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Mergers and Acquisitions: A Strategic Tool for Restructuring in the Indian Telecom Sector

Ms Sohini Ghosh^a*, Dr Sarboni Dutta^b

^aAssociate Lecturer, Birla Institute of Technology, Mesra, Kolkata Extension Centre

^bAssociate Professor, Birla Institute of Technology, Mesra, Kolkata Extension Centre.

Abstract

Reforms implemented by Telecom Regulatory Authority of India (TRAI) and Department of Telecommunications (DoT) post liberalization have drastically altered the business environment in the Indian telecom sector. This sector has emerged as a significant performer in the Indian services domain. The telecom companies have opted for Mergers and Acquisitions (M&A) as a strategic tool to enhance their performances. The objective of this study is to explore the overall strategic impact of M&A in the telecom industry. Previous research has shown that M&As in the telecom sectors of USA and Europe have not been fruitful. In this paper, we have concentrated on 10 M&A deals in the BSE-listed Indian telecom companies during a timeframe spanning from 2000 to 2010 to determine the effect of M&As in this sector and how they have brought about changes, if any, in the business performance of the acquirer companies. The focus of our study is to measure the change in performance levels of the companies, if any, in the post merger phase as compared to the pre merger ones through selected HR and financial parameters like HCROI (Human Capital Return on Investment), Compensation of employees to PAT ratio, EPS (Earnings Per Share) and market share. The findings indicate a mixed outcome.

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* Corresponding author. Tel.: +0-000-000-0000 ; fax: +0-000-000-0000 .
E-mail address: sohinighosh@bitmesra.ac.in

1. Introduction

Mergers and acquisitions have been used as an effective strategic corporate restructuring tool in the business scenario worldwide for a long time dating back to 1897. They are effective tools in the hands of the management to achieve greater efficiency by exploiting synergies and growth opportunities.

The service industry forms the backbone of social and economic development of a country. Across the globe, the service sector has been playing a dominant role in the growth of economies. The service sector in India is highly dynamic and has grown to a considerable size, contributing to 56.5% in the GDP in 2012-13.

Telecommunications industry is one of the most profitable and rapidly developing industries in the world. According to the annual report 2012-13 published by DoT, Government of India, the Indian telecom sector has registered a phenomenal growth during the past few years and has become second largest telephone network in the world, after China. It is one of the few sectors in India which has witnessed the most fundamental structural and institutional reforms since 1991. Government policies and regulatory framework implemented by Telecom Regulatory Authority of India (TRAI) and Department of Telecommunications (DoT) have provided a conducive environment for service providers. This has made the sector more competitive. According to the information available in the annual report 2011-12 of TRAI, the telecom sector registered an impressive growth during the year. The number of telephone subscriptions increased from 846.32 million to 951.34 million, registering a growth of 12.41%. The number of mergers and acquisitions in Telecom Sector has been increasing significantly. The report by the Institute of Mergers, Acquisitions and Alliances (IMAA) has provided evidence about the number of mergers and acquisitions in Indian telecom sector over a period of twenty-eight years, ranging from 1985 to the first quarter of 2013. The report clearly shows that the phenomenon of merger and acquisition has gradually grown over the years, reporting a noticeable hike in the year 2000 with the transaction value around US\$1300 billion. The transaction value for 2013 is around US\$ 400 billion, reported till the first quarter. The first merger and acquisition deal in the Indian telecom industry occurred in 1998 between Max Group of Delhi and Hutchison Group of Hong Kong. The well-known mergers and acquisitions in the telecom sectors include acquisition of Command Cellular Services by Hutchison from Usha Martin, acquisition of stakes in Idea cellular by Aditya Birla group from the Tata group, merger of Aircel Ltd. with G T L Infrastructure Ltd, acquisition of Hutch services in India by Vodafone etc.

In this paper, we have concentrated on 10 M&A deals in the Indian telecom sector during a timeframe spanning from 2000 to 2010. The focus of our study is to measure the change in performance levels of the companies, if any, in the post merger phase as compared to the pre merger ones.

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