agreement and the negotiation stage, the new entity come into operation. The sanctity of the agreement has to be maintained and followed too. This operation is attributed to meet the said and pre-defined expectations of all the companies involved in the process.<sup>32</sup>

### **CORPORATE STRATEGIES FOR DEFENSIVE MEASURES AGAINST HOSTILE TAKEOVERS**

Mergers and acquisitions is a way for companies to grow, establish and gain entry to new markets. It can be either friendly or hostile. A hostile takeover occurs when a company gains control over a targeted company without the consent from either the board of directors or the management of the target company.<sup>33</sup> Instead the aim of the acquirer is to persuade and charm the shareholders of the targeted company to sell their stock. Since every publicly listed company faces the risk of being a target for a hostile takeover, many companies protect themselves by implementing various defense measurements and strategies.<sup>34</sup>

There are many strategies such as the poison pill, staggered board defense strategy, the crown jewel and white knight defense strategy etc. here we will study and explain which defense strategies are the most effective and easiest to implement when facing a hostile takeover.<sup>35</sup>

Preventive measures against hostile takeovers are much more effective than reactive measures implemented once takeover attempts have already been launched. The first step in a company's defence, therefore, is for management and controlling shareholders to begin their preparations for a possible fight long before the battle is joined.<sup>36</sup> There are several principal weapons in the hands of target management to prevent takeovers, some of which are described below:

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<sup>31</sup> Ajay, (n 24).

<sup>32</sup> Anil, (n 29),

<sup>33</sup> Erik Yang and SamimZarin, '*Mergers & Acquisitions: Hostile takeovers and defense strategies against them*', (2011), <[https://gupea.ub.gu.se/bitstream/2077/28242/1/gupea\\_2077\\_28242\\_1.pdf](https://gupea.ub.gu.se/bitstream/2077/28242/1/gupea_2077_28242_1.pdf)> accessed 1 Apr 2014.

<sup>34</sup> *Ibid.*

<sup>35</sup> Erik, (n 33).

<sup>36</sup> Pradip Kumar Sinha & Sanchari Sinha, CURRENT TRENDS IN MANAGEMENT, (1<sup>st</sup> ed. 2007, Nirali prakashan)

## CONTROL OVER THE REGISTER

Generally when it comes to hostile takeover the raider company does an exercise where it needs to know that who are the shareholders of the target company so that they could directly approach the shareholders and offer them their shares. All such data is contained in the share register. Hence, it is important to maintain such register and keep it in privacy. The share register provides for the possibility to identify the owners of the shares, quantity, nominal value and type of shares held by shareholders.<sup>37</sup> Thus it becomes very important ensuring that non-authorized persons do not have access to the share register of the company by taking the following steps:

- The target company must be very careful while choosing registrar to maintain the share register and hence the preference must be given to a reputable registrar for appointment;
- Every now and then, the company must keep track records of the share register, so that it is under the surveillance;
- The target company must check who controls the registrar company.<sup>38</sup>

## CONTROL OVER DEBTS

In hostile takeover the creditability of the target company is a great issue. If it does not hold enough capital, then the raider company may get easy chance to takeover the company. Creditor indebtedness of the company may be used by a raider as the principal or auxiliary tool in the process of hostile takeover. The raider company may employ so-called “contract bankruptcy” in order to acquire the assets of the target company.<sup>39</sup>

In order to avoid such takeovers cautionary measures should be taken, such as:

- The target company must monitor and make survey of the creditors of company carefully;
- The target company must prevent overdue debts;
- The target company must pay all the debts whenever possible and if there is indirect evidence that a bankruptcy procedure is about to be launched, the company should do its best to pay all outstanding debts;
- The target company must accumulate all the debts and risks relating to commercial activity of the company on a special purpose vehicle that does not hold any substantial assets.<sup>40</sup>

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<sup>37</sup>Katerina S. KOKOT, ‘*The Art of Takeover Defence – PwC*’, (The Ukrainian Journal of Business Law, 2006) <[www.pwc.com/en\\_UA/ua/assets/pwc\\_atd\\_eng.pdf](http://www.pwc.com/en_UA/ua/assets/pwc_atd_eng.pdf)> accessed 1 Apr 2014.

<sup>38</sup>*Ibid.*

<sup>39</sup> ‘*Strategy to Prevent Business Takeover*’, (Docstoc, 2010) <<http://www.docstoc.com/docs/60761706/Strategy-to-Prevent-Business-Takeover>> accessed 1 Apr 2014.

<sup>40</sup>*Ibid.*

## CROSS SHAREHOLDING

There is a particular technique to avoid hostile takeover. In cross shareholding the target company may establish several subsidiaries (at least three), where the holding company owns 100% of share capital in each subsidiary company. Then the holding company transfers to subsidiaries their most valuable assets as a contribution to the share capital. At a later stage the subsidiaries issue more shares. The amount of these is more than four times the initial share capital. Subsidiaries then distribute the shares among themselves.<sup>41</sup>

The result of such an operation is that the parent owns less than 25% of the share capital of each subsidiary. In other words the parent company does not even have a blocking shareholding. When implementing this scheme it is important to ensure that the management of the subsidiaries is loyal to the parent company. In this way the raider who proceeds with a takeover may find himself deprived of the very objective of his ambitions.<sup>42</sup>

## GOLDEN PARACHUTE

One of the most recognizable defense used in U.S.A. where when the director, manager or any executive vacates his/her office then they take a huge amount of money as compensation.<sup>43</sup> This measure discourages an unwanted takeover by offering lucrative benefits to the current top executives, who may lose their job if their company is taken over by another firm. The “triggering” events that enable the golden parachute clause are change of control over the company and subsequent dismissal of the executive by a raider provided that this dismissal is outside the executive’s control (for instance, reduction in workforce or dismissal of the head of the board of directors due to the decision of the general meeting of shareholders provided such additional ground for dismissal is stated in the labour contract with the head of the board).<sup>44</sup> Benefits written into the executives’ contracts may include items such as stock options, bonuses, hefty severance pay and so on.

Golden parachutes can be prohibitively expensive for the acquiring firm and, therefore, may make undesirable suitors think twice before acquiring a company if they do not want to retain the target’s management nor dismiss them at a high price.<sup>45</sup>

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<sup>41</sup> ‘*Mergers and Acquisitions*’, <<http://smu.webs.com/3rd-sem/Finance/MF0011-set-2.pdf>> accessed 1 Apr 2014.

<sup>42</sup> Rabeea Akbar, ‘*Acquisition & Merger*’, <<http://www.scribd.com/doc/123376494/Aquisition-Merger>> accessed 28 mar 2014.

<sup>43</sup> Andrew Lilico, ‘*In defence of the golden parachute*’, (The Telegraph, Jan 10 2012), <<http://blogs.telegraph.co.uk/finance/andrewlilico/100014139/in-defence-of-the-golden-parachute/>> accessed 29 Mar 2014.

<sup>44</sup> Katerina, (n 37).

<sup>45</sup> Kaustubh Gadkari, ‘*Corporate Defense Strategies*’, 2011, <<http://kaustubhgadkari.blogspot.in/2011/07/corporate-defense-strategies.html>>, accessed 29 mar 2014.

### CHANGE OF CONTROL CLAUSES (“SHARK REPELLENTS”)

This strategy repels the company from taking over the target company. The idea is to get into a loan agreement or any other agreements conditional covenants that in the event of the company passing under the control of a third party or if any takeover takes place, the other party to the agreement has the right to accelerate the debt or terminate the contract.<sup>46</sup> For example: the target company took a loan of 20 crore before takeover and in the agreement mentioned that if any takeover takes place then the bank can proceed against the company on the takeover date itself without the maturity period. The result of such agreements is that a potential raider may not be sure whether it will be able to benefit from important advantages enjoyed by the target. Although one of the effects of change of control clauses is to discourage raiders, their purpose is legitimate: to protect creditors from being placed in a worse position than they visualized.<sup>47</sup>

But such agreement must not dilute the interest of the target company, because if the target company made such agreement, it must also be ready to face them at a later stage.

### LITIGATION

One of the best innovative idea suggests to go for litigation. Bringing court proceedings into the takeover matter will create hindrance and interference of the legal action. It is regarded as one of the most common antitakeover measures.<sup>48</sup> A target of a hostile offer should search for any regulatory, securities law or other skeletons in the closet of the attacker. Court action can considerably lengthen the period of time needed to complete the takeover and reduce its chances of success by increasing the cost and by allowing time for the target to solicit competing bids or put up defenses.<sup>49</sup>

### POISON PILL

It is called a shareholder rights and in other word it is known as a "poison pill". It is one of the most effective defense tactics available to publicly traded corporations. A poison pill is designed to make the transaction being pursued by a hostile bidder extremely unattractive from an economic perspective, compelling the bidder to negotiate with the target's Board of Directors.<sup>50</sup>

Poison pill is a strategy used by corporations to discourage hostile takeovers. With a poison pill, the target company attempts to make its stock less attractive to the acquirer. This happens when the shareholders and investors of the target company are given discounted shares so that the shareholders hold more stakes in the company. There are two types of poison pills:

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<sup>46</sup>*Ibid.*

<sup>47</sup>*Pradip*, (n 36).

<sup>48</sup>*Katerina*, (n 37).

<sup>49</sup>*Ibid.*

<sup>50</sup> ‘Poison Pill’, Macabacus, <<http://www.macabacus.com/defense/poison-pill>> accessed 30 mar 2014.

- A "flip-in" allows existing shareholders (except the acquirer) to buy more shares at a discount.
- A "flip-over" allows a stockholder to buy the acquirer's shares at a discounted price after the merger.<sup>51</sup>

### **CROWN JEWEL**

In this takeover defence, the target company sells one of its most valuable asset which makes the target company less attractive in the eyes of the raider company. For example: Company A wants to acquire Company B because Company B has a land site which is situated in Special Economic Zone and very beneficiary to company A. On such a hostile takeover Company B sells away such land site to prevent itself. Yes, Company B incurred a great loss by selling off the property, but still got out from the hostile takeover since Company A has not more interests in Company B.

This is a strategy through which the target company makes itself less attractive. Another way of implementing this type of defense strategy is for the target company to sell its Crown Jewels to another friendly company (White Knight) and later on, when and if the acquiring company withdraws its offer, buy back the assets sold to the White Knight at a fixed price agreed in advance.<sup>52</sup>

### **PACMAN DEFENSE**

It is the counter attack defence. If the acquirer company tries to purchase shares of the target company, then on such notice to defend itself the target company starts buying shares of acquirer company, making the acquirer company step back. In some cases it will suffice to buy even a small fraction of shares of the attacker to be able to initiate legal claims against the attacking company in the capacity of minority shareholder.<sup>53</sup>

### **PROPAGANDA**

This may be called a social defence under which the target Company takes the help of social media. The company is well advised to make use of media to let the public know its arguments against a takeover. The company may strengthen its positive image and emphasize its importance for the region/country and, at the same time, to put stress on the means of takeover tactics used by the raider that fall within the "grey" area of law or contradict the law altogether.<sup>54</sup> An effective campaign can turn the wind around and by influencing the shareholders, state bodies and general public the target company can escape from the takeover.

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<sup>51</sup> 'Poison Pill', Investopedia, <<http://www.investopedia.com/terms/p/poisonpill.asp>>accessed 30 mar 2014.

<sup>52</sup> Manish Sharma, 'Hostile Takeovers and Defense Strategies in M&A Part – II', (The Turning Point, 2013), <<http://blog.simplilearn.com/project-management/hostile-takeovers-and-defense-strategies-in-ma-part-ii>> accessed 1 Apr 2014.

<sup>53</sup> Katerina, (n 37).

<sup>54</sup> Pradip, (n 36).

## **WHITE KNIGHT**

White knight is a defence where the target company will approach another company between whom friendly relations exist. The target company will ask the friendly company to buy its shares at a low cost. This will enable the target company to lower its shareholding and the friendly company will help the target company to get out of hostile takeover. Henceforth the friendly company is termed as a White Knight. The target may seek out a white knight by itself or with the help of investment bankers.<sup>55</sup>

## **PEOPLE PILL**

Here, management threatens that in the event of a hostile takeover, the management team and the core specialists will resign at the same time in masses.<sup>56</sup> This strategy has effective terms since the highly qualified employees who are crucial in identifying and developing business opportunities will resign from their posts. For Example: A company is specialized in high-tech equipments productions made by highly professional employees. If any takeover attempt takes place they all claim that they will leave their job on such takeover. This disables the raiders company progress as it is not easy to recruit such high-tech employees and it will be difficult to maintain them also.

But this defence depends upon the circumstances. Generally after takeover the old employees are fired anyhow. Hence, such defence will only depend upon the specific situations.<sup>57</sup>

## **MACARONI DEFENSE**

This strategy is used by company by issuing large number of bonds, where they specifically mention that if any hostile takeover takes place, such bonds will be redeemed instantly at a higher price. Hence if a company is in danger, the redemption price of the bonds expands. This is a highly useful tactic, but the target company must be careful it doesn't issue so much debt that it cannot make the interest payments.<sup>58</sup>

## **CONCLUSION**

At last we have derived an analogy that strategies under mergers and acquisition do have their effect and implication. We have analyzed in this paper that how strategies operate in corporate world when it comes to mergers and acquisitions. Every strategy has its own implications such as financial progress, strategically progress, etc.

After analysis of strategies for defensive measures against hostile takeovers, we can come to a conclusion that there are various strategies which help the target company to escape from the grasp of the raider company. These strategies are having effective implication in current

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<sup>55</sup>*Ibid.*

<sup>56</sup>*Katerina*, (n 37).

<sup>57</sup>*Ibid.*

<sup>58</sup> 'Corporate Finance', EILM University, Sikkim, <[http://www.eiilmuniversity.ac.in/coursepack/Management/Corporate\\_Finance.pdf](http://www.eiilmuniversity.ac.in/coursepack/Management/Corporate_Finance.pdf)> accessed 1 Apr 2014.

scenario. But still they have some lacunas. Such as if to save a company, the target company sells away its valuable assets taking into account the crown jewel defence, it has to lose its valuable asset for the future too. Also the target company must not make so much losses to prevent the raider company taking over it. Because if the target company makes such moves which are contradictory to its own business functioning, then at the later stage it cannot operate anymore because of the deficit.

Finally, the object of this paper had been achieved by examining and analyzing all the important strategies available under corporate mergers and acquisitions.

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