CHAPTER 1

INTRODUCTION

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1.1 INTRODUCTION

Is advancement possible without growth? Be it internal or external growth, there can be no second opinion on the fact that growth is an essential ingredient to the progress, success and vitality of many companies. In the quest for growth, M&As have remind a vital part of many companies’ overall strategies to attain and maintain competitive advantage. Our daily newspapers are filled with cases of mergers, acquisitions, spin-offs, tender offers, and other forms of corporate restructuring thus raising important issues both for business decision and public policy formulation. In fact, the last decade has witnessed the greatest merger boom in history and the trend continues unabated. In 1999, total deal volume topped $ 3.4 billion, up 34 per cent from 1998. While the U.S. deal market continues to be most active, accounting for about half of total value, the European market is catching up. With structural adjustment programme and New Industrial Policy in place since early ‘90s in India, Indian Industries are increasing resorting the M&As as a means of growth to deal with competitive pressure due to deregulation and globalization.

1.2 RELEVANCE OF THE STUDY

A study on the management of M&As becomes extremely important today keeping in mind the World economy and the growing Indian market. The recently passed Competition Act, 2002, legislation passed by the Indian Parliament to take the place of the MRTP Act shows the efforts of the new Indian economy to align itself with the challenges of the current world order. Apart from this, it is also widely accepted that M&As are among the most important and risk-laden corporate activities. Its also being increasingly recognized that apart from financial aspects, human aspects throw a very important challenge in the management of M&As which go a long way in deciding the success or failure of the M & A. In such situations, it becomes extremely relevant to undertake a study on the management on these very important corporate activities and trying to understand what goes into making such ventures a success or a failure, the various facets of human resources that have to be taken care of in due course, the laws governing such activities in India and analyze the various aspects of M&As based on certain case studies, both national & international, gather from primary and secondary sources.
1.3 OBJECTIVES OF THE STUDY

In the recent times, many instances of M&As taking place around us. Why is it such a preferred tool of growth even though the risks involved are high? There is no doubt that the boom in M&As of the last decade is continuing unabated and consequently there have been certain legal provisions in the offing to prevent the abuse of monopolies. Various studies have indicated that the management of M&As is a complex one. Therefore, the present study has been undertaken with the following objectives:

- To understand the process of managing M&As with special focus on post-merger integration;
- To analyze the behavioral dimensions that came into play in the process and the ways of handling these human dimensions;
- To have a brief idea of the various laws governing M&As and certain legal provisions;
- To analyze certain national & international cases of M&As from secondary data sources for understanding the rationale behind and gains from M&As to undertake a case study on Paradeep Phosphates Limited (PPL), Orissa, recently acquired by Zuari Maroc Pvt. Ltd. & analyze the difference in various aspects of human relations before and after the acquisition; and
- To compare the differences of management, culture, traditions of these two organizations and the other effects of this strategic alliance from a behavioral perspective.

1.4 HYPOTHESIS OF THE STUDY

The research is based on the following hypothesis:

Hypothesis 1:

Null Hypothesis (H₀) – Various motives act as the reasons for M&As and include economic as well non-economic criteria are just to name a few.
Hypothesis 2:

Null Hypothesis (H₀) – Economic aspects are extremely important for the success of a merger and human aspects don’t play a major role.

Alternate Hypothesis (H₁) – Non-economic or human aspects are extremely crucial for determining the success of M&As.

Economic/financial aspects are considered to be the most important initiative for companies to look at target companies. Economies of scale, market share expansion, product line compatibility and expansion, entry into new areas, profitability etc., are the related criteria under economic aspects. However, it has also been witnessed world-wide that organizational factors related to culture, administrative systems and procedures, managerial style, decision-making approach, communication patterns, job security and satisfaction etc. are extremely crucial in determining the organizational fit among the partnering organizations which go a long way in deciding the success or failure of the strategic move.

1.5 RESEARCH METHODOLOGY

1.5.1 Data Sources

Evidence for case studies may come from six sources: documents, archival records, interviews, direct observation, participant observation and physical artifacts. Given the different sources for data collection, it is important to emphasize the distinction that exists between primary data and secondary data.

Primary data

The primary data are the data that the researcher has to collect himself/herself. This new data can be collected from either interviews, or observation, or surveys. To collect primary data for the current research, several personal interviews have been conducted and a survey among the employees of PPL after the acquisition by Zuari Maroc Pvt. Ltd. has also been done. The questionnaire used is presented in Appendix – 1.
Secondary data

The secondary data is data that already exists. This data has been previously collected for other purposes or studies than that of the research objectives. To collect secondary data for these cases, sources have been different sites on internet, books, articles and public investigations. The books have been very useful for the methodology part as well as for writing of the theoretical framework. While the internet sites, public investigations and newspapers were very useful for the description and analysis of the case study. Newspapers have been extremely useful in giving a countdown to the various mergers and acquisitions happening around the world, their rationale and likely impact. In this thesis, secondary data sources have been used to analyze various Indian and International cases as well as to get an understanding of the basics of M&As with special emphasis on the behavioral perspective.

1.5.2 Case study as the chosen method of research

While there exist different ways of doing social science research, the current research is based on the case study method. This is the best method to reach and fulfill the purpose of the present research and for this purpose the case of PPL and Zuari Maroc Pvt. Ltd. has been taken up based on primary data and seven other Indian and International cases of M&As have been taken up based on secondary data.

For this purpose, a well-designed questionnaire was given personally by the researcher to the employees of the erstwhile PPL after the acquisition. The employees were divided into executive and non-executive groups, a total numbering 196. Questions based on various dimensions of ‘human element’ were rated on a 5-point scale. Also, questions related to a comparison of PPL and Zuari were rated on a ‘Yes’ or ‘No’ basis. Questions regarding ‘changes’ were rated on a 6-point scale. Of the 196 number of questionnaires distributed, 196 filled it up and returned of which 108 were Non-Executives and 88 were Executives. Apart from this interviews with employees of various grades were also conducted and discussions took place on various aspects of the acquisition based on the same questionnaire.
1.5.3 Tools of Statistical Analysis

For the purpose, various statistical tools, using SPSS, have been used for analysis within 'executive' and 'non-executive' groups, which are as follows:

- T-tests for paired samples
- T-tests for independent samples of executive and non-executive cadres
- Chi-square
- Descriptive statistics like f-observation, pattern and nature of statistics and its distribution and classification.

1.5.4 Evaluation of the Quality of the Research

Whether one is doing case studies or other types of research, three tests are relevant to judge the quality of the research. These tests are the following: validity, external validity, and reliability.

Validity

Validity allows the researcher to find out if his research fits the reality and if he is measuring what he really wants to measure, in accordance with his research questions and the purpose of the study. There exist different tactics to increase construct validity when doing case studies. One of them is to use multiple sources of evidence. While another tactic is to have the report reviewed by the informants. Moreover, for case study research the concern over validity may be extended to the broader problem of making deductions. When the investigator is inferring about particular events, the problem is to know if these inferences are correct or not. Therefore the validity of these inferences should be questioned.

To increase the validity of the thesis, several sources of evidence have been used to collect the needed data. The sources that used comprise personal interviews, questionnaire surveys, international press releases, books, Internet, newspapers, and TV News Programs. From Paradeep Phosphates Limited (PPL), Paradeep as well as from the
corporate office at Bhubaneswar, internal information such as company newsletters and other documents about the acquisition could be obtained.

Moreover, after each personal interview, notes were reviewed with each respondent notes in order to be sure that the right view about their perceptions and feelings about the alliance had been obtained. Thus, feedback on the notes were obtained and the respondents could clarify some points that could have been misunderstood. By this method the validity of the research could be increased. Besides the information obtained from the interviews and the questionnaire survey gave the feelings of PPL's employees upon the restructuring.

External Validity

The external validity is about knowing whether a study's findings can be generalised beyond the immediate case study. In analytical generalisation, the effort is to strive to generalise a particular set of results to some broader theory. Actually, due to the fact that this generalisation is not automatic, a theory must be tested through replications of the findings in a second or even a third case, where the theory has specified that the same result should occur. Thus, when the external validity is obtained, the results are applicable to other studies.

Due to the fact that this research uses a single-case study based on primary data and seven different cases based on secondary data as the research strategy, the possibility to generalise the conclusions and the findings of the thesis may be limited. However, even though the hypothesis have been applied to limited case studies, they should be applicable to other studies as well. Thus, the reliability of the research should be quite high.

Reliability

Reliability is about making sure that a new investigator should arrive at the same findings and conclusions than an earlier one, by following the same procedures described by the earlier investigator. The objective is to minimise the errors and biases of the study as much as possible.
It is difficult to be sure that the interviews and questionnaire survey do not include any biases or errors. Moreover it is impossible to be sure that another investigator would interpret the data in the same way that this research does. However the research has used procedures that are rather easy to follow. During the interviews important notes to the answers given by the respondents were written down. Furthermore, to ensure that everything said during the personal interviews was saved, all that was said as well as the researcher’s own perceptions after each interview were noted. Therefore, it can be said that the reliability of the data collected from the interviews and the survey is quite good.

1.5.5 Choice of the Case Companies

PPL was referred to the Disinvestment Commission in July 1998. The Disinvestment Commission in its 10th Report (June 1999) had classified PPL as non-core and recommended inter alia for strategic sale of not less than 51 per cent. The Cabinet Committee on Disinvestment (CCD) on 18.11.2000 decided for disinvestment of 74 per cent equity through strategic sale. Public advertisement was released on 27th March 2001 in the Economic Times, the Business Standard and the Financial Express inviting Expressions of Interest from prospective investors. The advertisement was also issued in the Economist, London. In addition, the Advisors had sent direct mailers to about 125 potential bidders. The last date for conveying Expression of Interest was 15th May 2001.

That was the time when disinvestment was very much in news and PPL being the only Central Govt. PSU of the region (Orissa), its disinvestment and the resulting acquisition was an obvious reason for interest and choice. The propriety of the choice was affirmed when the case of PPL’s acquisition by Zuari Maroc Pvt. Ltd. proved to be a very smooth one with whatever minimum opposition being handled in an effective manner. Apart from this, the restructuring brought tremendous benefits to the firm. All this made PPL an ideal choice to study the management of M&A with special focus on the behavioral perspective.

Apart from this, seven other cases of M&As were chosen. The merger of India’s two largest private sector firms, Reliance Industries Ltd. and Reliance Petrochemical Ltd. creating India’s biggest conglomerate seemed appropriate. The acquisition of Madura
Garments by Indian Rayon making the Aditya Birla Group emerge as India’s largest branded apparel company, was an obvious choice. Similarly, the disinvestment of IPCL and subsequent acquisition by Reliance Petroinvestments Ltd. was considered very interesting because IPCL was considered a “Navratna”. The acquisition of German Remedies Ltd. by Cadila Healthcare Ltd. was considered unique because it was one of the few instances where an Indian pharmaceutical company was acquiring a reasonably large MNC pharmaceutical company. The merger of JP Morgan and Chase Manhattan was a milestone in the consolidation inside the banking industry. The merger of Glaxo Wellcome and SmithKline Beecham created the largest pharmaceutical company in the world and the second largest in India after Ranbaxy and therefore came as a natural choice. The Pfizer and Parke-Davis merger created the second largest pharmaceutical company in the world level and proved to be yet another interesting case of M&A in the pharmaceutical industry.

1.6 LIMITATIONS OF THE STUDY

Due to constraints on time, the researcher has focussed only on one primary case while relying on the other cases based on secondary data. Even in the primary case, data from only 196 samples could be collected because of problems of accessibility but to overcome the deficit, equal emphasis was given on executives as well as non-executives. The management of M&As is a broad topic with multifarious facets beginning from finance, HR, marketing to operations, etc.; but due to constraints of time and resources the present study has confined itself to limited aspects with a special emphasis on management.

1.7 CHAPTER PLAN

The first chapter has begun with introducing the topic of Mergers & Acquisitions and what is the importance of this study in today’s context. It then goes on to fix some guidelines for the study in the form of objectives and tries to draw some tentative hypothesis for further exploration. The research methodology is drawn out to guide in carrying out the project.
The various approaches of study in the field of M&As are examined in the second chapter. It then tries to distinguish between the traditional and organizational approach to M&A studies and tries to highlight the reasons for failure of traditional approach. This chapter then tries to highlight the synergy benefits that arise out of a M&A and concludes by elaborating on the new & emerging studies in this field and about the current study.

Theoretical framework on M&A, the concepts and definitions commonly used in this field have been explained in the third chapter. It tries to explore the various types of combinations possible and identify the differences between a merger and an acquisition. The chapter then tries to understand the various motives behind mergers and identify the benefits and weaknesses of M&As. It then tries to explain about the various valuation methods commonly used to value a target entity, understand the human aspects involved in a M&A, identify the services required for a M&A, understand the role of the authorities involved in a M&A, and finally introduce the steps involved in due diligence.

The fourth chapter tries to have a broad understanding of the legal framework governing a M&A. It tries to understand the regulation of M&A, understand the newly passed Competition Act, 2002, identify the legal measures available against a takeover bid & protection available for the minority shareholders. It then tries to understand the role of SEBI in a M&A and concludes by having an idea about the documentation procedure required during a M&A.

The backbone of the current study in the form of trying to explore into the details of the M&A process is the subject matter of chapter five. As the chapter heading rightly hints, this chapter tries to explain in brief the details of managing a merger or acquisition. The chapter tries to divide the process into three phases – pre merger, during merger, and post merger. It tries to understand in brief the importance of SWOT analysis of a target company and identify the ways in which a target company can be identified. Once a target company is identified, the most importance step is that of carrying out the due diligence study, here the role that Information Technology needs to play is also highlighted. Once the M&A has taken place, one needs to plan for the people and take steps to integrate both the entities. The last section of this chapter talks about it in great detail and suggest ways in which a M&A can be made successful.
The behavioral dimensions involved in a M&A are presented in the sixth chapter. It discusses in detail about the ways in which M&As need to be appraised. As it happens in case of any change, stress is a natural by-product of a M&A. The chapter then tries to understand of ways in which this stress can be identified in the different stages of the merger process and managed and intervened. The chapter stresses the importance of trust in mergers and concludes by discussing about the ideal culture that needs to be there.

Some famous mergers & acquisitions that had occurred during the period of study both international & national are the subject matter of discussion in the seventh and eighth chapter. In here attempt is made to understand the main motives behind the M&A. These would ultimately help in proving or disapproving our first hypothesis. Three M&As on a global scale and four M&As on the national front had been identified for secondary analysis. The global cases identified are of the merger of JP Morgan & Chase, the merger between Glaxo Wellcome & SmithKline Beecham, and the merger between Pfizer & Parke-Davis. The Indian cases explored are those of the merger of Reliance & Reliance Petro, the acquisition of Madura Garments by Indian Rayon, the acquisition of Indian Petrochemicals Corporation by Reliance Industries and acquisition of German Remedies by Cadila Healthcare. In each of the cases attempt has been made to explore into history by way of the events leading to the mergers or acquisitions and identify the main motives for such an event.

The ninth and the tenth chapter, which are based on the primary method of study, is based upon the acquisition of PPL by Zuari, the first of its kind of events occurring on such a grand scale and across different modes of undertaking in the state of Orissa. The acquisition of Paradeep Phosphates Limited, a government undertaking, by a private player, Zuari Maroc Private Limited, was a challenging case in itself. In these chapter attempt has been to understand the merger process in detail with emphasis been laid on the human dimensions. The analysis of data collected from these organizations will help in approving or disapproving the first hypothesis of the study.

The eleventh, concluding chapter, tries to summarize the learning’s from the various cases used as tools in the study. It tries to discuss the important findings and decide upon the validity of the hypothesis framed in the beginning. It also tries to highlight the limitations of the study and suggest scope for future studies in the field.