Cross Border Merger and Acquisitions

Meaning

Cross border Mergers and Acquisitions or M&A are deals between foreign companies and domestic firms in the target country. The trend of increasing cross border M&A has accelerated with the globalization of the world economy. Indeed, the 1990s were a "golden decade" for cross border M&A with a nearly 200 percent jump in the volume of such deals in the Asia Pacific region. This region was favored for cross border M&A as most countries in this region were opening up their economies and liberalizing their policies, which provided the much, needed boost to such deals. Of course, it is another matter that in recent years, Latin America and Africa are attracting more cross border M&A. This due to a combination of political gridlock in countries like India that are unable to make up their minds on whether the country needs more foreign investment, the saturation of China, and the rapid emergence of Africa as an investment destination. Further, the fact that Latin America is being favored is mainly due to the rapid growth rates of the economies of the region.

Factors that encourage cross borer Merger and Acquisition

- globalization of financial markets
- Falling demand due to international competition and market pressures.
- seek new market opportunities since the technology is fast evolving
- geographical diversification which would result in exploring the assets in the other countries
- increase companies' efficiency in producing the goods and service
- fulfillment of objective to grow profitably
- increase the scale of production

Effects of Cross Border Merger and Acquisitions

Generally it has been observed that cross border merger and acquisitions are a restructuring of industrial assets and production structures on a worldwide basis. It enables the global transfer of technology, capital, goods and services and integrates for universal networking. Cross border M&A's leads to economies of scale and scope which helps in gaining efficiency. Apart from this it also benefits the economy such as increased productivity of the host country, increase in economic growth and development particularly if the policies used by the government are favorable. Let's look at those effects in detail.

- **Capital buildup**

Cross border merger and acquisitions contribute in capital accumulation on a long term basis. In order to expand their businesses it not only undertakes investment in plants, buildings and equipment's but also in the intangible assets such as the technical know-how, skills rather than just the physical part of the capital.

- **Employment creation**

Sometimes it is seen that the M&A's that are undertaken to drive restructuring may lead to downsizing but would lead to employment gains in the long term. The downsizing is sometimes essential for the continued existence of operations. When in the long run the businesses expand and becomes a successful it would create new employment opportunities.

- **Technology handover**

When companies across countries come together it sustains positive effects of transfer of technology, sharing of best management skills and practices and investment in intangible assets of the host country. This in turn leads to innovations and has an influence on the operations of the company.

Challenges faced by cross border M and A

There are certain challenges in terms of different economic, legal and cultural structures. They might face difference regarding There could customer's choices, business practices, and the culture which could pose as a huge threat for companies to fulfill their strategic objectives. Some of the challenges related to cross border merger and acquisitions are as follows:

1. Political Concerns:

Any political concerns that arise have a major role in cross bored merger and acquisition political situation has major role in cross border merger and acquisition, particularly for industries which are politically sensitive such as defense, security etc. it is also important to concern of the parties like governmental agencies employees, suppliers and all other interested should be addressed subsequent to the plan of the merger is known to public. There should be prior notice given and discussion whither labor unions and otter concerned parties. it is important to identify and evaluate present or probable political risk arising

2. Cultural challenges

This can be a huge threat to the success of cross border mergers and acquisition. there have been a lot of mergers that have faced failure due to cultural differences. when there is a cross border transaction there are issues that arise because of the geographical scope of the deal. Intercultural; disagreement is one of the major objectives behind the alliance I business should be well aware of the intercultural engenderment and prospects that come hand in hand with amalgamation process and prepare tier workforce to manage these issues.

3. Legal Consideration

Companies wanting to merge cannot overlook the challenge of meeting the various legal and regulatory issues that they are likely to face. hence before considering the deal it is important to Review the employment regulation, antirust statue and other contractual requirements to be dealt with.

4. Tax and Accounting Consideration

Tax matters are critical particularly when it comes to structuring the transaction. The proportion of debt and equity in transaction involved would influence the outlay of tax hence a clear understanding of the same becomes significant. if the parties initiating to cross border Mand A are well aware about the financial and accounting terms in the deal, it would aid in minimizing the confusion.

5. Due Diligence

This forms a very important part of M and A process. Apart from legal, political and regulatory issues we discussed above there are also infrastructure currency and other local risks which need thorough appraisal. Due diligence can affect the terms and conditions under which the M and A transaction would take place, influence the deal structure, affect the price of the deal

Some Recent Examples of Cross Border M&A

If we take some recent examples of cross border M&A deals, the Jet-Etihad deal and the Air Asia deal in the aviation sector in India are good examples of how cross border M&A deals need to be evaluated against the points mentioned previously. For instance, there is both support and resistance to the Jet-Etihad deal as well as for the Air Asia deal. This has made other foreign companies weary of entering India. On the other hand, if we consider the cross border M&A deals in the reverse direction i.e. from emerging markets to the developed world, the Chinese oil major SNOPC had to encounter stiff resistance from the US Senate because of security concerns and potential issues with ownership patterns. Of course, the recent Unilever takeover of its subsidiaries around the world is an example of a successful deal. The clear implications of these successes as well as failures is that there must be a process that is structured and standardized in each country and by each firm on how to approach the M&A deal. Otherwise, there are chances of hostility creeping into the process and vitiating the economic atmosphere for all stakeholders. More than this, the due diligence must be carried out before any such deals are considered.

Finally, there has been a huge outcry from civil society in almost all the emerging markets in recent months. This has been mainly due to public anger at crony capitalism and tiny elite cornering all the benefits. Therefore, the most essential condition before cross border M&A is actualized is that there must be regulatory scrutiny about the ownership patterns and the holding structures.