

Mergers and Acquisitions- A Theoretical Perspective

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MERGERS AND ACQUISITIONS IN INDIA

Mergers and Acquisitions are key forms of corporate restructuring. The mergers and acquisitions come into existence from the post-independence period in India. But very few M&A took place in India prior to 1990s due to Industrial Development and Regulation Act 1951, FERA Act, MRTP Act. After 1990s especially after liberalization in 1991, there was a through cut domestic and global competition. This leads to a big wave of M&A. Takeover cases started only in the year 1996 and then onwards this mode of M&A has gained importance. The Tata Group had 126M&As deals from April 1998 to March 2008. The number of deals really picked up in the year 1999 with total of 1453 deals as compared to only 172 deals in 1998. The years 2000, 2007 and 2008 saw decline in the deals by 22%, 2% and 24% respectively due to the global credit crisis.

CHARACTERISTICS OF A STRONG MERGER & ACQUISITION

Defined Goals

When looking to purchase another business (or be purchased for that matter) it is important to have very well-defined goals on what you hope this merger or acquisition to accomplish. The following are some types of goals to give you an idea of what to focus on:

- Expanding Territory
- Boosting Sales
- Acquiring Patents/Technology/Other Assets
- Entering a New Market

Transparency

Throughout the merger and acquisition process, transparency is absolutely critical. All parties who are directly involved with this event will likely need to sign non-disclosure agreements to limit the risk of someone withholding information. Disclosing things about the business finances, legal situations, and anything else that could impact the purchase is important, and often legally required.

Communication

Open and frequent communication during these types of events is critical. This applies not only to communication between the two owners of the companies in question, but also with the employees. If employees feel that information is not being given to them, they are much more likely to start looking for other jobs, which can seriously hurt the company during this critical process.

Qualified Transition Team

Having a qualified transition team in place is a great way to avoid problems and keep things running smooth during and after the merger or acquisition have been completed. The transition team will help individuals from both companies learn to work together effectively, and ensure the focus always remains on the customer.

Experienced Legal Representation

Mergers and acquisitions are complicated matters, and have a lot of legal regulations that must be followed. With that in mind, it is necessary to have representation from an experienced attorney working on your behalf. Contact Carla D. Aikens to get the help you need throughout this important event.

RATIONALE BEHIND MERGERS AND ACQUISITIONS

There are many rationales that determine the nature of a proposed merger or acquisition. They are discussed as follows

Strategic Rationale

To achieve a set of strategic objectives, the strategic rationale plays an important role. Mergers and acquisitions are usually not central to achieve strategic objectives, as usually there are other alternatives available. A merger to secure control of capacity in the chosen sector is an example.

Speculative Rationale

This rationale takes place when the acquirer takes the acquired organization as a commodity. The organization only will acquire another if it feels that it is a potential target and that it could benefit from this acquisition.

Management Failure Rationale

Sometimes, mergers and acquisitions may be forced due to failure on the management's side. Strategies might be wrongfully aligned or market conditions may change significantly while implementing the timescale. The result may be that the initial strategy becomes misaligned.

Political Rationale

In today's world, the impact of political influences is becoming increasingly significant with respect to mergers and acquisitions. Mergers under this rationale usually take place on governmental levels.

Business Redefining Rationale

Business redefinition is sometimes possible through mergers and acquisitions. This is an appropriate strategic rationale when an organization's mission and vision grow stale due to for example, a major technological change. When this is the case, the organization cannot immediately update its technology by internal investments so the organization seeks to acquire to redefine its business.

TYPES OF ORGANIZATIONAL CULTURES

Roger Harrison describes four main types of organizational culture summarized below (Cartwright and Cooper 1992, 58-68):

Power Cultures

In organizations with power cultures, power rests either with the president, the founder, or a small core group of key managers. This type of culture is most common in small organizations. Employees are motivated by feelings of loyalty towards the owner or their supervisor, these types of organizations foster a sense of tradition in both the physical and spiritual sense. Power cultures tend to have inequitable compensation systems and other benefits based on favouritism and loyalty, as well as performance.

Role Cultures

Role cultures are highly autocratic. There is a clear division of labour, and authority figures are clearly defined. Rules and procedures are also clearly defined, and a good employee is one who abides by them. Organizational power is defined by position and status. These organizations respond slowly to change; they are predictable and risk averse. This type of culture thrives in industries which employ mass production techniques, in automobile manufacturing, for example.

Task/Achievement Cultures

Task/achievement cultures emphasize accomplishment of the task; research and development is an example. The employees usually work in teams, and the Emphasis is on what is achieved rather than how it is achieved. Employees are flexible, creative, and highly autonomous.

Person/Support Cultures

Organizations with a person/support culture have minimal structure and serve to nurture personal growth and development. They are egalitarian in principle, and decision making is conducted on a shared collective basis. This type of culture is rarely found in profit making corporations; it is more typical of professional partnerships such as law firms.

Table 1. Hofstede et al's (1990) Dimensions of Organisational Culture

Culture Dimension	Main Characteristics		
Process(mean) oriented Vs. Results (goals) oriented	Focus on how work is carried out Characterized by avoiding risks and minimal effort	vs.	Focus on achieving specific internally set goals, done when faced with substantial risk
Employee oriented Vs. Job oriented	Emphasizes the welfare of employees and takes into account their well-being, happiness etc.	vs.	Focus on high job performance, even at the expense of employees
Parochial (local) Vs. Professional	Employees identify with their colleagues there is a low level of social diversity Internally focused, pressure to conform	vs.	Identity is determined by job & its contents Social norms the reverse of local
Open System Vs. Closed System	Open to both insiders and outsiders Leaders tend to be more approachable	vs.	More exclusive and closed to outsiders. New members may have to prove their worth
Loose Control (easygoing) Vs. Tight Control (strict)	Loose internal structure, informal. Lack of predictability Typically higher levels of innovation	vs.	Focus on planning, efficiency and productivity
Normative (Internally driven) Vs. Pragmatic (Externally driven)	Focus on business ethics and honesty. Employees know what is best for the client	vs.	Focus on meeting the customer's requirements Results/customer satisfaction most important

(Source: Hofstede, Neuijen, Ohayv & Sanders (1990))

IMPACT OF CULTURE

Since the human factor is so critical, it is important to understand the role of this phenomenon and to address it in each phase of the merger or acquisition process. Over a period of time, organizations, like people, develop distinctive and unique personalities. This personality of the organization has been referred to most often as corporate culture. An individual's personality is made up of one's habits, beliefs, values and behavioural traits. A company's culture is also made up of its habits, values system, customs and norms that govern behaviour within the organization.

The culture reflects the unwritten ground rules of behaviour, or simply "the way we do things around here". The term "**Cultural Clash**" has been coined to describe what happens when two companies' philosophies, styles, values and habits are in conflict. That may, in fact, be the most dangerous factor when two companies decide to combine. One classic example of a cultural clash was the merger of Price Club and Costco Wholesale. While Costco has gone on to be ultimately quite successful, the merger almost derailed the company and took far longer than it should have to come together.

CULTURAL DIMENSION ANALYSIS

Culture, as a group of values and shared practices by communities, persuades the structure and management style as well as influences all established relations either customer services or work relations. Culture extremely persuades the organizational strategy. One of the main motives for the cultural conflict between the companies which are engaged in mergers and acquisitions is the lack of explicit consciousness of the organizational cultural matters. The culture is an influencing factor because it brings unpredicted and unwanted consequences if the decision making process does not consider the working cultural forces. The cultural clash occurs when two groups have different opinions about what really matters, what has to be measured, how to make better decisions, how to organize resources, how to supervise people, how to spread information and so on. The cultural clash may be detrimental not only to the companies involved in merger processes, but also cause a conflict which results in bringing about changes in the whole industry or even bring about a tendency alteration.

