- Lehman Brothers, a 158 – year – old bank burdened by $ 60 billion in soured real-estate holdings, filed for federal bankruptcy protection after attempts to rescue the firm, failed.
- Bank of America Corp. purchased Merrill Lynch for 44 billion dollars.

The global economy, including the Indian economy, and the equity markets (World at large) will remain soft in the next 12 months

Consumer De-Leveraging Yet to Bring Negative Impact

Foreign Capital Inflows in India : Compare and Contrast

Date	FDI	FII
September-November 2008	5,142 mn USD	-7,193 mn USD
September-November 2007	6,162 mn USD	21, 832 mn USD

New Investment norms may throw FDI gates open

Times of India

12th February 2009

- Under existing norms, if firm with 40% foreign equity and 60% Indian equity had invested Rs.100 crore in another firm, Rs.40 crore would be treated as FDI
- It will now be treated as zero FDI
- New norms will also allow increased FDI in companies through direct and indirect route
- Sectors like insurance and telecom, in particular, could see more FDI flowing in

CHINDIA Effect

- Western countries have registered negative growth rate
- Forces to reckon with – India and China
- Despite the global meltdown, India and China are showing a high growth rate
- M & A dicey
- Role of entrepreneurs

Power of Ideas

Economic Times 21st January 2009

"The economic slowdown need not necessarily be a time to hold back. It might just be the push you need to go out and explore something different. Something big. After all, there couldn't be a better time. Real estate is cheaper, government policies are conducive, inflation is under control and the growth rate is quite steady. Pink slips and job insecurities mean that talent is much easier to source. The results will be quick and only the best will survive. History is living proof of this. Google, CNN, Walt Disney to name a few, are the companies that started during the worst of times and made it big; prove that all you need is an idea. The rest will follow."

Prof. Govind Rajan

"Tough times should bring the best out of India INC.

Expansion is key to battle downturn."

Mr. Keshab Nandy

HR Issues in Mergers and Acquisitions During Financial Crisis

Keshab Nandy discussed about HR & Legal aspects of consolidation. He started this talk by saying that problems and opportunities have no difference it just depends on the perception. He supported his word by saying that India has exceled in crisis. He mentioned Dr. Manmohan Singh statement "We have been pushed to the pond of globalisation. Inspite of competition, my country men will conquer this world and world will be at their feet.''

He emphasized that benchmarking and cutting the edge are very important in this highly competitive world. According to him, a manager to be successful has to control the environment rather than being controlled by it. In such a recession period, a manager should opt for – Role Expansion where, an employee has to be multi functional, so as to increase his value and multiculturalism, which includes trans location of employees at international level. This will have an impact on our education standard and we may rediscover our knowledge base.

He mentioned the importance of self managed learning programmes. According to him, if we try solving today's problems with yesterday's solutions, we are bound to meet failure, but if we treat and accept problems as challenges, chance of winning increases.

On the whole, he conveyed his message by giving examples and stating stories connecting with the audience. It was a value addition for the audience.

Cultural and Governance Issues

Mr. Virendra Gupte

Virendra Gupte focused on Cultural and Governance issues governing consolidation.

According to him, M & A are strategic options for inorganic growth in a globally competitive environment. M & A should result in enhancing shareholder's value. He used the examples for the organisation culture of various reputed companies like matsushita, (Japan), GE, Philips and so on. The case studies which he used for explaining the failure of M & A were IKEA, Godrej and P & G .

He also discussed where M & A are successful. He gave the examples of Tata Steel -Corus, Tata -JLR .Lastly, he highlighted that cultural & governance issues are interlinked and he concluded his presentation by saying that success mantra of any consolidation hinges on the cultural diligence.

PRESENTATION

Consolidation – M&A route Cultural issues

- M&A as a strategic option for inorganic growth in a globally competitive environment
- M&A should result in enhancing shareholder value
- The M&A architecture should address the key attribute – "Integrity diligence"
    - "Cultural fit" of the target entity
    - Synergy analysis
    - Culture and values are the key ingredients which would decide the fate of the "alliance" and its durability

Examples of Organisation Culture

- Matsushita , Japan
  - Fairness
  - Harmony
  - Gratitude
  - Courtesy and Humility
- GE
  - Risk taking
  - “Boundry-less” behaviour
  - Enterprising spirit
  - Competitive work ethic
- Philips
  - Autonomy and delegation
- 3 M
  - Innovation

What are the Cultural factors

- The Culture and Values of any entity defines its market reputation and “BRAND” equity
- Cross – border acquisitions are complex
- The Cultural DNA needs to be deciphered
  - Reputation / Integrity / Ethical standards of business partner/promoter/management
  - Synergies in value systems would determine the business model / product mix / sustainability / commitment to CSR etc
  - Like minded partnership and mutuality of interests
  - Define the “culture of compliance”

Deloitte study ... An extract

- A recent study in UK has shown that 50% of company failures are attributable to poor M&A with 80% of those failures subsequently disposing of the business they acquired.

  A leading cause of failed deals relate to poor integration especially **failure to integrate culture** resulting into low morale and distracted management leading to uncertainty and ambiguity

Godrej-P&G – A Case Study

- Marketing and Distribution JV was formed in 1992 -P&G holding 51% equity
- Touted as a “relationship in perpetuity”
- 1996 – The alliance broke – off
- What happened ? Some key learnings :
  - Cultural mismatch
  - Fam-ily vs MNC
  - Career company . Not in MNC mould
  - MBA bastion, the ultimate result driven organisation
  - “Backing and forthing” every decisions. Delays
  - Speed vs Caution

“Cultural Fit”

- “Chemistry” of the entities
- Mind sets of Owners / Leaders
- Resonance with “Values”
  - Acceptability enhancement
  - Integration process becomes seamless
  - Bias for change and capacity for “pain”
  - Low level of employee turmoil
  - Creates positive pull for other targets
  - Stakeholder buy-in

Best Practices

- Non hostile take-over makes cultural integration easier
- Learning from each other - since every entity and every geography has cultural richness
- Focus on Value capture / enhancement
- Boost to morale / productivity
- Risk culture
- Inspire achievement
- Seek opportunities
- Create WIN-WIN model

Some Examples

- Tata Motors – Daewoo Commercial Vehicles
  - Korean entity/employee mindsets
  - Management style of non-interference
  - Understanding local culture and life
- Tata Steel – Corus
  - Open bidding process
  - Support of Unions / Regulators
  - Equitable approach / Integration teams
- Tata Motors – JLR
  - No change in management

Governance Issues

- Cultural / Governance issues are interlinked
- Composition of the Board of Directors and senior management team
- Independent Directors
- Sub-committees of the Board – Audit , Investment etc
- Managerial controls / Authority levels
- Code of Conduct – Ethical and responsible behaviour
- External and Internal Audit
- Regulatory compliance process
- Instances of violations / proceedings / investigations
- Risk management and mitigation process
- Review mechanism

To conclude ….

- The success mantra of any consolidation hinges on the " cultural diligence"
- Governance process is the outcome of value system and cultural DNA of an entity
- The alliance between entities is dependent on "mind sets" and marriage of mutual interests build on the bedrock of "trust" and "transparency"
- Cultural integration is a long drawn process and requires sincerity and mutual trust

Mr. Deepak Ghaisas

Keynote Address

Mr. Deepak Ghaisas, former Vice -Chairman of I-flex solution – expressed his views on Initial Senario of IT Industry. Intially, there were lesser number of M & A in IT Industry. Since there was no specific development in IT. Importing software in India was tough because of heavy excise duty

Software -30%, Hardware- 25%

But, now globalisation has opened the door for MNC's making import-export easy. Thus, helping India change its image worldwide. IT Industries/ Services were less consolidated than the rest of the sectors.

Consolidation – Different in IT than other Industries.

Since, IT is a service industry, consolidation is different than a product company. Being a service industry intellectual property is considered as the critical & valuable asset unlike product company. IT Industry also enjoys an attrition rate of 8%.

Mr. Deepak Ghaisas, gave examples of IT Industry & Consolidation. Company called Baros & Sapri had a consolidation which was a huge success. He also supported the discussion, by sharing his own contribution in the consolidation process.

In 1993-2008 he did 15 acquisitions like IPR- Product, CRM, Work flow Product, BPO- Companies in France, Canada & US. He did not use any investment bank for the M & A. A company in Washington D.C- was his latest acquisition so far. NASCOM, plays a very important role in the M & A happening in Services Industry. He also highlighted, that India Outsourcing is an important step for the expansion of Services Industry.

Mr. Deepak Ghaisas, shared his view & experience regarding the successful expansion of IT in the last decade. He rightly said, IT was relatively easy to establish & make profits ranging from 1 million to 100 million & therefore most of the IT Industries established with a vision to go millionaire, but it was difficult to any company in IT Services to survive the large of 100 million to 500 million.

He also stated that, taking a decision of M & A is also not easy and have to be considered under the following criteria :-

- Overtrading of Assets
- Overspending on Marketing
- Wrong Consolidation

People fail because of wrong M & A and therefore during acquisition, he stated, " Paying the Right Price, but you can never say which is the right price".

He tried to explain to us some of the disadvantages of IT Industry Consolidation

Paying the right price is important, but the difficult part is estimating the right price.

When Indian Company merges with the foreign company the customer automatically expects the prices to become low.

The company needs to be nurtured at the initial stage after consolidation to achieve positive results. Case should be taken that no company should see each other as a looser or winner.

Price After Consolidation :

It helps to gain synergy on loss value and supported with the examples on Oracle which, "Thought Globally, Acted Locally".

Lastly , he also explained the size of the company matters, since vendor always supports bigger company therefore, providing less scope for small size company.

Now, in current scenario, for the 1st time Indian Industry has started looking at foreign countries. India has also started looking towards China as low cost development center. After Olympics, China is recognised as global hub. America may ask us to reduce the price of product which can be achieved only by setting development centres at China.

SECTION - 3

WORLD FINANCIAL CRISIS