



Financial Markets & Corporate Finance

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Corporate Finance**
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Corporate Governance

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Corporate Governance – History In India

Corporate governance pertains to a collection of principles, ethics, values, morals, rules, regulations, and procedures, among other elements. It establishes a framework through which directors are assigned duties and responsibilities regarding the management of the company's operations.

The concept of corporate governance in India began to develop in the latter half of 1996, driven by economic liberalization and deregulation of industries and businesses. As times evolved, there emerged a greater need for companies to be accountable to their shareholders and customers. The Cadbury Committee report on the financial aspects of corporate governance in the U.K. ignited discussions around corporate governance in India.

The necessity for corporate governance arises from the separation between management and ownership. For a firm to thrive, it must focus on both economic and social responsibilities, treating producers, shareholders, and customers fairly. The firm has a range of responsibilities toward employees, customers, communities, and governance, and must strive to fulfill these obligations effectively in all areas. The notion of "corporate governance" dates back to the era of the Arthshastra, where kings and subjects held roles analogous to today's corporate

leaders and shareholders, though the fundamental principles of good governance remain unchanged.

The 20th century marked a significant phase of growth for the Indian economy, facilitated by liberalization, globalization, and privatization. For the first time, the Indian economy was integrated with the global economy through products, capital, and labor markets, leading to developments in capitalization, corporate culture, and business ethics, all deemed vital for corporate survival in the global marketplace.

For effective corporate governance, policies should prevent directors from misusing their power. Instead, they ought to comprehend their duties and responsibilities toward the company and act in the company's overall best interests.

Meaning

The "concept of corporate governance" is not merely a goal; it is a starting point for fostering long-term corporate growth. Corporate Governance refers to the methods by which a corporation is administered. It is the approach through which companies are guided and controlled according to the desires of stakeholders. The board of directors and relevant committees primarily conduct this for the benefit of stakeholders. The emphasis is on balancing individual aspirations with societal goals, as well as economic and social objectives.

The term "governance" refers to control, meaning the oversight of a company or organization, and corporate governance involves managing or overseeing corporate bodies, focusing on ethics, values, principles, and morals. For effective corporate governance, managers must uphold their obligations to a variety of stakeholders, including owners (shareholders), creditors, employees, customers, the government, and society at large. Corporate governance facilitates a framework where directors are given duties and responsibilities concerning the company's operations. Corporate Governance involves the interaction between different participants (shareholders, board

of directors, and company management) in shaping corporate performance and its future direction. The relationship between owners and managers must be constructive and free of conflict. Owners should ensure that actual individual performance aligns with expected standards. The various dimensions of corporate governance must not be neglected.

Corporate Governance addresses how providers of finance ensure a fair return on their investments. It distinctly differentiates between owners and managers, where managers hold decision-making power. In modern corporations, the roles of owners and managers should be clearly defined and harmonized.

Corporate Governance is concerned with identifying effective strategic decision-making methods. It grants ultimate authority and complete accountability to the Board of Directors. In today's market-oriented economy, the imperative for corporate governance has grown, driven by the significance of efficiency and globalization. It is essential to create additional value for stakeholders.

Corporate Governance promotes transparency, fostering robust and balanced economic development. This ensures the protection of all shareholders' interests (both majority and minority) and guarantees that shareholders can fully exercise their rights while organizations recognize these rights. Corporate Governance is expansive, covering both social and institutional dimensions.

It cultivates a trustworthy, moral, and ethical environment.

Definition Of Corporate Governance

The most commonly cited definition of corporate governance is "the system by which companies are directed and controlled" (Cadbury Committee, 1992). More specifically, it is the framework through which various stakeholder interests are balanced, or as the IFC states, "the relationships among management, the Board of Directors, controlling shareholders,

minority shareholders, and other stakeholders.” The Cadbury Committee (U.K., 1992) defined corporate governance as follows:

“Corporate governance is the system by which companies are directed and controlled. It encompasses the entire mechanics of a company’s functioning and aims to implement a system of checks and balances among shareholders, directors, employees, auditors, and management.”

“Corporate governance define show business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders, while outlining the rules and procedures for decision-making in corporate affairs. It also establishes the framework through which company objectives are defined and the means for achieving those objectives, along with performance monitoring.”

The definition of corporate governance as provided by the Institute of Company Secretaries of India is as follows:

“Corporate Governance involves the application of best Management practices, adherence to legal compliance in both letter and spirit, and commitment to ethical standards for effective Management and wealth distribution, as well as fulfilling social Responsibility for the sustainable development of all stakeholders.”

The Principles of Corporate Governance

“Corporate governance encompasses a set of relationships between a company’s management, its board, its shareholders, and other stakeholders. It also provides the structure through which the company’s objectives are established and the means of achieving those objectives and monitoring performance are determined.”

While traditional definitions of corporate governance recognize the importance of ‘other stakeholders’, they primarily

focus on the conventional debate surrounding the relationship between often disconnected owners (shareholders) and self-serving managers. It has been said, rather weightily, that corporate governance consists of two elements:

The long-term relationship deals with checks and balances, incentives for managers, and communication between management and investors;

The transactional relationship involves disclosure and authority.

This suggests an adversarial dynamic between management and investors, fueled by a mutual sense of suspicion. This premise significantly influenced the rationale behind the Cadbury Report, which prescribes detailed guidelines for how the board should operate, with consistency and transparency towards shareholders being its guiding principles.

While these traits are critically important, we prefer a broader perspective that situates the Cadbury Code and other subsequent codes (Combined Code, Sarbanes-Oxley, King, etc.) within a larger context, illustrating how their recommendations naturally evolve throughout a company's lifecycle. In an early book on corporate governance also published in 1992, one of the website's founders developed.

A definition of corporate governance consisting of five elements that boards must consider:

long-term strategic goals
Employees: past, present, and future
Environment/community
Customers/suppliers

Compliance (legal/regulatory)
Benefits Of Corporate Governance

Effective corporate governance contributes to corporate success and stimulates economic growth.

Robust corporate governance boosts investor confidence, enabling companies to efficiently raise capital.

It reduces capital costs.

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It provides adequate incentives for both owners and managers to achieve objectives aligned with shareholders' and the organization's interests.

Strong corporate governance minimizes waste, corruption, risks, and mismanagement. It aids in establishing and enhancing brand identity.

It ensures organizations are managed in a way that aligns with the best interests of all. **Need For Corporate Governance**

The necessity for corporate governance is underscored by various factors: **Widespread Shareholding**

Currently, companies have numerous shareholders distributed across the nation and globally, with many being unorganized and indifferent to corporate matters. The concept of shareholder democracy largely exists only in legislation and the Articles of Association, necessitating practical implementation through a corporate governance code of conduct.

Changing Ownership Structures

The landscape of corporate ownership has shifted significantly, with institutional investors (both foreign and Indian) and mutual funds emerging as predominant shareholders in large private sector corporations. These investors present a considerable challenge to corporate management, compelling them to adhere to established codes of corporate governance to enhance their societal image.

Corporate Scandals

Recent corporate scandals have shaken public trust in corporate management. The Harshad Mehta scandal, one of the most significant in recent history, remains vivid in the minds of those associated with corporate shareholding or otherwise aware and socially conscious.

Consequently, the demand for corporate governance is critical for restoring investor trust in the corporate sector, fuelling the economic development of society.

Sebi Code Of Corporate Governance

To foster effective corporate governance, SEBI (Securities and Exchange Board of India) established a committee chaired by Kumar Mangalam Birla. Based on the committee's recommendations, SEBI issued guidelines on corporate governance to be incorporated into the listing agreements between companies and stock exchanges.

An overview of the SEBI guidelines on corporate governance is summarized below under appropriate categories:
Board of Directors Key points include:

The Board of Directors must ensure an optimal balance of executive and non-executive directors. The number of independent directors will depend on whether the chairman is executive or non-executive.

For a non-executive chairman, at least one-third of the board should be independent directors; for an executive chairman, a minimum of half the board should be independent directors.

The term 'independent directors' refers to directors who, aside from receiving remuneration, do not possess any other material financial ties to the company.

Audit Committee

Here are some key points:

The company will establish an independent audit committee composed of:

At least three members, all non-executive directors, with a majority being independent and at least one director having financial and accounting expertise.

The committee's chairman will be an independent director.

The chairman must be available at the Annual General Meeting to respond to shareholder inquiries. The audit committee will have the authority to:

Investigate any activities within its purview

Request information from any employee

Seek legal or other professional advice from outside

sources

Arrange for the attendance of outside experts, if necessary.

The audit committee's responsibilities will include:

Oversight of the company's financial reporting process and the disclosure of financial information to ensure that financial statements are accurate, adequate, and reliable.

Recommending the hiring and removal of external auditors.

Assessing the adequacy of internal audit functions.

Discussing audit nature and scope with external auditors before the audit commences and holding post-audit discussions to address any concerns.

Reviewing the company's financial and risk management policies.

Remuneration of Directors

The remuneration section in the corporate governance section of the Annual Report will include disclosures on:

All elements of remuneration packages for all directors, including salary, benefits, bonuses, stock options, and pensions.

Details of fixed and performance-linked incentives, along with performance criteria. Board Procedure Key points include:

Board meetings must occur at least four times a year, allowing no more than four months between any two meetings.

A director may not be a member of more than ten committees or chair more than five committees across all companies where he or she serves as a director.

Management

A comprehensive Management Discussion and Analysis Report should form part of the annual report to shareholders, encompassing discussions on the following topics (within the constraints imposed by the company's competitive position):

Opportunities and threats

Segment-wise or product-wise performance Risks and

concerns

Financial performance in relation to operational performance Significant developments in human resource or industrial relations. Shareholders

Key considerations include:

When appointing a new director or reappointing an existing one, shareholders must receive the following information:

A brief biography of the director Details of their expertise

The number of companies where they hold directorships and committee memberships

A designated Board Committee, led by a non-executive director, will be established to specifically address shareholder and investor grievances, including issues such as share transfers and non-receipt of balance sheets or dividends. This committee will be known as the 'Shareholders/Investors Grievance Committee.'

Report on Corporate Governance

A dedicated section on corporate governance will be included in the company's Annual Report, comprising a detailed report on governance practices.

Compliance

The company will secure a certificate from its auditors affirming compliance with corporate governance conditions. This certificate will be attached to the Directors' Report sent to shareholders and submitted to the stock exchange.

Corporate Governance In India Past, Present And Future

Effective corporate governance has emerged as a crucial tool for competitiveness and sustainability in the evolving business landscape. It is vital for everyone within a corporation, from the CEO to ordinary employees, striving to maximize stakeholder value while minimizing harm for sustainable business growth.

In a globally competitive market, best planning, management, innovative ideas, legal compliance, and strong relationships among directors, shareholders, employees, and

customers are essential for companies to thrive, prosper, and compete globally by enhancing strengths, addressing weaknesses, and operating efficiently and transparently through the adoption of best practices.

Corporate India must commit itself to being a reliable, innovative, and prompt service provider to customers while also becoming trustworthy business partners for overall growth.

Corporate Governance represents a collection of ideas, innovations, creativity, and ethical principles that guide and shape the organization's employees and owners and enable them to thrive in the global marketplace.

Indian corporate entities that adopt exemplary corporate governance can set benchmarks for the world, earning recognition as a testament to their merit. Corporate governance establishes ethical standards, values, principles, and management policies, which are internalized and practiced within the organization. Its significance lies in promoting integrity, transparency, and accountability throughout the enterprise.

While corporate governance has existed for some time, it has evolved over the years. In ancient Vedic times, kings maintained ethics, values, principles, and laws to govern their states.

Perspective And Important Issues In Corporate Governance

Numerous important issues in corporate governance play a pivotal role, with each issue being interconnected and interdependent. The priorities surrounding corporate governance vary across different corporations.

The following are key issues: Value-based corporate culture

Holistic view

Legal compliance

Disclosure, transparency, and accountability

Corporate governance and human resource management

Innovation

Need for judicial reforms

Globalization aiding Indian companies in becoming global leaders through sound corporate governance.

Lessons from Corporate Failures

Value-based corporate culture: For effective organizational management, certain ethics and values are essential. Long-term success relies on cultivating a value-based corporate culture that encompasses inviolable beliefs and principles. This culture can include a motto (a unique phrase that guides the organization), a vision (a goal to be achieved), as well as mission statements and objectives.

Holistic view: A holistic view, which may be perceived as noble or religious, aids in organizational management. Adopting such a perspective requires significant effort, but once achieved, it cultivates qualities such as nobility, tolerance, and empathy.

Legal compliance: Companies aiming for progress and stability exhibit high ethical standards and adhere to laws issued by the Securities Exchange Board Of India (SEBI), Foreign Exchange Regulation Act, Competition Act 2002, Cyber Laws, Banking Laws, etc.

Disclosure, transparency, and accountability: Transparency and timely disclosure of financial information are crucial for good governance. Consistent transparency fosters confidence among stakeholders and reduces corporate tax rates dramatically since the late 1970s, indicating improved trust.

Corporate Governance and Human Resource Management: Employees and staff are vital to a corporate entity; hence, the role of Human Resource Management is critical. Individuals should be respected for their contributions, establishing opportunities for their growth, which is essential to corporate governance.

Innovation: Corporations must embrace innovation—be it in products or services—which is vital for effective corporate

governance.

Necessity of Judicial Reform: There is a pressing need for judicial reforms to improve the economy and adapt to globalization trends. Although our judicial system has historically played a beneficial role, it has become outdated over time. Delays in the judiciary often arise from various competing interests. However, in a rapidly changing environment, the judiciary must undergo reforms to resolve disputes efficiently and cost-effectively.

Globalization assisting Indian Corporations in becoming global giants based on sound governance: In today's competitive market, numerous Indian corporations are transforming into global leaders, achievable only through effective corporate governance.

Good Governance: Meaning And Concept

The term "good" is utilized flexibly; depending on context, good governance has been characterized at various times to include: full respect for participation, human rights, the rule of law, multi-actor partnerships, accountable processes, political pluralism, transparency, efficient public administration, legitimacy, access to information and education, political empowerment, equity, sustainability, as well as fostering responsibility, solidarity, and tolerance.

Origin and Emergence of the Concept of Good Governance

The notion of "good governance" was initially detailed in a 1989 World Bank report.

In 1992, the World Bank released a report entitled *Governance and Development*, which further examined the concept and its applications.

In 1997, the Bank reframed "good governance" as a necessary condition for development.

Good governance seeks to facilitate and sustain comprehensive human development. The central goal is to enable the government to empower its citizens, irrespective of caste, creed, class, or political ideology, to make decisions that serve

their best interests, allowing them to lead fulfilling and autonomous lives.

The Value of Governance

Good Governance effectively allocates resources to address citizens' collective problems. Consequently, states should be judged on both the quality and quantity of public goods delivered to their citizens. Policies that offer public goods should align with principles such as human rights, democratization, transparency, participation, decentralized power-sharing, accountability, rule of law, effectiveness, equity, and strategic vision.

The Human Development Report insists on "good" governance as vital for democracy, aimed at eradicating corruption, granting rights, and empowering citizens to engage in decisions that impact their lives and hold their governments accountable.

Basic Features or Elements of Good Governance

Good governance has eight primary characteristics: It is participatory, consensus-oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive, and adheres to the rule of law. It guarantees that corruption is minimized, minority views are considered, and the voices of society's most vulnerable members are acknowledged in decision-making. It must also cater to the present and future needs of society.

Participation

Good governance necessitates that civil society has the opportunity to contribute, with involvement from both men and women, in the formulation of development strategies. This participatory component is essential for garnering commitment and support for projects while enhancing the quality of their implementation. Participation must be informed and organized, ensuring freedom of association and expression along with organized civil society involvement.

Rule of Law

Good governance requires a fair, predictable, and stable legal framework enforced impartially. It must guarantee the complete safeguarding of human rights, particularly those of minorities. This requires an independent judiciary and a police force that is both impartial and incorruptible.

Transparency

Transparency in governance is a prerequisite for good governance, ensuring that decisions and their implementation align with established rules and regulations. It demands that adequate information is provided clearly and in accessible formats.

Responsiveness

Good governance requires institutions to serve all stakeholders within a designated timeframe. There are numerous actors and perspectives, necessitating mediation of competing interests in society. The broader community interest must be identified and achieved through a comprehensive and long-term outlook on sustainable development goals.

Equity and Inclusiveness

A society's well-being hinges on granting all individuals, regardless of gender, opportunities to enhance or sustain their quality of life. This requires ensuring that all demographic groups, especially the most vulnerable, have the means to improve or maintain their living standards.

Effectiveness and Efficiency

Good governance means that processes and institutions yield outcomes that fulfill needs while optimizing the use of resources. Efficiency in this context encompasses sustainable usage of natural resources and environmental protection.

Accountability

This is a fundamental requirement of good governance. Both the public and private sectors and civil society organizations must be accountable to the populace and their institutional stakeholders. Organizations must be answerable to those

impacted by their decisions. Accountability can only be ensured through transparency and adherence to the rule of law.

Rule of Law

The rule of law underpins the demand for fairness and equality, necessitating impartiality, avoidance of corruption, and the safeguarding of human rights for all. These criteria must serve as benchmarks in the quest for good governance throughout decision-making processes.

Significance of Good Governance

India operates under a republican, democratic, and secular governance framework, aligning with the values enshrined in its constitution. The term “governance” refers to the political framework for policy making, applicable to both political and administrative government units. Good governance is rooted in the belief that individuals possess the ethical and rational capacity, as well as the right, to govern themselves justly. The essence of good governance is linked with effective and robust administration within a democratic context.

In practical terms, good governance bears three defining features that enhance the functionality of government:

Firstly, the government’s empowerment and capability to devise and execute policies and responsibilities.

Secondly, the presence of political will.

Thirdly, the mechanism through which authority is exercised in managing the nation’s economic and social resources for developmental purposes.

Furthermore, it reflects societal attitudes towards the operations of numerous government agencies. “Good” governance promotes gender equality, sustains the environment, empowers citizens to enjoy personal freedoms, and offers mechanisms to combat poverty, exclusion, fear, and violence. The UN regards good governance as participatory, transparent, and accountable, encompassing state institutions and their operations, as well as private sector and civil society entities. The

significance of shareholder theory is evident in the fall of companies like Enron and WorldCom, where ongoing pressure on executives to boost shareholder returns led to the manipulation of financial statements.

Stakeholder Theory

Conversely, stakeholder theory posits that a company has obligations to a broader set of stakeholders beyond merely shareholders. A stakeholder can be described as any individual or group that can influence or be influenced by the actions of a business. This category encompasses employees, customers, suppliers, creditors, and even the broader community and rivals.

Edward Freeman, who originally introduced stakeholder theory, recognized it as a vital component of Corporate Social Responsibility (CSR), a concept that acknowledges the responsibilities of corporations today, whether they are economic, legal, ethical, or even philanthropic. Today, some of the world's largest corporations assert that CSR is central to their corporate strategies. While there are numerous authentic examples of companies acting with a "conscience," many others exploit CSR primarily as a public relations tool to enhance their image, ultimately failing to translate their words into meaningful actions.

Recent controversies regarding the tax matters of prominent companies such as Starbucks, Google, and Facebook in the UK have highlighted stakeholder theory. Although the strategies adopted by these companies are legal, they are widely perceived as unethical because they take advantage of loopholes within the British tax system to reduce their corporation tax liabilities. The public backlash against Starbucks' tax practices compelled them to commit to paying £10m in taxes for each of the upcoming two years in an effort to regain customer trust.

Stakeholders and their Impact on Business

The various stakeholders include shareholders, employees, customers, government, lenders, and others, each

with distinct interests. Given the ever-changing landscape, the influence of stakeholders on goal-setting also evolves; daily, it becomes more challenging for managers to make decisions, as in this competitive environment they cannot ignore the interests of a single stakeholder. Before reaching any decisions, it is advisable for managers to thoroughly analyze their stakeholders, as even a minor conflict can result in significant issues.

Shareholders and their Interests

Shareholders are the true owners of the business, and their primary concern is to maximize their wealth. They desire the share price to increase as much as possible, and if the firm fails to meet their expectations, they have the option to sell their shares, thereby necessitating that managers consider their interests.

Employees and their Interests

Employees are the assets of the business; undeniably, they can also offer a competitive edge. Employees have their interests as well, such as career and professional development, and desire bonuses or rewards for their contributions. If managers do not address their needs in pursuit of higher profits, the company risks not only losing employees but also damaging its market reputation.

The ongoing contention between British Airways and its Cabin Crew serves as a prime illustration of a conflict between management and employees. British Airways aims to save £62.5 million annually through cost-cutting measures to remain competitive in the market (Holden, 2010). This year, they have already experienced 22 days of strikes, costing the company over £150 million (Guardian, 2010). Freeman argued in relation to the dispute that companies should create value alongside their employees (UVA Today, 2010). British Airways management is focused on increasing profits through cost reductions but has disregarded their relationship with employees, which has incurred a £150 million loss during the strikes, in addition to negatively

impacting their market reputation and share price.

Customers and their Interests

Customers are pivotal, as every firm produces goods with their preferences and expectations in mind. Customers prioritize quality relative to price. In today's marketplace, customers are more informed and discerning; a company might withstand billions in losses, but it cannot afford to lose its customers. A notable example is Toyota, which faced a quality issue in 2010; the company proactively recalled over 9 million vehicles globally, resulting in substantial financial loss (Conner, 2010). Despite the allegations about poor-quality components leading to a decline in share price, on February 5, 2010, when Akio Toyoda, the company's president, issued an apology and announced the recall, the company's share price concluded 4.5% higher at 74.71 on the New York Stock Exchange; investors viewed this announcement as a decisive approach to addressing the quality crisis (Reuters, 2010). This case illustrates that customer satisfaction significantly influences share price; if customers are dissatisfied, they may switch to alternate products, which adversely affects sales and profitability, subsequently impacting the company's share price.

Community and their Interests

Business operates within a social context, establishing an organic relationship with the community. Stakeholder theory asserts that the fundamental purpose of businesses extends beyond wealth maximization; they should also engage in social initiatives since businesses can impact the environment and society directly or indirectly. The Tata Group is committed to enhancing the quality of life for the communities they serve (TATA, 2010).

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Government and their Interests

The primary role of governments is to ensure that companies operate within the laws established and conduct business fairly. Governments enact regulations to safeguard the rights of their citizens and monitor businesses through regulatory bodies, such as SEBI (Securities and Exchange Board of India), which aims to protect investors' interests in securities and standardize the security market (SEBI, 2010).

SUMMARY

This section encapsulates the fundamental corporate governance principles and best practices applicable to all organizations (public, private, or nonprofit). Corporations exist to fulfill objectives that extend beyond merely creating products and services; they must also serve the broader purpose of addressing the multifaceted needs of society. Prudent corporate governance practices are no longer merely a legal requirement but have become essential for the sustained viability of organizations, as demonstrated by the current economic crisis.

Corporations have continually grappled with the dilemma of prioritizing the interests of shareholders (the legal proprietors) versus those of stakeholders, which encompass suppliers, creditors, governments, and communities.

This section discusses certain contemporary best practices recommended by corporate governance organizations and implemented by some Fortune public companies, recognizing that best practices evolve over time. We assume that a 'best practice' is one where the advantages to the organization significantly outweigh the implementation costs. What may be regarded as a best practice today may not retain that status in the future.

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8.

Mergers And Acquisitions

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INTRODUCTION

The forces of globalization, deregulation, and unparalleled technological advancement have fundamentally changed the industrial landscape of the world in recent decades. Businesses have adapted to the competitive pressures these forces have unleashed, and they are currently competing with one another for superiority and a competitive advantage while experimenting with a range of instruments and concepts. The way business is performed is drastically changing due to the shifting national and worldwide environment. Given how quickly things are changing, corporate restructuring has become crucial. Today's commercial enterprises operate in a highly competitive climate due to globalization. Profitable expansion is one of the main goals of company organizations in the modern business environment. There are two ways to accomplish this:

Internal

- Through the introduction and development of new products
- Through the expansion and capacity expansion of current products.

External

Through the purchase of already-existing businesses through takeovers, mergers, acquisitions, amalgamations, absorption consolidation, etc. each of the aforementioned

approaches has advantages and disadvantages of its own. The firm should grow quickly and sustainably in the competitive marketplace. Internal growth typically includes more uncertainty and a lengthier implementation period. Since the acquired company already has the facilities and products that are acceptable to the market, external growth accelerates the rate of growth. As a result, an expanding company can be continuously looking for new companies to merge with. If the merger maximizes shareholder wealth, the company will choose to merge.

Corporate restructuring is the process of partially deconstructing or reorganizing a business in order to increase its efficiency and, consequently, profitability. Corporate restructuring frequently follows bankruptcy, buyouts, corporate mergers and acquisitions, divestitures, and demergers.

Businesses are dealing with previously unheard-of market volatility in a world that is changing quickly. The pressure on managers to provide exceptional performance and value for their shareholders has grown as a result of fierce competition, quick technology advancement, and rising stock market volatility.

A growing number of businesses worldwide are drastically reorganizing their operations, assets, and contractual arrangements with creditors, owners, and other financial stakeholders in reaction to these challenges.

Thousands of organizations have been able to regain their competitive edge and react more swiftly and efficiently to unforeseen obstacles and new possibilities thanks to corporate restructuring. The hundreds of additional suppliers, clients, and rival businesses who do business with reorganized companies have also been significantly impacted by corporate restructuring.

Corporate restructuring is one of the most well-known aspects of the business and investment sectors. The prospective purchasing company must interact with the other company's shareholders and management in mergers and acquisitions. Internal corporate restructuring is done within the company with

the approval of all parties involved.

Significance

Corporate restructuring is an infrequent process that involves significant changes in one or more of the following areas, distinct from investments in new equipment and facilities:

- The ownership and governance structure
- The composition of liabilities and the firm's asset portfolio

This comprehensive procedure allows an organization to optimize its operations and enhance its market position to achieve specific objectives:

- Sustainable
- Adaptive
- Competitive
- Profitable

Restructuring refers to the process of partially dismantling and reorganizing a company to boost its efficiency and, as a result, its profitability. Typically, this process includes substantial workforce reductions and the divestiture of certain business segments.

Characteristics

Divesting segments of the company, particularly divisions that are unprofitable or divert management's focus from the primary business, can significantly enhance the company's financial standing. Workforce reductions are frequently achieved through the sale or closure of these unprofitable segments, as well as through the consolidation or outsourcing of functions that have become redundant due to previous acquisitions that were not fully integrated into the main organization.

- Changes in corporate leadership, often accompanied by substantial severance packages
- Retention of existing corporate leadership
- Sale of underutilized assets
- Outsourcing of functions such as payroll and technical support to more efficient external providers

- Relocating operations, such as manufacturing, to areas with lower operational costs
- Reorganization of departments such as sales, marketing, and distribution
- Renegotiation of labor agreements to lower overhead costs
- Refinancing corporate debt to decrease interest expenses
- Forfeiture of all or part of ownership stakes by pre-existing shareholders

This movement of mergers coincided with significant shifts in economic infrastructure and production technologies. It occurred after the completion of the transcontinental railroad system, the introduction of electricity, and the increased utilization of coal. The finished rail system fostered the creation of a national economic market, and thus, the merger activities reflected, to some degree, the evolution of regional companies into national entities.

Another notable aspect was the increased reliance on debt to finance acquisitions. The yield on junk bonds was considerably higher than that of investment-grade bonds, making financing accessible even for smaller firms to acquire larger, established companies. This period also saw the emergence of leveraged buyouts, along with innovations in acquisition strategies and investment vehicles. The investment bank Drexel Burnham Lambert played a pivotal role in the expansion of the junk bond market.

MOTIVES BEHIND MERGERS

The main goals of Mergers and Acquisitions (M&A) include diversification, market growth, and enhancing competitive advantage. Typically, mergers involve two or more companies, with one acting as the buyer and the other as the seller. Each of these entities has its own reasons for pursuing a merger. Various motivations can be identified at both individual and collective levels, influencing the decisions of both sellers and buyers in the M&A process.

Buyers' Motivations

The motivations for buyers can be summarized as follows:

- To enhance the value of the company's stock, as mergers often result in an increase in stock prices and/or Price Earnings Ratios.
- To accelerate the firm's growth rate.
- To make a strategic investment, allowing the firm to utilize its funds more effectively by acquiring another company rather than solely focusing on internal growth.
- To stabilize earnings and sales by acquiring firms whose financial performance complements the buyer's fluctuations.
- To expand or complete the product line.
- To diversify the product offerings when existing products have reached maturity in their life cycle.
- To diminish competition by acquiring rival firms.
- To swiftly obtain essential resources, such as advanced technology or innovative management practices.
- For tax advantages, it may be beneficial to acquire a company with previous tax losses that can offset current or future profits.
- To boost efficiency and profitability, particularly when there is potential synergy between the two organizations.

Sellers' Motivations

The motivations for sellers include:

- Enhancing the value of the owner's equity and investment in the business
- Boosting the company's growth rate by obtaining additional resources from the acquiring entity
- Securing resources to stabilize and improve operational efficiency
- Addressing tax considerations—particularly for family-owned or individually owned firms, where a merger can simplify estate tax issues
- Aiding in the diversification of the owning family's investments

- beyond the current business
- Resolving top management challenges, such as succession planning for entrepreneurs or conflicts among senior management

Benefits of Mergers & Acquisitions

The primary benefits of mergers and acquisitions are:

- Sustaining or accelerating a company's profitable growth
- Improving profitability through cost reductions achieved via:
 - Economies of scale
 - Enhanced operational efficiency
 - Synergy
- Diversifying the company's risk by acquiring businesses with varied income sources
- Lowering tax liabilities by offsetting accumulated losses or unabsorbed depreciation of one company against the profits of another
- Strengthening the company's market power

Merger Process

Mergers and acquisitions should be conducted within the context of long-term strategic planning by businesses. The decisions made regarding mergers significantly impact the future trajectory of the firm. Therefore, it is essential to comprehend the planning processes associated with mergers. These processes may involve formal methodologies or evolve through informal interactions across the organization. During mergers, strategies, plans, policies, and procedures are formulated. Strategic planning in the context of mergers is a behavioral approach that necessitates input from various segments of the organization.

Formulation of the Vision

Growth: The vision articulates the organization's purpose, its intended direction, and its objectives upon reaching that destination. It includes a clearly defined set of core values and beliefs that shape the company's culture and mission.

- **Competition:** The vision must pinpoint the unique

competencies that will empower the organization to provide the distinct value necessary to maintain competitiveness in the future. It should clearly outline expectations regarding the company's future appearance and operational methods. Goals should be identified and assessed in alignment with the company's overarching vision.

Pre-Merger Planning

An effective pre-merger planning process should focus on identifying target companies with the requisite capabilities, successfully executing the deal, and establishing a solid foundation for successful integration through meticulous planning and fostering trust among all stakeholders.

Post-Merger Process

The post-merger phase should prioritize cultural integration, the retention of key personnel, and the swift and efficient realization of clearly defined value sources.

Essential Steps in Strategic Planning for Mergers

Mergers and acquisitions encompass several vital activities within the strategic planning framework. Key components of the strategic planning process for these transactions include the following:

1. Evaluation of changes in the organizational environment
2. Assessment of the company's strengths and weaknesses
3. Analysis of stakeholder expectations
4. Examination of the company, its competitors, the industry, and both domestic and international economic conditions
5. Development of the organization's mission, objectives, and policies
6. Cultivation of awareness regarding significant external environmental shifts
7. Establishment of internal performance metrics
8. Creation of long-term strategic initiatives
9. Design of mid-term programs and short-term action plans
10. Structuring, financing, and implementing the aforementioned

elements

11. Establishment of a communication and feedback system to ensure ongoing refinement and adaptation of all critical components at each phase

12. Comprehensive review and assessment of the entire process

Throughout these activities, both staff and line personnel play crucial roles in the strategic decision-making process. The scope of mergers and acquisitions influences the nature of these activities and subsequently impacts the factors that significantly affect them. This relationship can be observed by analyzing the considerations made during various stages of the merger and acquisition process. A clear identification of the different phases and associated activities facilitates a smoother merger process.

Mergers and Acquisitions in India

During the licensing period, numerous companies engaged in unrelated diversification, largely influenced by the availability of licenses from Time Warner. Instances of takeover bids, mergers, and amalgamations were common. Despite operational inefficiencies, these companies flourished due to the limited industry capacity imposed by licensing regulations. Over time, they evolved into conglomerates with a less-than-optimal mix of diverse businesses.

In spite of a challenging economic landscape, the corporate sector has experienced periodic takeover bids. Since 1986, there have been numerous instances of both amicable negotiated takeovers and hostile bids characterized by aggressive equity share purchases in select companies. Notable corporate raids by both non-resident Indians and domestic industrialists on local enterprises have also been prevalent. For instance, in 1988, several significant attempts were made by NRIs to acquire stakes in Indian companies:

The Swaraj Paul and Sethia groups targeted Escorts Ltd. and DCM Ltd. but were unsuccessful. Conversely, the Hindujas successfully acquired Ashok Leyland and Ennore Foundries,

while also securing strategic interests in IDL Chemicals and Astra IDL. The Chhabria Group managed to acquire stakes in Shaw Wallace, Dunlop India, and Falcon Tyres.

Prominent industrial groups in India have actively participated in takeover activities as well. The Goenka group from Kolkata successfully acquired Ceat Tyres, Herdilla Chemicals, and Polychem. The Oberoi Group took over Pleasant Hotels from the Rane Group. Mahindra and Mahindra acquired Allwyn Nissan, and the Jindal Group purchased Shalimar Paints. A landmark event occurred in September 1988 when Tata Tea made a public offer to acquire Consolidated Coffee Ltd., successfully obtaining 50 percent of the company's equity from resident shareholders by December 1989.

Four firms, specifically Hindustan Computers, Hindustan Reprographics, Hindustan Telecommunications, and Indian Computer Software Co., were consolidated to create HCL Ltd.

Additionally, the Board for Industrial and Financial Reconstruction (BIFR) has been actively involved in the acquisition of struggling enterprises. Notable acquisitions facilitated by BIFR include Voltas Ltd's takeover of Hyderabad Allwyn Ltd, Mahindra and Mahindra's acquisition of Mahindra Nissan Allwyn Ltd, and Lakme's purchase of Miami Pharma Ltd.

The primary motivations for corporate restructuring include:

- Enhancing profitability
- Capitalizing on core strengths
- Divestiture and collaboration
- Clarifying vision, strategy, and organizational structure
- Fostering proactive leadership
- Empowering employees
- Process re-engineering

Enhancing Profitability: The fundamental objectives of corporate restructuring often revolve around increasing

profitability and generating corporate value. The creation of corporate value is significantly influenced by the organization's capacity to produce sufficient cash flow.

Capitalizing on Core Strengths: As the concept of organizational learning becomes increasingly important, businesses are focusing on maximizing their potential along the learning curve. This is achievable when companies concentrate on their core strengths, which is viewed as the most effective method for delivering greater returns to shareholders.

Divestiture and Collaboration: Organizations should strategically exit non-core areas while maintaining focus on their core competencies. This can be accomplished through joint ventures, strategic partnerships, and aspirations they aim to achieve, with particular attention to timelines and the factors that contribute to their success.

Fostering Proactive Leadership: The management approach plays a crucial role in the restructuring process. Successful organizations typically exhibit leadership styles that emphasize direct, one-on-one engagement between managers and employees.

Empowerment: Empowerment is a vital element of any restructuring initiative. By delegating authority and promoting decentralized decision-making, companies can establish an effective management information system.

Process Re-engineering: Achieving success in restructuring necessitates the enhancement of various processes and the alignment of organizational resources. Prioritizing the redesign of business processes is essential in any corporate restructuring effort.

Clarifying Vision, Strategy and Organizational Structure: Corporate restructuring should prioritize clarity in vision, strategy, and structure. Companies must have a clear understanding of their objectives and the Alternative objectives for restructuring are summarized below:

1. **Procurement of Supplies**

- a. To secure a reliable source of raw materials or intermediate products.
- b. To achieve cost savings through discounts, reduced transportation expenses, and lower overhead in the purchasing department.
- c. To leverage supplier economies by standardizing materials.

2. **Revamping Production Facilities**

- a. To realize economies of scale by consolidating production facilities and optimizing the use of plants and resources.
- b. To standardize product specifications and enhance product quality.
- c. To focus on market demands and improve customer satisfaction by enhancing after-sales services.
- d. To acquire advanced production technology and expertise from the target company.
- e. To lower costs, enhance quality, and produce competitive products to maintain and grow market share.

3. **Market Expansion and Strategy**

- a. To eliminate competition and safeguard existing markets.
- b. To access new market opportunities held by the target company.
- c. To introduce new products for diversification or to replace existing offerings, thereby expanding the product range.
- d. To strengthen retail channels and optimize distribution of goods.
- e. To decrease advertising expenses and enhance the public perception of the target company.
- f. To strategically manage patents and copyrights.

4. **Financial Strength**

- (1) To enhance liquidity and ensure immediate access to cash resources;
- (2) To liquidate surplus and obsolete assets for cash from the consolidated enterprise;

- (3) To improve leverage capacity, enabling borrowing based on stronger financial standing and increased asset backing;
- (4) To take advantage of tax incentives;
- (5) To boost Earnings Per Share (EPS).

5. **General Gains**

- (1) To enhance its reputation and attract top-tier managerial talent to oversee operations;
- (2) To provide greater satisfaction to customers or users of the product.

6. **Developmental Plans**

The rationale for restructuring is supported by the company's own developmental strategies. A company considers acquiring another only after establishing its own growth plan to expand operations, having assessed its internal strengths and identified no issues related to taxation, accounting, or valuation. However, it may encounter resource limitations, such as insufficient funds and a lack of skilled management personnel. The goal is to pursue a strategic combination that offers opportunities to raise funds through securities issuance, secure additional financial resources, eliminate competition, and enhance its market position.

7. **Strategic Purpose**

The Acquirer Company perceives the merger as a means to fulfill strategic goals through various forms of combinations, which may include horizontal, vertical, product expansion, market extension, or other unrelated objectives aligned with corporate strategies. Consequently, different types of combinations, such as vertical or horizontal integrations, are employed to achieve these aims.

8. **Corporate Friendliness**

While it is uncommon, it is indeed the case that businesses can demonstrate a degree of cooperative spirit, even amidst competition. This cooperation can manifest in efforts to rescue one another from hostile takeovers and foster collaborative

environments. By sharing goodwill, companies can reach new performance levels through business combinations, aiming for circular integrations to fulfill mutual objectives.

9. **Desired Level of Integration**

Mergers and acquisitions are undertaken to achieve the desired level of integration between the involved business entities. This integration can be either operational or financial, leading to the formation of conglomerate combinations. The objectives and needs of the acquiring company play a significant role in identifying an appropriate partner for mergers or acquisitions in business combinations.

INCREASING DEMAND FOR CORPORATE RESTRUCTURING

The liberalization of the 1990s, coupled with economic recession, has introduced significant challenges for the Indian corporate landscape. The shift towards deregulation and liberalization, along with the globalization of the economy, has subjected the corporate sector to intense competition both domestically and internationally. Issues such as heightened competition, increased imports, insufficient economies of scale, excessive capacity creation, misguided diversifications, financial constraints, and delays in cost and time have emerged as critical concerns. As a result, corporate restructuring has become a prominent focus for businesses in India. Companies are actively seeking to streamline their operations by concentrating on their core competencies and divesting from areas where they lack a competitive edge. Consequently, mergers and acquisitions are increasingly recognized as vital corporate strategies. Changes in government regulations are expected to further enhance the viability of M&A as a business approach.

According to a working paper by the Securities and Exchange Board of India (SEBI) titled "Impact of Takeover Code Regulations on Corporate Sector in India

- A Critical Appraisal," Indian firms have been the

primary users of acquisition mechanisms, representing 85 percent of total takeovers. Since the implementation of SEBI (Substantial Acquisitions of Shares and Takeovers) Regulations in 1997, 1,011 companies have undergone takeovers for various reasons, including consolidation, management control changes, and significant acquisitions. The primary aim of these acquisitions has been to alter management control. The number of open offers surged from two in 1994 to 98 in 2001-02, with the majority of M&A transactions conducted on a cash basis.

Among the sectors with the highest frequency of takeovers, the Finance and Information Technology industries have seen a notable number of acquisitions, although the financial amounts involved in these sectors have generally been modest.

In the new economy, the low entry barriers have led to a significant surge in the establishment of new companies, resulting in an increased likelihood of mergers and acquisitions (M&As). Many Internet start-ups are relatively small and localized, employing fewer individuals than traditional large enterprises, which makes the integration process less complex and more manageable. M&As facilitate the expansion of product and service offerings, enhance geographical reach, and lower marketing expenses and time to market.

M&As are often instrumental in strengthening market positions. For example, in the cement sector, the French company Lafarge acquired Tisco's cement division, while Gujarat Ambuja took over DLF Cement and a portion of Tata's stake in ACC, thereby securing a significant market share between them. It is generally more efficient to acquire existing companies than to develop new production capacities.

The competitive bidding for licenses for the fourth cellular operator in each of India's 21 telecom zones disrupted the nascent cellular market, compelling some smaller entities to exit due to insufficient financial resources to compete for additional licenses or invest in business expansion. Meanwhile, larger companies

increased their market presence through acquisitions.

A recent study by KPMG, a prominent chartered accounting firm, revealed that merely 30 percent of mergers and acquisitions (M&As) in India have generated value for shareholders. In 39 percent of the transactions, there was little to no noticeable impact, while 31 percent resulted in a dilution of shareholder value. These findings, although surprising to many, highlight the imperfections prevalent in most economies, particularly in India.

The Indian banking sector, characterized by numerous unprofitable entities, could have potentially gained from mergers; however, M&As have not delivered the expected outcomes. The effective functioning of the acquisition process necessitates the availability of extensive information, which is often lacking in India. Additionally, the significant transaction costs associated with takeovers hinder the efficiency of this mechanism. When information regarding a company's operations is perceived to be asymmetric, it may lead rational managers, even in logical markets, to adopt a short-sighted approach. This behavior can result in immediate measures that ultimately lower investment rates, adversely affecting shareholder value.

The empirical results contradict anticipated outcomes, primarily because the enhancement of shareholder value is not always the primary driver behind M&As. Frequently, mergers are pursued when companies face existential threats. Such threats may arise from market size, competitive pressures, or the need for greater economies of scale. Multinational corporations, with access to more affordable capital, often seek to expand their market presence by acquiring domestic firms.

In industries where intangible assets, such as brand equity, contribute to a competitive cost of capital, domestic firms face significant pressure to be acquired. Consequently, there has been a substantial increase in M&As within lifestyle-related product sectors, including fast-moving consumer goods, white goods and

automobiles.

When market pressures and cost factors influence mergers and acquisitions (M&A), it is probable that shareholder value will remain stable. Successfully integrating diverse operational cultures, aligning personnel towards shared objectives, and optimizing activities around core competencies are essential management skills needed to realize the benefits of M&A transactions.

M&As that result in increased market concentration do not necessarily lead to enhanced market power. Scholars in industrial organization have not established a direct link between these two aspects and advocate for case-by-case analyses to determine whether M&As yield greater economic efficiency or create unwarranted monopolistic advantages. Many countries adopt the U.S.

model, where antitrust regulations are broadly defined, allowing courts to interpret specific practices.

In India, the Monopolies and Restrictive Trade Practices (MRTP) Act explicitly defines dominance as a market share not exceeding 25 percent, irrespective of any consumer harm. This Act does not consider antitrust issues arising from foreign jurisdictions. As cross-border M&As become more prevalent, potential conflicts of law among different nations may arise.

The Competition Act of 2002, which superseded the MRTP Act of 1969, characterizes a dominant position as one that allows a firm to operate independently of competitive pressures, thereby impacting the interests of both competitors and consumers.

In this evolving landscape, where competition laws are still being refined, M&As are conducted on a relatively level playing field, but it may take time to adequately protect the interests of both producers and consumers. Consequently, significant increases in productivity or foreign direct investment (FDI) through M&As are unlikely in the near term. Nevertheless,

companies are pursuing strategic alliances, mergers, acquisitions, and even hostile takeovers to enhance their market influence.

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10. Corporate Dividend

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INTRODUCTION

The primary goals of financial management are to raise capital, reduce capital costs, and allocate funds to long-term investments that require capital budgeting decisions. Determining how much profit to keep and how much to give as dividends, or the dividend decision, is the next crucial choice. The Board of Directors plans and announces the dividend. The term “dividend policy” describes the percentage of earnings that is preserved for future investment and the remainder that is delivered as a dividend. A company’s dividend policy is a tool for deciding how much and when to pay dividends. One of the most important topics in corporate finance is the dividend policy that a company sets because it can affect the firm’s worth.

One of the most important topics in corporate finance is the dividend policy that a company sets, as it can affect both the firm’s worth and shareholder wealth. Finding the dividend policy that would optimize the market price of the company’s shares is the main goal, as seen from the perspective of financial management. In corporate finance, dividend policy is still one of the most contentious issues. Corporate dividend policy has been

designed and studied by financial economists. There are two sorts of dividend policies: controlled and residual. Under the residual dividend policy, the company pays out whatever cash left over after making profitable investments based on net present value. Applying the managed dividend policy is required of the manager if investors are happy and it shows in the shares.

In India, a corporation that declares a dividend is required to pay dividend distribution tax, whereas dividend income is tax-free for the owners or receivers. The very minimum that investors receive as payment for their capital and the risk they assumed when they made an investment in the company is known as a dividend. A company pays dividends to both reward current shareholders and entice new investors to purchase shares at greater rates. A company's dividend policy could be anything from a formal, elaborate statement that the board of directors approves and is regularly reviewed to a decision about dividend action.

WHAT IS A DIVIDEND?

A business that produces a profit can choose to pay out a portion of that profit to its owners in the form of dividends. The tax levied on the dividend sent to shareholders is known as the corporate dividend tax. It is given based on the declared or actual dividend for the year. It is the sum that the business gives its stockholders as a portion of its profits and retained earnings. A business can choose to reinvest its retained earnings back into the company or distribute them as a dividend to shareholders when it makes a profit. A dividend is a payment made by a business to its shareholders as return for their equity investment; it typically comes from net earnings. Even so, earnings may be held by the company and applied to its present and future operations as retained earnings. The board of directors has the authority to decide how long and at what rate to pay out dividends. A set frequency of payments, such as monthly, quarterly, or yearly, may be used for dividend payments. For instance, Unilever (UL)

and Walmart Inc. (WMT) both routinely pay dividends on a quarterly basis.

WHAT IS THE PROCESS FOR DISTRIBUTING DIVIDENDS?

1. The business makes money and accrues retained earnings.
2. The management determines that rather than being reinvested, or certain excess income should be distributed to shareholders.
3. In accordance with the guidelines outlined in the Companies Act of 2013, it notifies the Board of Directors of the next meeting.
4. The Board of Directors passes a resolution proposing the rate and amount of dividends to be declared and paid out.
5. The intended dividend is announced by the shareholders.
6. The dividend (amount per share, payment date, record date, etc.) is announced by the company.
7. The shareholders receive the dividend.

TYPES OF DIVIDEND POLICIES

CONSISTENT DIVIDEND POLICY

The simplest and most popular type of dividend policy is a stable one. The majority of investors want a consistent and predictable dividend payout each year, and that is what our policy aims to give them. Regardless of an increase or decrease in earnings, investors still be paid a dividend.

The intention is to match the dividend policy more closely to the company's long-term growth than to the fluctuations in quarterly earnings. The shareholder has better assurance with this method on the size and timing of the payout.

RESIDUAL DIVIDEND POLICY

Although the residual dividend policy is likewise quite erratic, some investors believe that there is no other dividend policy that can be justified. Under a residual dividend policy, the corporation distributes any dividends that are left over after covering working capital and capital expenditures (CAPEX).

Although this strategy is erratic, from the perspective of company operations, it makes the most sense. Investors have little interest in funding a business that uses the requirement to pay dividends to justify mounting debt.

RELEVANCE THEORY OF DIVIDENDS:

WALTER MODEL

James Walter states that a company's goodwill is constantly impacted by its dividend policy. According to Walter, the dividend policy shows how the cost of capital or needed rate of return and the firm's return on investment, or internal rate of return, relate to one another.

Assume that K represents the cost of equity capital and r represents the internal rate of return. Then, we have the following scenarios for each given company:

Situation 1: When r exceeds k

Growth firms are defined as those with $r > k$. Reinvesting all of the company's profits is their ideal dividend policy.

As a result, there would be no dividend payout ratio. Additionally, this would raise the market value of the company's stock.

Situation 2: When r is less than k

Businesses with $r < k$ don't have lucrative investment prospects. The best dividend policy for these companies is to pay out all of the earnings as dividends.

When a greater dividend rate is available, shareholders may use their dividends to receive payments through alternative channels.

In their situation, a 100% dividend payout ratio would therefore maximize the value of the equity shares.

Situation 3: When r is equal to k

It makes no difference to a corporation with $r = k$ whether it distributes or keeps its earnings. In their instance, a change in dividend rates would not affect the share price.

As a result, there is no ideal dividend policy for these

companies.

Walter's Approach Formula

The following is an expression that represents a share's market value (P): $P = (E - D) / (D + r) KE$ or

$$P = E - D / KE - (D + (r / KE))$$

GORDEN'S METHOD

Similar to Walter, Gorden put forth a concept in which he said that a firm's worth is affected by its dividends and that they are significant.

A dollar in dividend income is worth more than a dollar in capital gains, which is the distinguishing characteristic of Gorden's concept.

The reason for this is that shareholders discount future dividends at a higher percentage since the future is uncertain.

Gorden states that the present value of the dividend stream that will be paid out in the future equals the market value of a share.

Gorden's Approach Formula

The following formula is provided:

$$E(1 - b) / (Ke - br) \text{ equals } P. \text{ or}$$

$$P \text{ is equal to } D / (Ke - g).$$

IRRELEVANCE THEORY OF DIVIDENDS

Modigliani and Miller (MM) Approach: Modigliani and Miller (MM) provided a more thorough explanation of their viewpoint.

The authors contend that rather than the structure of income distribution, a company's share price is based on its investment strategy and earning potential.

Assuming the following: a flawless capital market, sane investors, and no tax distinction between dividend income and capital gains as specified by the investment philosophy of the

corporation. if the share price remains unaffected by dividends. The aforementioned school of thought argues that the effect of raising additional capital will exactly offset any increase in shareholder wealth that arises from dividend payments.

CORPORATE DIVIDENDS' TAXABILITY

In accordance with section 8 of the Income-tax Act, 1961 (I-T Act), dividends that the company declares, distributes, or pays out are considered income for its shareholders in the year that they are declared, distributed, or paid.

Interim dividends are subject to taxation in the year when the corporation unconditionally makes the dividend amount available to the shareholder. Stated differently, the dividend is subject to taxation based on receipts.

SECTIONS 194 AND 196C OF THE TAX DEDUCTION AT SOURCE (TDS)

Under section 194 of the I-T Act, the company that distributes dividends on equity shares to its resident shareholders is required to deduct TDS. Only if a resident shareholder's total dividends for a given financial year exceed INR 5,000 is there a 10% deduction. The tax must be subtracted before the payout is paid.

Similarly, in accordance with section 196C, 10% TDS must be withheld from dividends given to non-resident shareholders

If the person receiving dividend income does not have a PAN, the corporation will have to deduct 20% of the income as tax (TDS).

WHICH INDIAN COMPANIES OFFER THE HIGHEST DIVIDEND YIELDS?

Vedanta Ltd., Hindustan Zinc Ltd., Coal India Ltd., T.V. Today Network Ltd., Bhansali Engineering Polymers Ltd., Balmer Lawrie Investment Ltd., and Coal India Ltd. are a few of the Indian stocks that give out the largest dividends.

FINAL NOTE

When the business generates profit, it pays income taxes to the government in accordance with the regulations that apply to businesses and professions. A corporation that distributes its profits, also known as retained earnings, to its shareholders in the form of dividends is required by applicable tax laws to deduct TDS. However, if the corporation fails to deduct TDS, the shareholder will be responsible for paying income tax on the dividend income in accordance with their regular tax bracket or, if the dividend is distributed by a foreign company, in accordance with the terms of the DTAA.

