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Acquisition, Building Culture and Value-Chain: An Empirical Study

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Abstract

This paper is an attempt to solve the mystery of mergers and acquisitions and the deal structuring process. Mergers and acquisitions are an essential vehicle for corporate evolution. The term "mergers and acquisitions (Mand As)" encompasses a widening range of activities, including joint ventures, licensing, spinoffs, equity carve outs, tracking stocks, restructuring, alliances, and other corporate interactions such as network relationships. The various issues raised are broad and complex, from tax and securities laws to antitrust and corporate laws. It also described the various approaches to the value chain Analysis. The last part of the lesson explained, how the Value Chain Analysis could be used in internal analysis. A good way to begin an organizational analysis is to ascertain where firm's products are located in the overall value chain. A value chain is a linked set of value creating activities beginning with basic raw materials coming from suppliers, moving on to a series of value added activities involved in producing and marketing a product or service, and ending with distributors getting into the final goods into the hands of the ultimate consumer. The focus of value chain analysis is to examine the corporation in the context of the overall chain of value creating activities, of which the firm may only be a small part.

Keywords: Acquisition, Building Culture, Value Chain, Take Over, Corporate Strategy.

Introduction

Combination of two or more firms is known as merger[1]. It may be brought about in two ways acquisition of one business unit by another, or creation of new company by complete consolidation of two or more units. A combination of or more business units in which one acquires the assets and liabilities of the other in exchange for cash or shares and/or debentures, is generally known as merger through acquisition or absorption. When all the combining units are dissolved and a new company is formed to take over the assets and liabilities of those units against issue of new shares or debentures, it is described as amalgamation or consolidation. Merger by way of acquisition as well as merger by way of consolidation is widely recognized as desirable strategies of external growth.

Merger, Acquisition or Take-Over: An Aspect of Corporate Strategy, Corporate Finance and Management: Mergers may take place with a cooperative, friendly approach on the part of the combining firms, or it may be accomplished by one firm through a bid to take over another with a hostile approach. A friendly merger takes place when two companies agree upon the benefits of merger and work together to achieve it[2]. It results in a negotiated acquisition of one firm by another. A hostile merger often called take-over involves one firm acquiring control over another firm that resists it. Purchasing in the open market a sizable amount of shares of the target company generally does this.Some recent instances of takeover bids in India made headlines on account of the legal and technical issues involved. Various considerations underlie the decision of companies to merge or to go in for acquisition of other companies. For a firm intending to acquire or takeover another firm, merger may be desirable to enable the existing management to achieve one or more of the goals such as to attain a higher growth rate than is possible through internal growth strategy, to bring about an increase in the price earnings ratio and market price of shares, to purchase a unit for better use of investible funds, to have quick access to resources already developed by another firm through R and D and innovative management, to reduce competition by acquiring competing firms, to fill the gap in the existing product line, to add new products (diversify) when the existing product has reached the peak in its life cycle, to secure tax advantage by acquiring other firms with accumulated losses, which can be set off against the current or future profits, to improve the efficiency of operations and attain higher profitability through potential synergistic effects, to improve the stability of earnings and sales by acquiring firms with the sales and earnings to complement business fluctuations. However, mergers and acquisitions are not always successful. Research studies on the value of mergers have shown that the growth rate and profitability of the combined organization tend to decline as compared with the performance of the combining firms. Executives of the acquired firm often lose their status, authority and even their jobs. From the social point of view mergers give rise to monopolistic conditions with increased concentration of economic and political power, higher prices, restricted supply, and other abuses of monopoly.

Strategic Approach towards Effective Mergers: An increasingly larger number of mergers and acquisitions taking place in recent decades in the industrial countries unmistakably show that executives have a strong preference for mergers and acquisitions, rather than internal growth, as convenient means of corporate growth, achieving market entry, diversification, and presumably also as means of improving operational efficiency and realizing potential profitability gains, And yet, research evidence on the post-merger performance of the combined firms in U.S.A. and U.K. seems to indicate that mergers have in many cases resulted in significant reduction in the efficiency of the combined undertakings as measured by profitability and shareholders wealth. A possible explanation of the persistent trend of mergers may be the managerial motives underlying the phenomenon. Obviously, the size of the firm, growth and market share offer both pecuniary and non-pecuniary attractions to the senior executives of companies, given the divorce between ownership and management control. Thus executives have strong reasons to pursue acquisition and merger strategies for the benefits of growth and size etc. within certain limits and without seriously hurting the shareholders interest. Going by the research evidence, mergers have not been generally successful from the shareholders point of view. There are also evidences to show that they have not been successful in many cases form the point of view of management. The possible reasons for failure of mergers are lapses in the part of management[3]. One of the reasons may be failure of management to establish merger objectives, which fit into the overall corporate strategy. The other one may be management's failure to consider the relative merits of internal and external means of achieving corporate goals. Considering the low rate of success, mergers should be recognized as more risky than internal growth strategy, yet managers often regard merging per se as a major goal of the firm rather than as a means.

Insufficient familiarity of the management of acquiring firms with the business of the acquired firms may also be a reason for unsuccessful merger. Failure of mergers is often due to the facile assumption that management expertise can be carried over from one type of activities to another. Actually human problems and complex structuring of organizational relations are sometimes beyond the capability of the management of acquiring firms. This again may be due to the lack of any serious analysis of the merger proposal. Lack of preparation with post-merger planning, organization and control may also the reason for the above. Undoubtedly, the post-merger phase of management action is as important for success as the pre-merger considerations. Mergers and acquisitions involve a complex set of decisions to be made as regards financial arrangements, organizational changes and adjustments of different kinds[4]. Thus, there is a need for Strategy for effective mergers.

Combined Venture: A Contractual Agreement: When two or more independent firms mutually decide to participate in a business venture, contribute to the total equity capital and establish a new organization, it is known as a joint venture[5]. As a growth strategy, joint venture may be regarded as a cross between internal and external growth. Firms within a country as well as firms in different countries may participate in a venture, though instances of joint venture happen to be more common among firms in different countries. A tie-up between Tata industries ltd, and IBM World Trade Corporation led to the setting up of Tata Information Systems Ltd, with Tata and IBM each holding 50% equity. Promotion of joint ventures, particularly those across national borders, requires careful consideration of the terms and conditions relating to equity participation voting rights, dividend remittance, and management control. Often there are legal restrictions on foreign investment. For instance, the Foreign Exchange Regulation Act has laid down limits of permissible foreign shareholding in Indian companies. Differences in culture and differences in the stages of economic development of the countries to which the parties belong are also known to have created problems for joint ventures across national borders. Joint ventures between unequal partners often tantamount to quasi-mergers and may attract anti-monopoly regulations.

Organizational Culture: Building Culture for Implementation: Organizational culture is the pattern of beliefs and expectations shared by the organizations members, which powerfully shape the behavior of individuals and groups within the organization[6]. Organizational cultures provide a guide to throw things is done and how people relate within the organization. Culture in an organization is analogous to personality in an individual[7]. Just as people have relatively enduring and stable traits, which influence their attitudes and behaviors, so do organizations. In addition, certain groups of traits or personality types can be identified because they consist of common elements. Organizations can be described as in similar terms: warm, aggressive, friendly, open, innovative, conservative, and so forth. An organizations culture is transmitted in many ways, including long standing and often unwritten rules, shared standards about what is important, prejudices, standards for social etiquette and demeanor, established customers on how to relate to peers, subordinates, and superiors, and other traditions that clarify to employees what is and is not appropriate behavior.

History and Environment of organizational cultures: Ideally, an organizations culture should develop and evolve from its statement of philosophy. However, it is not unusual for an organizations culture to be different from the ideals expressed in the corporate philosophy. The clearest understanding of an organizations culture comes from an examination of the practices of its management team. The day-to-day behaviors of management shape and determine the culture. Many organizations trace their culture to an individual who personified the major values of the organization. Four factors that contribute to the origin of an organizations culture have been identified its history, environment, staffing process, and socialization process. Employees are aware of the organizations past and this awareness builds culture. To a great extent, the way things are done is a continuation of the way thing has always been done. The existing values, which may have been deliberately established, are continuously and subtly reinforced by experiences. The status quo is also reinforced by the tendency of people to resist strongly changes in beliefs and values. Because all organizations must interact with their environment, the environment plays an important role in shaping an organizations culture. Organizations that operate within a highly regulated environment, such as public utilities, develop cultures totally different from organizations that face fierce competition to industries with rapidly changing technology, such as the computer industry. In fact, since deregulation, many organizations in the communications, banking, and airlines industries are no longer sheltered by their regulated environment and must change their cultures. The question is whether the change can come fast enough to ensure their success and survival.

Organizations tend to hire, retain, and promote people who are similar to current employees in important ways. A person's ability to fit in can be an important criterion in these processes. This criterion helps to ensure current values are accepted. New employees also learn the organizations culture from their orientation program and their actual work experiences. Furthermore, compensation systems, performance appraisal systems, and promotion systems communicate and reinforce the organizations culture.

Organizational culture Grid

Seven characteristics have been identified that, when taken together, capture the essence of an organization's culture[8]. Each of these characteristics should be viewed as lying on a continuum that ranges from low to high. One can form a picture of the overall organizational culture by appraising an organization on each of them. Many distinct organizational cultures exist, and several methods have been proposed for classifying cultures. One approach is called the organizational culture grid. The two dimensions on the grid used to identify culture are actions and people. Actions are the processes used by an organization in making decisions, organizing, monitoring, implementing plans, and generating ideas. In this dimension, organizations are classified as reactive (responding to the external environment) and proactive (actively shaping the external environment). The people dimension refers to the degree of interaction, relationship, and communication among both employees and customers. Participative cultures would be strong in communications and responsive to the needs, concerns, and ideas of both employees and customers. Organizations that are low in this dimension are likely to maintain non participative relationships with employees and customers. Interactive culture cultures are strongly oriented to satisfying the needs of employees and customers. Good service is an important aspect of these cultures. Interactive cultures respond to competition and new technologies rather than shaping the environment[9]. Integrated cultures are also strongly oriented to satisfying the needs of employees, and customers, but are innovative in new products or services. Entrepreneurial cultures are highly innovative in developing new products and services, these cultures generally have a low orientation toward people in that decision making tends to be non- participative. Systematized cultures focus on maintaining procedures, and policies, and systems of ongoing activities. Primarily the external environment drives decision-making. A classification of the corporate cultures of several organizations as they have been described in the media illustrates the use of the grid.

Value Chain Analysis

The value chain is a concept from business management and a good way to begin an organizational analysis is to ascertain where firm's products are located in the overall value chain[10]. A value chain is a linked set of value creating activities beginning with basic raw materials coming from suppliers, moving on to a series of value added activities involved in producing and marketing a product or service, and ending with distributors getting into the final goods into the hands of the ultimate consumer. The below figure is an example of a typical value chain for a manufactured product. The focus of value chain analysis is to examine the corporation in the context of the overall chain of value creating activities, of which the firm may only be a small part[11].

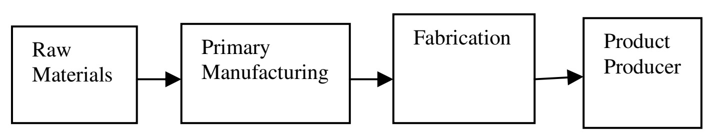

Figure-1
Value Chain Analysis

The value chains of most industries can be split into two segments, upstream and downstream halves. In analyzing the complete value chain of a product, note that even if a firm operates up and down the entire industry chain, it usually has an area of primary expertise where its primary activities lie. A company's center of gravity is the part of the chain that is most important to the company and the point where it's greatest expertise and capabilities its core competence. Each corporation has its own internal value chain of activities. Porter proposes that a manufacturing firms primary activities usually begin with inbound logistics (raw materials handling and warehousing) go through an operations process in which a product is manufactured, and continue on to outbound logistics (ware housing and distribution), marketing and sales, and finally to service (installation, repair, and sale of parts). Several support activities such as procurement (purchasing), technology development (R and D), human resource management, and firm infrastructure (accounting, finance, strategic planning), ensure that the primary value chain activities operate effectively and efficiently. Each of a company's product lines has its own distinctive value chain. Because most corporations make several different products or services an internal analysis of the firm involves analyzing a series of different value chains. The systematic examination of individual value activities can lead to a better understanding of a corporation's strengths and weaknesses[12].

Enterprise into Competitive Industries in the Global Economy

Value chain" refers to all the activities and services that bring a product from conception to end use in a particular industry from input supply to production, processing, wholesale and finally, retail[13]. It is so called because value is being added to the product or service at each step. Taking a "value chain approach" to economic development means addressing the major constraints and opportunities faced by businesses at multiple levels of the value chain. Figure below shows a typical value chain. The value chain disaggregates a firm into its strategically relevant activities in order to understand the behavior of the firm's cost and its existing or potential sources of differentiation. A firm, gains competitive advantage by performing these strategically important activities what we have called key internal factors more cheaply or better than its competitors, Every firm can be viewed as a collection of value activities that are performed to design, produce, market, deliver and support its product. As portrayed in figure, these activities can be grouped into nine basic categories for virtually any firm at the business unit level. Within each category of activity, a firm typically performs a number of discrete activities that may represent key strengths or weaknesses for the firm. Service activities, for example may include such discrete activities, as installation, repair, parts distribution, and upgrading any of which could be a major source of competitive advantage or disadvantage. Through the systematic identification of these discrete activities, managers using the value chain approach can target potential strengths and weaknesses for further evaluation. The basic categories of activities can be grouped into two broad types. Primary activities are those involved in the physical creation of the firm's product or services, its delivery and marketing to the buyer, and its after-sale support. Overarching each of these are support activities, which provide inputs or infrastructure allowing the primary activities to take place on an ongoing basis. Identifying main value activities requires the isolation of activities that are technologically and strategically distinct.

Inbound logistics include activities associated with receiving, storing and disseminating inputs to the product, such as material handling, warehousing, inventory control, vehicle scheduling, and returns to suppliers[14]. Operations include Activities associated with transforming inputs into the final product form, such as machining, packaging, assembly, equipment, maintenance, testing, printing, and facility operations. Outbound Logistics include Activities associated with collecting, storing, and physically distributing the product to buyers, such as finished goods warehousing, material handling, delivery vehicle operations, order processing, and scheduling. Marketing and Sales include Activities associated with providing a means by which buyers can purchase the product and inducing them to do so, such as advertising, promotion, sales force, quoting, channel selection, channel relations, and pricing. Service includes Activities associated with redoing service to enhance or maintain the value of the product, such as installation, repair, training, and parts supply and product adjustment. The primary activities most deserving of further analysis depend on the particular industry. Yet, in any firm, all the primary activities are present to some degree and deserve attention in a systematic internal analysis.

Support value activities arise in one of four categories and can be identified or disaggregated by isolating technologically or strategically distinct activities. Often overlooked as sources of competitive advantage, these four areas can typically be distinguished as follows Procurement activities involved in obtaining purchased inputs, whether raw materials, purchased services, machinery and so on. Procurement stretches across the entire value chain because it supports every activity every activity uses purchased inputs of some kind. Different people typically perform many discrete procurement activities within a firm, often; Technology Development activities involved in designing the product as well as in creating and improving the way the various activities in the value chain are performed. We tend to think of technology in terms of the product or manufacturing process. In fact, every activity a firm performs involves a technology or technologies, which may be mundane or sophisticated, and a firm has a stock of know-how for performing each activity. Technology development typically involves a variety of discrete activities, some performed outside the R and D department; Human Resource Management Activities necessary to ensure the recruiting, training, and development of personnel. Every activity involves human resources, and thus human resource management activities cut across the entire chain; Firm Infrastructure such activities as general management, accounting," legal, finance, strategic planning, and all others decoupled from specific primary or support activities but essential to the entire chains operation. The value chain provides a useful approach to guide a systematic internal analysis of the firms existing or potential strengths and weaknesses. By systematically disaggregating a firm into its distinct value activities across the nine activity categories, the strategist has identified key internal factors for further examination as potential sources of competitive advantage.

Conclusion

This research explained about the techniques of merger and acquisitions. Further it stated about the pros and consequences of merger and acquisition and also about the benefits of the above. The last part of the lesson discussed about the joint venture and building culture for successful implementation. A value chain is a chain of activities that a firm operating in a specific industry performs in order to deliver something valuable (product or service). This topic explained about the value chain Analysis both in industry and corporate. It also described the various approaches to the value chain Analysis. The last part of the topic explained, how the Value Chain Analysis could be used in internal analysis.

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