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UNIVERSITY OF PETROLEUM AND ENERGY STUDIES

School of Business (SoB)

End Semester Examination, May 2021

Program: MBA (IB) **Semester : III**
Subject (Course): Merger, Acquisition & Corporate Restructuring **Max. Marks: 100**
Course Code : STGM 8002 **Duration : 3 Hrs**

No. of page/s: 4

Structure of the question paper and allocation of marks are given below.

Note: All sections are compulsory.

Section – A (30 Marks)

(Attempt all questions in this section, all carry equal marks)

(All are CO2)

1. Which of the following would be a legitimate stated reason for an acquisition?
A. The acquisition of critical mass.
B. Hubris.
C. Empire building.
D. The acquisition of monopoly.

2. When British Airways merged with Iberia, the Spanish airline, what kind of merger was this?
A. Vertical.
B. Horizontal.
C. Joint venture.
D. Conglomerate.

3. What is a leveraged buyout?
A. It is a type of joint venture.
B. It is an acquisition in which a large acquirer has leverage through bargaining power over a small target.
C. It is an acquisition which is funded from a relatively large amount of debt.
D. It is an acquisition which is funded from a relatively low amount of debt.

4. Which of the following is typically the most important economy or synergy which is sought from Mergers and Acquisitions M&A activity?
A. Economies of scope from applying existing resources to new uses, at little additional cost.

B. Revenue and marketing synergies from new, enhanced, or more efficient distribution.

C. Economies of scale effects from organizational learning.

D. Economies of scale from doing away with duplication of function between the two firms.

5. Market for corporate control includes the following:
I) Mergers
(II) Spin-offs and divestitures
(III) Leveraged buyouts (LBOs)
(IV) Privatizations
A) I only
B) I and II only
C) I, II, and III only
D) I, II,III, and IV

6. The following reasons are good motives for mergers except
A) Economies of scale
B) Complementary resources
C) Diversification
D) Eliminating Inefficiencies

7. Firm A has a value of $100 million, and B has a value of $70 million. Merging the two would allow a cost savings with a present value of $20 million. Firm A purchases B for $75 million. What is the gain from this merger?
A) $30 million
B) $20 million
C) $15 million
D) $75 million

8. A modification of the corporate charter that requires 80% shareholder approval for takeover is called a(n):
A) Repurchase standstill provision
B) Exclusionary self-tender
C) Super majority amendment
D) Tender offer

9. As a defensive maneuver, a firm issues deep-discount bonds that are redeemable at par in the event of an unfriendly takeover. These bonds are an example of:
A) Greenmail
B) A "scorched earth" policy

C) Crown jewels

D) A poison pill

10. The restructuring of a corporation should be undertaken if

A) The restructuring can prevent an unwanted takeover

B) The restructuring is expected to create value for shareholders.

C) The restructuring is expected to increase the firm's revenue.

D) The interests of bondholders are not negatively affected.

11. In the long run, a successful acquisition is one that:

A) Enables the acquirer to make an all-equity purchase, thereby avoiding additional financial leverage.

B) Enables the acquirer to diversify its asset base.

C) Increases the market price of the acquirer's stock over what it would have been without the acquisition.

D) Increases financial leverage.

12. Bidding companies often pay too much for the acquired firm. The hubris hypothesis explains this by suggesting that the bidders

A) Have too little information to make an optimal decision.

B) Have big egos and this impedes rational decision-making.

C) Have difficulty in thinking strategically over the long-term.

D) Are overly influenced by the tax consequences of an acquisition.

13. A tender offer is

A) A goodwill gesture by a "white knight."

B) A would-be acquirer's friendly takeover attempt.

C) A would-be acquirer's offer to buy stock directly from shareholders.

D) View taken against poison pill

14. The public sale of common stock in a subsidiary in which the parent usually retains majority control is called.

A) A pure play.

B) A spin-off.

C) A partial sell-off.

D) An equity carve-out.

15. Empirical evidence on acquisitions indicates …………excess returns on average to the shareholders of the selling company, and………… excess returns on average to those of the buying company.

A) no; no
B) Substantial; no
C) No; substantial
D) Substantial; substantial

Section – B (50 Marks)

Read the case "**Tata Motors' Integration of Daewoo Commercial Vehicle Company**" and answer the following questions of section B and C.

1. Why did TM acquire DCVC and what did DCVC want in a buyer? Explain in detail (25 marks) (CO 1)
2. Why did TM emerge as successful bidder of acquire DCVC? (25 marks) (CO 3)

Section – C (20 Marks)

1. What explains the success of this acquisition? (20 marks) (CO 4)

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TATA MOTORS' INTEGRATION OF DAEWOO COMMERCIAL VEHICLE COMPANY

Sanjay Singh, Meera Harish and Kulwant Singh wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

> Going overseas and making investments is a complicated exercise. You can put $100 million in but will that create a facility and a committed team? All you say when you acquire a company is that you brought in money. It is easy to put in money. The more difficult part is to know how to integrate, and how to tackle human resource issues. The success of any acquisition lies in how the buyer understands the soft issues. What you do to get the people along with you is more important than the money that you inject in the company.
>
> – Ravi Kant, managing director, Tata Motors[1]

To widespread surprise, Tata Motors (TM) of India succeeded in acquiring South Korea's Daewoo Commercial Vehicle Company (DCVC) in March 2004. DCVC was established in South Korea as the country's second-largest truck manufacturer, though it was significantly behind the market leader, Hyundai. DCVC was profitable on an operating basis, had a high-quality but underutilized plant, a good but narrow and aging product line, limited exports and weak sales and service networks. The idea of being acquired by a foreign firm, particularly by an Indian firm with no presence or reputation in Korea was a concern for many DCVC employees and for the public at large.

TM, which had no experience of acquisitions outside India, appeared to face a major challenge in integrating and managing DCVC.

FIRST STEPS

TM decided to retain the Daewoo name and association, and adopted the name Tata Daewoo Commercial Vehicle Co., Ltd. (TDCV). The Daewoo name was retained for all products in Korea, though service and

[1] *All quotations in this case were obtained from personal interviews or from material supplied by Tata Motors.*

sales centers carried the TDCV name. TDCV's products outside Korea would be sold under the Tata brand.

Chae Kwang-Ok was appointed TDCV's president and chief executive officer (CEO). Chae had spent his entire career with the Daewoo Group and had been the bankruptcy court-appointed CEO. Chae's appointment as president and chief executive officer followed the Tata Group's practice of allowing acquired firms to retain their own image and autonomy and, where possible, their own management.

Ravi Kant personally selected a team of nine high-performing managers to drive the integration of the firms. Appointed as vice-presidents of TDCV were S.U.K. Menon (business planning and finance) and C.V. Singh (sales, marketing, service and integration affairs). Vice-presidents Menon and Singh were given full authority to represent TM in TDCV. Seven relatively young managers were placed in middle management and specialist positions. Two worked on integrating financial systems, and the others on strategic sourcing, new product introduction, marketing, after-sales service and human resources (HR). The TM managers reported to Korean senior managers, all of whom were retained. Only Menon and the HR manager had been part of the original due diligence team.

The TM team developed 30-day, 60-day, 90-day and one-year plans for the integration of the two firms. An immediate task was to integrate the financial and accounting systems. Because the DCVC acquisition was completed on March 29, 2004, before TM's March 31 financial year-end, its accounts had to be closed. This task was challenging because DCVC and TM had different financial years and the accounting rules differed in Korea, India and the United States, where TM was also listed. Nevertheless, the accounts were integrated and completed on schedule.

MANAGEMENT SYSTEMS

A widely recommended rule of thumb for acquisitions was for acquirers to "complete major restructuring in acquired firms within the first 100 days." This rule relied on the logic that layoffs and closures should be undertaken quickly to avoid uncertainty and staff resignation. However, TM adopted a policy of minimizing changes and avoiding deep involvement in TDCV's operations in the six months following the acquisition

TM's integration plan was guided by two key considerations. First, that TDCV would not be an Indian firm in Korea, but would be a Korean firm in Korea. Second, that managers would be exposed gradually. Menon, TDCV's new vice-president, explained:

> What we were trying to do was get a sense of confidence in management and employees that we were not going to upset what they were doing. And we could do that with a sense of comfort because we knew first from our due diligence and later after we arrived, that the TDCV processes and controls were good, documentation was excellent and the chain of command beyond question. So you don't need to rattle things. We let them do things that they wanted to, and then we slowly brought in key concepts and tools from Tata.

TDCV introduced a new top management structure, the executive management team, comprising President Chae, Vice-Presidents Menon and Singh from TM and the two most senior TDCV general managers, Kim (production and research and development (R&D)) and Won (HR and general administration). Coincidently, Chae and his two vice-presidents were of the same age, the three oldest employees in TDCV.

The executive management team made all policy decisions, but involved the next level of managers on major issues. This level comprised Team *Jangs*, or leaders, who managed their teams within a formal and fixed structure. The 20 Team *Jangs* continued to serve as the primary formal means for communicating with TDCV's staff.

Kant, TM's chairman and executive managing director, and also TDCV's chairman, explained his rationale for maintaining existing systems:

> The Daewoo workers have a sense of pride and sense of achievement in what they have done and we were very keen to protect that. We felt that the sense of pride must be maintained and the only way to do that was to make clear to them that this was not a take over in the normal sense. We felt that it was not right for us to run things out here while they supported us. We felt that they should run the company while we were there only to support them. TDCV is going to be a local company. That means we want to be a South Korean company in South Korea, we want to be seen as a South Korean company. TDCV will have the face, touch and feel of a local company, just owned by Tata.

Chae had a clear view on the nationality of his firm:

> TDCV is a Korean company. It is established by Koreans but shareholding is Indian. I explained this to my workers, so they know that the company is Korean but the shareholders are foreign. When we say integration, we say integration of two equals; that is very important.

TM's commitment to ensuring that TDCV remained a Korean firm was demonstrated in several ways. One key effort was to minimize TM personnel in Gunsan. Six of the nine members of TM's integration team returned to India after completing their tasks, despite President Chae's request to retain them. Some of these were replaced with new managers, while returnees took on similar tasks in India or in other locations to facilitate integration and learning.

TM launched several integration efforts. Firms belonging to the Tata Group had to comply with three key requirements, the Tata Brand Equity Management plan, the Tata Code of Conduct and the Management of Business Ethics guide. Relevant documents were translated into Korean, and information meetings were held with management and staff. TM also established a permanent Tata Display Room in its headquarters, to explain Tata Group's history and management principles to its employees and partners. TDCV's program to comply with these requirements was completed in 2006.

To ensure a common information and management platform, TM introduced SAP's Enterprise Management Software systems into TDCV. Cost and deadline constraints led TM to use the Tata Group firm Tata Technologies (TTL) to manage the implementation of the complex software. The TTL team employed the assistance of former Daewoo Group firm Daewoo Information Systems. Despite the challenge of managing teams across two countries and languages, the project was implemented on time, at a cost of about US$3 million, much less than the US$9 million cost estimated by local Korean firms.

TM also introduced its "balanced scorecard" implementation and performance management system, and its product lifecycle management system in TDCV. These systems were introduced at the firm-level in 2005 and at the team level in 2006. The introduction of these systems into TDCV was viewed as demonstrating TM's superior management systems.

CULTURAL ISSUES

Despite TM's sensitive management of the acquisition process, it was apparent that TDCV's employees were not happy with being acquired by a foreign buyer. Feedback and surveys indicated that the employees were proud of their history and success and felt a sense of loss from their company having been acquired by a foreign firm. This reaction made TM particularly sensitive to HR issues.

Tata faced a significant challenge in integrating the different work and corporate cultures in Korea and India. As part of the Daewoo Group, DCVC had developed a unique culture called the Daewoo spirit, which emphasized a commitment to creativity, challenge and sacrifice. Daewoo professed a belief in co-prosperity, through which it sought to provide value to employees, customers, suppliers, partners and South Korea. This spirit was evident when workers terminated after the economic crisis received strong support from the firm and individual employees. Menon recognized this important strength and made an effort to accommodate differences in work styles:

> TDCV was unused to multitasking and multi-skilling. The Koreans initially found it difficult to work on many initiatives simultaneously. We have to keep their speed in mind; not push them, yet help them understand. The language in which we conduct our business is different. We have to give them time.

To facilitate communication, the Indian managers enrolled in Korean language classes, and a number of Korean managers focused on learning English. Singh and Menon enrolled in language classes, which many TDCV workers took as a sign of commitment. Important presentations and information sharing sessions were conducted in both English and Korean.

TM was optimistic about DCVC's employees, its management board's abilities and the positive welcome from the Korean government. Ratan Tata, chairman of the Tata Group, even detected links between Korea and India:

> When we took over Daewoo, I visited the plant and had lunch with the workers. I was speaking in English, through interpreters, and a strange affinity happened . . . the workers here were very positive and it turned out that they were so because they saw India as being a Buddhist country. There was this great interest that we have in this affinity between India and Korea in Buddhism. The TM management has invited some of the Daewoo managers and workers to visit India and the Buddhist spots there. And similarly, efforts have been made to have Indian nights in Gunsan. We can build on this cultural affinity.

TM believed that both firms could learn from each other's operations. Although TM's information technology (IT) and management systems were superior, TDCV's product and manufacturing technology was more advanced. TM embarked on efforts to learn from TDCV, focusing on improving both its product development and design skills and its productivity and operations benchmarks. Staff exchanges between TM's plants in India and Gunsan were introduced.

Yet, Vice-President C.V. Singh suggested substantial adjustments were required:

> The system is more rigid and has pre-set systems. You have to put aside egos and personal agendas, be open to new ideas and experiences, put in long hours and go out of your way to prove commitment to TDCV. Unless you can contribute and TDCV perceives your contribution, they will not accept you.

UNION ISSUES

One particular concern was that Korean labor unions had a long history of resisting changes they disliked, often through violent protests. Daewoo's bankruptcy and the sale of its various units had attracted widespread protests, which sometimes required police intervention. DCVC's unions had been militant in the past and had opposed the company's sale to foreign buyers. But the reality of DCVC's poor performance appeared to dampen opposition to TM. TM also diffused opposition by agreeing to a key union demand — that no TDCV workers would be laid off. Kant was confident that "transparent and equitable business negotiations" would help maintain good relations between management and unions.

TM's managers faced considerable difficulty understanding union negotiations during the first year. Negotiations were conducted to a rigid formula and involved national, regional and trade-based unions. Practices were also unusual. For example, strikes were often scheduled at specific times to minimize disruption to production and to avoid annual holidays. Menon and Singh decided that it would be useful to educate TDCV's unions about TM.

TDCV sent a team of union leaders to visit TM's plants in India, to show them the scale of TM's operations, which were substantially larger than TDCV's. Kant and his senior managers supported the visit, despite concerns that the Korean unions' militancy might influence TM's workers. R.S. Thakur, TM's vice-president of finance described the visit as:

> a roaring success. The unions understood that TM was a large and competent firm which treated its employees well. They appreciated our openness and willingness to share. I'm very confident that if I sit down to negotiate with them, I will be able to do a better job than we have been doing in the last few years. At the end of the visit, the chairman of the union said to me that he was Indian and I was Korean.

In 2004, TDCV and its unions signed an agreement that provided wage increases of 13 per cent over the next three years. This agreement represented a significant improvement, as staff had not received any increases in the previous three years. TDCV achieved the agreement without strikes or disruptions despite offering the lowest increases of major transport manufacturers. Hyundai and Daewoo Bus both endured strikes despite offering high salary increases.

OPERATIONAL ISSUES

TDCV had been working to convert its trucks to the new Euro 3 emission regulations standards introduced in the European Union. Meeting this deadline was made a key objective of TDCV's initial 90-day plan. TDCV achieved this target two months ahead of market leader Hyundai.

In 2005, TDCV launched a new range of medium trucks, its first major product launch in a decade. The launch was a success and TDCV broke market leader Hyundai's monopoly to capture 14 per cent of the medium truck segment within three months. Total production increased to approximately 6,000 units in 2005, the highest level ever. TDCV grew its market share in Korea to approximately 30 per cent. Hyundai's share declined to 51 per cent, with foreign firms accounting for the rest.

In December 2005, TM introduced the Tata Novus in India on a trial basis to compete against high-end European trucks. The Novus was assembled in India in a new facility, though about 75 per cent of its value was imported from TDCV. TDCV also introduced right-hand drive versions of its products to complement its left-hand drive Korean versions. Although these variants were designed in Korea, detailed customer input was provided by TM, which had extensive experience in manufacturing and selling right-hand drive trucks.

A major effort was made to improve TDCV's customer sales and support, which were widely reported to be poor. Daewoo Corporation had a dedicated subsidiary, Daewoo Motor Sales Company, which managed sales and service for Daewoo's automobile and truck operations. This organization had traditionally focused on automobiles, which were a much larger business for Daewoo.

Using buyers' feedback obtained during the due diligence process, TM decided to double the number of service outlets in Korea. A plan for this expansion was developed before the completion of the acquisition in March 2004. Over the course of the next two years, service centers were upgraded and adopted the Tata-Daewoo brand. The number of centers in Korea was doubled to 56.

TM's attention to customers also resulted in several product changes. One effort focused on upgrading the driver's cabin through such improvements as MP3 music systems for its trucks. This "Royal" version was expected to account for 15 per cent of truck sales, but demand proved to be so great that TDCV struggled to keep up with the orders.

TM decided that international sales and operations for TM and TDCV would be handled by a single organization. The use of TM extensive sales and service network to support TDCV's trucks would ensure full integration of products. This integration provided TM with a complete product range, comprising light and lower-power medium trucks manufactured by TM and higher-power medium and heavy trucks manufactured by TDCV. Instead of being a niche provider of medium trucks in India, TM now appeared capable of entering new emerging markets and to consider competing in developed countries.

TM confirmed TDCV's key role in its World Truck program, even committing to launch the truck on January 1, 2008, in Korea first, rather than in India. Because the development of the World Truck was an important reason for the acquisition, TM focused heavily on the integration of product design systems. TDCV had a reputation for strong product design skills, having been able to design and manufacture about 90 variants of its products with only about 100 engineers on its payroll.

To ensure effective integration and design of the new World Truck, the TM and TDCV product development teams were integrated into one team, the first group within the two firms to do so. The design work was split across the two locations on the basis of expertise, and regular series of visits were introduced. A system of internal pricing for R&D work was established, with TM paying several million dollars a year for design work undertaken by TDCV. To remove doubts about the validity of internal pricing, external consultants were used to verify transfer prices for these services.

TM made it a priority to upgrade the IT product design infrastructure in TDCV, to support the World Truck program. TM had learnt from its due diligence team (which included an IT specialist) that TDCV had a weak IT infrastructure that was 10 to 12 years old. TM moved quickly to upgrade the IT infrastructure at a cost of approximately $5 million. The decision to outsource the task to Daewoo Information Systems had to be reconsidered when this firm was unable to manage the task. TM again enrolled the services of Tata Technologies (TTL). In combination with local consultants, TTL installed the upgraded IT system.

TM also introduced its strategic sourcing and e-sourcing systems into TDCV, which had not substantially improved its sourcing system in many years. TM's investments in these major IT systems and TTL's ability to manage them more effectively than Daewoo Information Systems impressed TDCV's management and employees, again signaling TM's technological strength and its willingness to invest in the long term. Menon explained the broader value of such investments:

> Sometimes we took decisions that cost us a lot of money but helped us to be seen as a company which is open to their ideas and willing to make investments in Korea. It helped integrate the thought processes of the two companies. We proved that we were in for the long haul.

One TM practice that met with resistance was the introduction of meetings to obtain customer inputs and feedback. DCVC had only manufactured trucks, leaving sales and services to the Daewoo Motor Sales Company. As a result, the firm had limited contact with customers and was reluctant to engage them. After his first customer feedback meeting, Chae realized that it was a valuable source of ideas, made it a regular part of his schedule and instructed TDCV's R&D team to attend these meetings.

THE SITUATION IN 2006

In early 2006, TDCV's executive management team decided to repay half of the $51 million loan used for the acquisition of TDCV. Although the entire loan could have been retired, the team decided instead to use $10 million to acquire the plot adjacent to TDCV's Gunsan plant for future expansion. Because this plot could not be easily converted to other uses, its acquisition was widely viewed as yet another signal of TM's commitment to TDCV. This decision was made despite the preference of some managers in TM headquarters in India for redeploying these funds.

In May 2006, TM announced positive results for TDCV, which contributed to TM's strong overall performance. TDCV's results are summarized in Exhibit 1. TM's acquisition and integration of DCVC, it appeared, had been a success.

Exhibit 1

SUMMARY OF RESULTS FOR TATA DAEWOO COMMERCIAL VEHICLE CO., LTD.

	2004-05	2005-06	Change
Sales (US$ million)	285	374	31%
Profit after tax (US$ million)	5	13.79	176%
Total unit sales	4,540	5,734	26.3%
Domestic market share	29.1%	28.1%	–1%
Export units	874	1,850	112%
Plant capacity utilization	72%	78.3%	6.3%

Source: Tata Daewoo Commercial Vehicle Co., Ltd.