Chapter I

Introduction
INTRODUCTION

Corporate Mergers and Acquisitions (M & A) have been recognized to have played a dominant role in the expansion of businesses. Until recently the Government of India had adopted a socialistic pattern of society, the main objective of which, was equal distribution of wealth. In this context, the Monopolies and Restrictive Trade Practices Act (MRTP), 1969 was enacted to check the concentration of economic power, wherein amalgamations and takeovers, including acquisition of shares required government’s approval.

The new Industrial Policy of 1991 aimed to remove the controls so as to enable sustained growth in productivity, and gainful employment and achieve international competitiveness. Consequently the stringent regulatory provisions under the MRTP Act, Industries (Development and Regulation) Act, and Foreign Exchange Regulations Act (FERA), were deleted. The Capital Issues Control Act was replaced by the Securities and Exchange Board of India (SEBI) Act for framing guidelines and rules within which companies wishing to approach the capital market for funds could operate.

There were several other changes in the process of a policy of globalization, liberalization and privatization. In short, state regulation was slowly replaced by market forces.

This set in motion a new trend - firms started substituting their greenfield growth plans with acquisitions or takeover strategies. Besides, the benefits of taking over a company were lucrative enough to make this strategy preferable
to organic growth. M & A therefore, started becoming an increasingly common reality of Indian corporates.

Many companies began shedding their unrelated businesses with a view to consolidate their area of operation, by concentrating on their respective core competencies. Increasing market share became an important strategic goal. It became essential to merge with related units and subsidiaries to accomplish cost effective and increased production. While on one side most groups had companies to sell, on the other, companies had to buy up their competitors. And both are triggering off a chain of acquisitions across the country and abroad. This makes it imperative to look into the success of an acquisition.

This thesis is an exploratory research on the post - acquisition corporate culture of merger partners to assess the cultural integration. It studies the expectations of the partners on their preferred culture to highlight the members' propensity to change and to know the direction that change efforts should take. The study also gauges the perception of organizational effectiveness in the context of the organization's culture to understand the functionality/ success of the combination.

Issues in Mergers and Acquisitions (M & A)

At this point it must be clarified that this thesis uses the terms 'mergers' and 'acquisitions' as interchangeable, as the differences in these terminologies
have a technical meaning mainly for financial and legal purposes. Cultural ramifications cut across all these technical divisions. Also, though the motives may differ between a merger and an acquisition, the inherent objective of all mergers and acquisitions is to achieve synergy.

This is in line with the usage by various writers, wherein most discussions of activity in this area, use the terms merger and acquisition and consolidation interchangeably. (Sinetar, 1981; Finkelstein, 1986; Lefkoe, 1987; Walter and Barney, 1990; Mirvis and Marks, 1985; Cartwright and Cooper, 1993; Kransdorff, 1993; Hine, 1993).

In their study of mergers and acquisitions, Mace and Montgomery (1962) found when talking with the executives of a target firm that management representatives of the acquiring company always referred to a 'merger' of the two firms, although it was implicit that the one firm proposed to acquire the other. When talking among themselves and their Board of Directors, in contrast, these same people invariably described the combination as an 'acquisition', implying that the usage of the terms 'merger' and 'acquisition' depended on perspective and not content.

When companies coalesce or firms unite in some form, the result is variously described as 'absorption', 'amalgamation', 'fusion', 'merger', or 'takeover'. Although one or the other term from amongst these is used in business or financial circles, they are all words used in common parlance without any precise legal meaning attached thereto (Doshi, 1993).
Historically, writings about the success and failures of M & A have been based on the economic and financial considerations like price, potential economies of scale, and projected earnings ratio. But of late it has been recognized that success has both a qualitative and a quantitative dimension and that the cultural ramifications of acquisitions and the integration of the human resources are equally important factors.

In choosing to focus on the human issues for analyzing the success of an acquisition, it is not implied that the technical aspects of the takeover - the operational, financial, and strategic concerns - are insignificant. What it attempts to say is that, an emphasis on the market, legal, financial analyses, tax considerations and the other accounting issues frequently overshadow the reality that a merger of two organizations is actually a merger of individuals and groups (Buono and Bowditch, 1989)\textsuperscript{11}.

Moreover, M & A are premised on the belief that the combined company will have greater value than the two companies alone. This added value is expressed as "Synergy" between the firms, where $2 + 2 = 4$. However, when we look at merger performance, most often $2 + 2$ not only fails to equal 4, but may even be less than 4. Besides, a look at merger planning, preparation and implementation shows that most of the emphasis is on the numeric elements or financial integration; little or no effort is expended on the elusive human integration.
Human integration is essentially cultural integration. Cultural integration is a complex whole comprised of a restructuring of organizational positions, roles, authorities and responsibilities and the adaptation of norms, beliefs and values. Hence the need to emphasize cultural integration in a merger or acquisition.

The Japanese strategist Hiroyuki Itami, and author of the book, 'Mobilizing Invisible assets', argues that invisible assets such as brand name and corporate culture are a company's best long-term source of competitive advantage because they are unique to the firm. When an acquisition takes place, the organizations strategise a lot on the visible assets such as manufacturing facilities, when they should in fact seek a fit in both visible, and invisible assets.

The invisible assets can be put to multiple uses across the firm, and they can be combined or used in new ways that enable a firm to grow. The advantage got out of harnessing the physical resources, in an acquisition, is called the 'Complement effect'; the advantage got when the firm exploits its unique resources - the invisible assets - is the 'Synergy effect'.

Synergy, according to Itami, is a 'free ride' because the invisible assets developed in one part of the company can be used elsewhere without being depleted. In narrowing the definition of synergy to the use of invisible assets, Itami deliberately departs from Igor Ansoff's view which includes benefits gained from economies of scale (the 'complement effect') as well as the sharing of intangible assets such as expertise or image.
This leads us to back to the importance of focussing on human issues - the organizational culture - the invisible asset - of the acquiring and the acquired firm, such that true synergy is achieved.

**The Global Merger & Acquisitions Scenario**

The motivation behind the current spate of M & A is the common buzzword ‘Globalization’. Mega-mergers have taken place in Europe, led by corporate raiders like Sir James Goldsmith, who bid $21 billion to takeover and break up BAT Industries PLC, yet another British firm, and, the Companies de Suez, a $72 billion French conglomerate with holdings in banking, insurance and minerals.\(^{13}\)

Freeing of the European market in 1992 made it imperative for companies to combine their strengths. A high-tech merger of Siemens and Nixdorf, French food giant BSN’s acquisition of RJR Nabisco’s European Cookie unit and advertiser TBWA’s purchase of small agencies throughout the continent are all examples. Between 1984 and 1989, the number of European cross-border mergers and acquisitions increased almost ninefold. In 1990 alone, the value of these mergers and acquisitions was £33.5 billion (Cartwright and Cooper, 1993\(^{14}\)).

The largest non-German acquirer in the State of Berlin in (East) Germany is an Indian plastics melster Ashok Kumar Chauhan. His ‘AKC’ group has bought eight companies in the former East Germany at a price of some $134 million and has long range plans to invest another $168 million. Chauhan
sees the German unification as the 'opportunity of the millennium. The entire formerly state-owned industry of the former GDR is for sale', he says.\textsuperscript{15}

In Japan, deregulation in banking brought about the merger of many banks and credit cooperatives. Japanese have been 'bulls' in the international M & A market in that, in 1990, one-fourth of foreign acquisitions were accounted for by Japanese firms. Bridgestone's $2.6 billion purchase of Firestone Tire & Rubber Company and Sony's acquisition of RCA Records and Columbia Pictures, are just a few typical Japanese buy-outs in the US. But major chunks of their acquisition center around smaller ($5-20 million) companies in services, food, autoparts and medical equipments.\textsuperscript{16}

In 1993, American companies accounted for nearly 15\% of merger activity. It was estimated that at least one in four U.S. workers have been affected by the wave of mergers and acquisitions (Cartwright and Cooper, 1993\textsuperscript{17}).

A look at the American economy shows that maximum M & A took place in 1980 and after. "...the net worth of corporate combinations and consolidations that reached unprecedented $100 billion levels in the early 1980's continues to set new dollar records with each passing year. From 1985 to the third quarter of 1987 alone, over 9000 M & A were announced, with the estimated combined net worth of the merged organizations amounting to more than $520 billion" (Buono and Bowditch, 1989)\textsuperscript{18}. In the first quarter of 1987 alone, 936 M & A were reported, involving almost $32 billion.
Even the stock market crash of October 1987, which was initially expected to put a halt to the wave of acquisition activity, failed to slow this movement. Ironically, after the Dow Jones industrial average plummeted, a “marked down” sign went up at a number of firms as companies that were too expensive to take over suddenly became “affordable” (Stein, 1988).¹⁹

By the end of September 1994 over $200 billion of deals were clinched with the possibility of many more mega deals in the offing. This tempted historians to call this the fifth merger boom of America - the others being in the 1890's, 1920's, 1960's and 1980's.²⁰ The official tally for the first eight months of 1994 was a staggering $220 billion and is expected to surpass the record $335 billion activity of 1988.

As of December 12, 1995, some 8300 deals valued at $450 billion had been announced, according to Securities Data Co., which tracks the transactions. Again that tops 1994's record of 7550 deals valued at $355 billion.

It is a good time therefore to pause and consider some of the lessons of America's merger waves. Studies have looked at the patterns²¹, which may be useful to India also caught in one such wave now.

Mergers seem to be especially prevalent in industries experiencing rapid technological change, deregulation, price shocks or increased foreign competition.
The studies point out that mergers happen in waves, usually when the stock markets are buoyant. Then company bosses have money to spend and are more concerned with expanding their firm than with making profit for their shareholders. Normally shareholders in acquired firms gained about 20%, from the time of the merger proposal to its completion. Those in buying firms gain little in the period and may even suffer a loss. Institutional shareholders on the other hand, with a stake in both the parties to the transaction, may be happy to lose on the buying side in order to make bigger gains on the selling one. However, the share price of a merged firm tends to fall relative to the whole market for months, even years, after the merger, sometimes by so much that the original gain disappears entirely.  

In the 1980s there was no apparent pattern to the acquisition activity. In the first half of the 1990s almost 65% of the activity were in 3 industries - defence, healthcare and media and entertainment. For instance, in the entertainment industry, the Telephone companies were trying to buy cable companies and Video rental companies, were trying to buy Movie libraries (Blockbuster Entertainment and Viacom’s joint $11 billion purchase of Paramount), and network television companies were trying to buy programs. Media is still depending on marriages to take content to new audiences through new technologies and technology upstarts like Internet companies will be acquired to fuel growth. AT&T’s $12 billion purchase of McCaw gives it access to the new world of digital cellular technology. Possibly the biggest expected acquisition is Time Warner’s $7.5 billion union with Turner Broadcasting System Inc.
The latter half of the 1990's is expected to see a lot of intense activity among technology, telecommunications, entertainment and media companies that see opportunities to expand into related industries.

The banking industry has joined the bandwagon. Banks are expected to buy more non-banking assets in 1996, such as companies involved in consumer finance, processing or asset generation. Banks were prompted into mergers due to slow revenue growth and anticipated competition from new technologies.

In the Insurance industry, many firms are expected to target cost-cutting in 1996, prompting companies to exit less-profitable businesses and narrow their focus. The pace in Healthcare and Pharmaceutical areas will remain steady in 1996. The least active area for M & A - Food and Consumer products - is also expected to witness an acceleration of activity.

New technology is another reason. The advent of fiber-optic cables, digital switching and new wireless (radio) transmission is breaking down barriers between local phone companies, cable companies and long-distance companies. By purchasing McCaw, AT&T would once again be able to offer local phone service. So too regional Bell companies want to enter the long-distance market.

Changing markets is yet another. Drug companies have been merging because their prices and profits are being squeezed by cost-conscious buyers of pharmaceuticals (health-maintenance organizations and other big medical groups). Drug companies are also merging with the companies that specialize
in negotiating lower prices. In 1993, Merck started the trend by buying Medco, a discounter, for $6.6 billion.

Divestitures (companies selling entire divisions), acknowledge that past mergers were ill-conceived. Between 1989 and 1993, Xerox sold 10 separate businesses. Kodak recently sold parts of its drug and health-care division, acquired only in 1988.

The Merger & Acquisitions Scenario in India

M & A were in a very low key in the Indian corporate scene till 1991. Only 32 acquisitions had taken place between 1983 -1993. Although the liberalization process of 1991 led to more expeditious clearing of merger proposals, the response was very poor, showing continued lack of corporate interest in this arena.

Inter-connected companies were merged and they were listed under the M & A category. For instance, the Ahmedabad Laxmi mills was merged with Arvind Mills; J.K.Steel with J.K.Synthetics; Shree Gopal Inds. with Maharaja Shree Umaid Mills; Coimbatore Cotton with Lakshmi Cotton Mills; Havco Inds. with Phaltan Sugar and Thirumurthi Mills with Kamla Sugar.24

The acquisition of the controlling interest of major companies like Shaw Wallace, Dunlop, Ashok Leyland, Hindustan Dorr Oliver, Mather and Platt by NRI’s was another major happening witnessed by the corporate sector. Acquisition of the controlling interests of Chloride India (by S.K.Birla), Universal
Luggage (by Piramal) and, Harrison Malayalam (by R P Goenka) was done through an open offer of market prices.

Currently the M & A boom in India has been fueled by, what an Arthur Anderson's partner calls 'the emerging markets syndrome'. The Indian economy is now set to grow at a fast rate. MNC's are ready to pay a high price for entry. At the same time, companies now recognize that it is no longer easy to capture market share as consumers are getting brand-conscious. Now it is perhaps easier to increase market share with an acquisition' says he. This seems to be similar to the American wave which set in subsequent to deregulation and foreign competition. But it is different from the American experience in that of consumer attitudes.

Between January 1, 1993 and April 30, 1995, there have been 298 official takeovers bids.25

The benefits of taking over a company - readymade manufacturing facilities, well-entrenched brands, captive market shares, no entry delays, and an entrenched distribution network - were all perceived as highly lucrative.

Another dimension to the M & A game has been added by the government which after decades of zealously guarding the enterprises it floated, is about to sell parts of those very enterprises. While the Mukand Group is close to acquiring the Iron and Steel Company, ABB and Siemens have put in bids for Bharat Heavy Electricals Ltd., and HMT is now being eyed by a host of raiders.
Likewise, the Board for Industrial and Financial Reconstruction (BIFR) too has become a facilitator of M & A deals. Its redefinition of sickness states that firms which have eroded their networth, no longer have to post net losses for two successive years before they can be declared sick. This is making more firms available for acquisition and faster too. The BIFR is also keen that sick companies be acquired quickly which is hastening the process.

Equally important, big business families no longer allow sentimental attachments to their firms to prevent them from selling out. Though it would have been unthinkable for earlier generations to sell off the family assets, today’s businessman are ready to do it so long as the price is right. Also families with less than 50% stakes may sell of their weak companies and increase the stake in the ones they want to hold on to.

Unlike the American pattern, in India the industries most likely to be affected, are tyres, cement, consumer products, hotels and tourism. And similar to the trend in USA, the electronics and telecommunications, pharmaceuticals and banking are expected to become the arena for the M & A game. Creditcapital’s Bose is convinced of this, given the inexorable logic of global trends. ‘Worldwide there are only four tyre majors who have sliced up the market among themselves. That is bound to happen here’. Some feel that of the 100 or more units in the cement industry, only 10 would remain by 2000 A.D.26

Likewise, analysts predict that the television manufacturing sector will also see increased M&A activity. Similar activity is predicted in the lighting
industry and only the major 3 - Philips, Wipro-GE, and Osram - are expected to remain after the wave.

On the other side of the coin, the decision to sell is also being dictated now by these considerations. Glaxo wanted to get out of its non-pharmaceutical businesses, principally foods; Ciba-Geigy sold its Cibaca brand because its presence in the toothpaste and toothbrush market did not jell with its strategic plan. The Tatas, as part of their strategic rethink, wanted to get out of the soaps business - the company was losing Rs.3 crore a month and the Tata group had more important businesses to focus on. A sale was the logical decision to take. “Till a few years ago, most M & A in India were buyer-driven. There were very few who were keen to sell their companies. With liberalization and restructuring, this has changed. They chose the path of discretion rather than that of valor and cash in their chips before it becomes too late”, says S.L. Rao (1994)27. There are now both willing buyers and sellers.

But, despite the presence of a willing seller, the multiplicity of buyers has led to a rise in the bid prices. UB got a much higher price for Kissan from Hindustan Lever after Nestle entered the fray. When Electrolux was ready to pay $25 million (Rs.75 crore) for Kelvinator, Whirlpool came in with an offer of $100 million (Rs.300 crore).

In short, the trend in India is seeing 4 types - Multinational Corporation’s (MNC) are buying MNC’s (Colgate-Ciba-Geigy, Heinz-Glaxo), MNC’s are buying
Indian brands (Lever-Tomco, Coke-Parle). Indians are buying other Indians (Godrej-Transelektra) and Indians are buying MNC’s (Khaitan-Union Carbide).

By buying Transelektra, the Godrej group has acquired a 50% marketshare in the electronic insect repellents segment. Essar Shipping acquired South India Shipping and Honda tookover Kinetic Honda. Piramal (Textiles and Luggage) acquired Nicholas Laboratories Roche Pharmaceutical Products and Macneill Magor’s tookover Eveready Batteries. In 1993 Lipton merged with Brooke Bond India Ltd. (BBIL) to form Brooke Bond Lipton India Limited (BBLIL); TOMCO merged with Hindustan Lever; and, Tea Estates of India & Doom Dooma were merged with BBLIL.

Analysis also shows that most of the takeovers are of the second category - MNC’s buying Indian brands - and that they are in the consumer product categories.

The MNC takeover are of products that have a good fit with their own existing main businesses. The few that were not so, are clearly intended to be closed down or shed off in some way, in due course. Hindustan Lever has corrected a weakness in the lower end of the soap market through the Tomco merger. Pepsi Foods tookover the Bombay-based Duke and Sons and gained entry. Meanwhile, Coke in one single step with its deal with Parle Foods ensured a 60 per cent share of the Indian market. The recent merger (April, 1996) announced between Hindustan Lever Limited (HLL) and Brooke Bond Lipton
India Limited (BBLIL) would effectively be India's largest consumer goods-cum-foods company.28

This leads naturally to the question as to where the funds for the activity is coming in from. The explosive availability of cheap funds raised through Euro-issues in the international capital market, could be providing would-be predators some of the cash they need. Even a modest Euro-issue raises in $100 million (Rs.314 crore at 1994 exchange rate), just 10% of which could fund a take-over.

Of course, although the MNC's may have fueled the current M & A boom, Indian business has been quick to join the activity. Whether to fortify their existing businesses, or to enter new ones (perhaps in preparation of a further foreign invasion), homegrown companies are trying to acquire brands, marketshare and distribution supremacy.

At a Business Today colloquium held at Bombay, in early 1994, the participants unanimously expressed the view that India would see a lot of Mergers and Acquisitions in the near future.

The story of Acquisitions

This is how the predators go about it. They look for companies with net operating losses, but with strong turnaround prospects. That is, they search for corporates that have red on the balance-sheet, even as their industries are
performing satisfactorily, or are expected to come out of the recession soon; or even loss-making companies whose brands still have significant equity. For instance, TOMCO, with accumulated losses of Rs.56 crore, but with strong brands like Hamam, Moti, 501 and OK, fitted the bill perfectly for Hindustan Lever Limited (HLL).

The predators may also seek cash-rich companies which are not exploiting their potential to the fullest, besides companies which have undervalued assets, especially real-estate. The corporate acquirer can then get access to a new cash source and can even repay the borrowings he made to fund the takeover. Ceat Tyres had nearly Rs.20 crore in cash when the RPG Group took it over in 1981.

The eye is also cast on the undercapitalized companies where the promoter's stake is low. This is essentially a hostile attack.

Given the predatory nature of the activity, it was imperative that the rules of takeover be changed to create a formal M & A market. The absence of a formal market also allows foreign companies to snap up Indian companies cheaply. A code is further necessitated by the emergence of the middlemen in the M & A business. For instance, Creditcapital Finance Corporation has made M & A its thrust area for the 1990's: ANZ Grindlays has opened an M & A division, which earned Rs.50 lakh as fees last year; Citibank and ABN Amro Bank plan to offer M & A services; and a host of other firms led by
J.M. Financial, Kotak Mahindra, Chandravadan Desai Financial Services, and Ind Global Financial Trust - are also planning to enter the business.

The Securities and Exchange Board of India (SEBI) Takeover Code

A task force set up by the Confederation of Indian industry (CII) called upon the government in July 1994 to formulate a code on takeovers, mergers and acquisitions and strategic alliances. Headed by Mr. Rahul Bajaj, the group has suggested the setting up of a non-statutory body to monitor transfers of large chunks of shares to foreigners and NRI's.

While provisions existed in the Companies Act (Sections 11, 372, 391), MRTP Act, FERA and Securities, Contracts and Regulations Act (Section 22A) to impose restrictions on transfer and acquisition of shares in companies, share transfer is freely permissible except under specific conditions.

Subsequent to the frenetic pace witnessed by this unchecked M & A activity, the SEBI announced the takeover code SEBI (Substantial Acquisition of Shares and Takeovers) Regulations in November 1994. Borrowing liberally from the Takeover Panel Code used in the UK, this is the charter for the M & A game in the country. A new regulation 31 has been mooted to displace the old section 22-A clause 3-C which granted the board of a company the power to refuse to transfer shares to a particular buyer. This code makes for great transparency in takeovers and stipulates that transfers of shares can be blocked only if all shareholders agree.
For that an Extraordinary General Meeting (EGM) have to be held and the raider will be allowed to legally canvass for proxies. This will open up the game for predators, who have been forced to hide their true identities behind front companies in the past.

This code will ensure that the minority shareholder also gets his share of the value in a takeover. The following gives the main points in brief:

- **An Acquirer** holding more than 5% of shares in a company must disclose his shareholding to the company and all stock exchanges where the scrip is listed.

- **In negotiated takeovers**, the acquirer cannot acquire more than 10% shares in a company unless he makes a public offer for another 20% shares at acquisition price or average price of previous six months.

- **In open market takeovers**, the acquirer cannot acquire more than 10% shares unless he makes a public offer at a price not lower than highest open market price paid by him or average price of previous six months.\(^{30}\)

While the Government and Industry are taking steps to streamline the acquisition scenario, the problem which has plagued the forerunners has also surfaced in India, of late. It is that, many strategic alliances between MNCs and Indian companies are coming apart. Strategic alliances were considered important in the Indian context as they are considered the first step towards
acquisition. In December 1994, Coke and Parle decided on snapping of their ties. In early January 1995, the Ludhiana-based Hero group was on the verge of a face-off with Japanese giant Honda with whom Hero has a successful joint venture to make motorcycles. So too was the case of Wipro - Nokia, Hinduja - OMV/ Astra, Zee TV - Rupert Murdoch and Mahindra & Mahindra - Chrysler. Almost all of these were blamed on conflict of interest and lack of trust caused by cultural mismatches. The style of management that Indian entrepreneurs are used to, can be very different from how a sprawling MNC with presence in several countries, is run. This makes a cultural study of M & A and strategic alliances all the more necessary.

Limitations of the Earlier Studies

A detailed analysis of the studies conducted till date reveals their limitations and throws light on the focus of this study. The review of the literature has been presented in Chapter II.

Firstly, of the hundreds of organizational culture studies that have been conducted in the last 10-15 years in India, no empirical investigation has addressed the issue of the cultural trauma in a post-acquisition situation in Indian Industry. This was mainly due to the fact that M & A were low key till very recently.

The earlier literature does not give importance to the human resource issues. Lee and Coleman’s (1981)31 ‘Handbook of Mergers, Acquisitions and Buy-outs’, which contains more than 700 pages on the complexities of acquiring
another firm, devotes fewer than 10 pages to the personal and personnel dynamics involved. Wallner and Greve's (1982)\textsuperscript{32} 'How to Do a Leveraged Buy-out or Acquisition', does not even mention human resources as a consideration. Smith's (1985)\textsuperscript{33} 'Handbook of Strategic Growth Through Mergers and Acquisitions', does deal with some of the dynamics of post-merger integration, but it is highly sketchy (Buono and Bowditch, 1989)\textsuperscript{14}.

Besides, until the 1980's, much of the available foreign information on human resource impacts was dated (Kitching, 1967\textsuperscript{35}; Leighton and Tod, 1969\textsuperscript{36}; Mace and Montgomery, 1962\textsuperscript{37}; Stewart, Wingate and Smith, 1963\textsuperscript{38}).

Not only was the literature dated, but with the exception of a few (e.g., Buono et al., 1985\textsuperscript{39}; Schweiger and Ivancevich, 1987\textsuperscript{40}; Siehl et al., 1987\textsuperscript{41}), who had examined the problems of meshing different cultures and human resource policies, the others were very general case studies (Stewart et al., 1963\textsuperscript{42}), or information about what happened in only one of the two firms, often that of the target or merger partner (Mirvis, 1985\textsuperscript{43}), although researchers are starting to examine both.

Earlier literature on mergers and acquisitions has often been prescriptive and general (Brockhaus, 1975\textsuperscript{44}; Cabrera, 1982\textsuperscript{45}). More recently, emphasis has moved toward more systematic examination of mergers (Buono et al., 1985\textsuperscript{46}; Mirvis, 1985\textsuperscript{47}; Perry, 1986\textsuperscript{48}; Schweiger and DeNisi, 1987\textsuperscript{49}; Siehl et al., 1987\textsuperscript{50}). Also, much of the information on mergers and their impact is anecdotal or unrelated to theory and thus cannot be applied broadly (Sinetar, 1981\textsuperscript{51}).
While the finance literature provides some theoretical direction on the motives or causes for mergers (Jensen and Ruback, 1983\textsuperscript{52}), there is little in the way of conceptual framework or theory, differentiating mergers and how they affect human resource issues (Shanley, 1988\textsuperscript{53}).

There are many established models for assessing the financial health and strategic fit of a potential acquisition or merger partner. However, the criteria or framework by which to assess the likely culture fit between two organisations are vague and unelaborated. Consequently their importance is often neglected or, if attended to, any assessment is likely to be made intuitively rather than systematically (Cartwright and Cooper, 1993\textsuperscript{54}).

Besides there are disagreements as to what constitutes the success of a merger (Lubatkin and Shriwees, 1986\textsuperscript{55}; Pritchett, 1985\textsuperscript{56}). There are no set ‘rules’ about what makes a merger or acquisition ‘successful’ (Paine and Power, 1984\textsuperscript{57}). This is particularly true for human related issues (Napier, N.K, 1989\textsuperscript{58}). Accounting-based information such as Return on Assets or Sales growth capture only one dimension of organizational performance (Dalton et al, 1980\textsuperscript{59}; Ford and Schellenberg, 1982\textsuperscript{60}).

The earlier literature also does not distinguish the changes due to type of merger or acquisition, by degree of integration or combination (Jemison, 1987\textsuperscript{61}; Schweiger and Ivancevich, 1987\textsuperscript{62}).
There is very much less documentation on the attitudes and perceptions of the merger partners regarding their old and newly formed organizations ... and the ways in which managers may facilitate the combining of different organizations (Buono and Bowditch, 1989).

NEED FOR THE STUDY - A focus on Behavioral issues in an acquisition

As was seen earlier, financial and strategic considerations dominate the selection of a suitable acquisition target or merger partner. Decisions are driven by issues of availability, price, potential economies of scale, and projected earnings ratio.

Consequently, when the combination fails to realize financial expectations, the post-mortem analysis of merger failure or underperformance tends to focus on re-examination of the factors that prompted the initial selection decision. Typically, poor selection decisions are attributed to an over-inflated purchase price, managerial incompetence in achieving projected economies of scale, or that the organizations were strategically mismatched.

These grounds have been well researched. Yet, the rate of merger failures continued.

As the inadequacies of more traditional explanations of merger failure were being recognized, there was a significant revival of interest in the human aspect of the phenomenon and its role in determining merger outcomes.
A survey of more than 200 European CEO's found that the "ability to integrate the new company" was ranked as the most important factor for merger success, even higher than financial or strategic factors (Cartwright and Cooper, 1993). They felt that the analysis of merger performance rarely extended beyond "bottom line" balance sheet explanations of merger failure and the so called "hard issues". The role of people, erroneously labeled the "soft" or "mushier" issue, were ignored or overlooked, perhaps, not surprisingly, given that the human resource function is often seen as marginal to the organization and is rarely involved in target selection or merger planning.

Besides the ground realities, there was an obvious and compelling case to extend research on mergers from a human point of view. Merger-related organizational restructurings can traumatize and alienate people at all organizational levels (Buono and Bowditch, 1989).

As "Business Week" estimates, one out of every three acquisitions is later undone. The most common cause for failure is a clash of corporate cultures. Behavior in an organization is determined more by its culture than by directives from management or any other factor. In fact, an organization will find it nearly impossible to implement any strategy - marketing, financial, or otherwise - that is inconsistent with its culture.

As a result, culture has a great impact on a company's success than anything else management can do, including any strategy or tactics it might employ (Lefkoe M., 1987).
As a Senior Vice-President of a Company stated (1988) "All marriage partners assume a long marriage and a great honeymoon. The passion of acquisition often creates unrealistic assumptions regarding improved productivity, conflict resolution and availability of management… There’s a 'catch 22' associated with corporate cultures... If you don’t know your culture other than at the most unconscious or subconscious level, it means that culture, its measurement and its management are probably not important to your organization. As a result, you probably won’t be terribly interested in looking at the culture of any acquired company. This will not only decrease your chances of success, but because you didn’t care enough to do it in the first place, your post-acquisition failure analysis probably won’t even identify culture differences as the culprit".

There is a need, therefore, for more systematic investigations and better understanding of the impact of mergers (Napier, 1989)\textsuperscript{38}. It is important to have a framework by which an acquiring firm too understands its own value systems.

Care needs to be taken to identify whether practices are to be found company-wide or are unique to particular functions or divisions. It is also important to ascertain whether cultural beliefs and values are shared among members of an organization or specific to particular sub-cultures (Mirvis, P.H., and Marks, M.L., 1985\textsuperscript{69}).

There is a need to take into account a comprehensive measure like Organizational Effectiveness to assess the success of an acquisition.
Also, by definition, individual values serve as a guide to a person’s intentions and actions. Similarly, organizational value systems provide guides for organizational goals, policies, and strategies. Thus the nature of the values is a crucial factor in the impact that culture will have on organizational effectiveness. It may be useful to theoretically identify value system conditions and forms that are most likely to yield proper values (interpret as culture) - those more likely to contribute to overall organizational effectiveness (Wiener, Y., 1988)\textsuperscript{70}. This will highlight the functional and dysfunctional cultures.

To the best of the researcher’s knowledge, there are no empirical studies in India, that have classified Mergers and Acquisitions, assessed the strategy of cultural integration post-acquisition, and sought to relate this integration level with Organizational effectiveness. There is also a dearth of studies on identifying the sub-cultures, the functionality or otherwise of different cultures, their responsiveness to change in such a situation, as also in identifying the direction and destination the change effort should be towards.

**Objectives of the Study**

The specific objectives of the research are as follows:

1. To study the culture profiles of the acquirer and acquired organizations;

2. To diagnose the expectations or change needs of the employees in the context of the culture profiles;
3. To evaluate the organizational effectiveness in terms of the culture profiles, and

4. To diagnose the level of integration of organizational culture in the different acquisitions.

Limitations of the Study

As explained earlier, the terms mergers and acquisitions are used interchangeably as the terms connote more of legal differentiations only and culturally they confront similar issues.

The motives of the acquirer are not immediately apparent nor divulged. The classification of merger in this thesis is based on observations, informal talks with the concerned firm's executives and press reports.

One case study in each type of acquisition may be insufficient to draw generalized conclusions.

This study has been carried out, approximately a year- and- a- half after the acquisition in all the three cases. As such it is known as to what will be the ideal time after which one should study an acquisition. However, there are no conclusive studies about this ideal time period after which to study an acquisition.

Purposive sampling was followed to ensure a broad representation across all the levels from top managers to shop floor workers, and across all departments. 75 questionnaires were distributed in each organization. The
recovery was 60 questionnaires in two organizations, 45 in two others and 35 in yet another acquisition. Hence this study may suffer from all the inherent limitations of such moderately small samples.

This research uses a particular definition and a particular methodology for identifying Organizational Culture. Ideologies - the substance of culture - are identified and categorised as a power, role or a team. This is one of the levels of looking at culture and is sought to be done through a structured questionnaire and an unstructured interview. The study thus ignores all other levels of studying culture.

Arrangement of Chapters

The thesis has been presented in seven chapters as described below:

Chapter I   Introduction

Chapter II  Review of Literature

This chapter on 'Review of Literature', reviews the earlier studies on Mergers and Acquisitions, Organizational Culture, Cultural Change, Organizational Effectiveness and Cultural Integration in M & A

Chapter III  Methodology

The chapter on Methodology is intended to describe in detail, especially, the sample size, the parameters for identifying and measuring various cultural types and the statistical techniques used for analysis.
Chapter IV  Analysis of data - I: Cultural Profile

In this chapter on analysis and inferences of data, the cultural profiles of the 6 organizations is depicted in detail. The qualitative data is also presented. It also includes the expectations of the employees or the preferred culture for the future effective functioning of the organization.

Chapter V  Analysis of data - II: Relationship between Culture and Effectiveness

This chapter is intended to outline the relationship between the different Culture types and the corresponding effectiveness perceptions of the 6 organizations. This will highlight the functionality/ dysfunctionality of the culture types.

Chapter VI  Analysis of data - III: Integration of cultures in M & A

In this chapter on Integration of Cultures in Mergers and Acquisitions, the acquired and acquirer are assessed together and the single culture profile identified. This reveals the integration level. This profile is then examined for its effectiveness perception. The preferred culture for future effective functioning of the unit is also analyzed. The strategies for integration are suggested depending on the type of the acquisition.

Chapter VII  Summary and Conclusion

This chapter on 'Summary and Conclusion' gives in brief the major findings, the inferences drawn and the conclusion arrived.

The Appendix consists of the background of the 3 acquisitions surveyed and the questionnaires.
Endnotes


16. Ibid.

17. Cartwright and Cooper, op.cit.

18. Buono and Bowditch, op cit.


21. Ibid.

22. Ibid.


28. (——). (1996). Takeovers : Crucible of competitive combat. 'Potential targets for takeovers'. Dalal Street Investment Journal, April 29–May 12, 1996. The report in the journal has drawn up a list of companies as potential takeover targets wherein the promoters stake is below 25%.

29. A detailed version of the Securities and Exchange Board of India (SEBI) takeover code is given in 'Guide to SEBI Capital Issues, Debentures and Listing' by K. Sekhar. On 18 June, 1996 a committee set up by SEBI reviewed the code and insisted on opening of an escrow account by those making an open offer. In addition to discouraging frivolous bids, the escrow account would dispel doubts about the credit worthiness of the acquirer. It was also decided that any change in management of the companies will also fall under the purview of the new takeover code. For further details refer to the article (——) 'SEBI to insist on escrow for acquirers', The Economic Times, 19 June, 1996. p 1.


34. Buono and Bowditch, op cit.


37. Mace and Montgomery, op. cit.


42. Stewart, et al. op. cit.


46. Buono et al., 1985, op. cit.

47. Mirvis, op. cit.


51. Sinetar, M. op. cit.


54. Cartwright and Cooper, op. cit.


63. Buono and Bowditch, 1989, op. cit. p 22

64. Cartwright and Cooper, op. cit.


67. Lefkoe, op. cit.

68. Napier, op. cit.

69. Mirvis and Marks, op. cit.