CHAPTER VII
STRATEGIC MOMENTUM AND ORGANISATIONAL INTERDEPENDENCE

7.1 INTRODUCTION:

Competitiveness in the national arena is now forcing business to go global. The days of regional differentiation are over. Old strategies that professed “Small is Beautiful” or offered lessons on how companies could “survive in a niche” are no longer viable. But it is true that there are still micro-cosmos that thrive at the small business level and there is a new generation of savvy entrepreneurs who will develop and continue to fuel healthy business in the shadows of corporate juggernauts well into future. One of the most important situations that eventually face is the key to their survival: acquire or be acquired. In other words the only optimal size is big, grow bigger than last year, and grow larger and faster than the competitors. Stagnation or slow growth is a sure recipe of disaster.1

Globalization is a strong force that enables industrial consolidation. During the Asian economic crisis in 1997 and 1998, global organizations such as International Monetary Fund, The World Bank and the WTO assisted and encouraged countries including Thailand, South Korea and Indonesia to restructure their financial institutions and open up their economies by reducing trade barriers. A direct result of these policies was the global financial service players in each of these economies. From 1998 to 2000, Thailand experienced a wave of acquisition activity. Globalization has had a number of drivers including advances in information and communication technology, advances in travel, the reduction of barriers to trade and the growth of overseas markets that could no longer be ignored.2

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In a sense, world has become a global village. Mergers and Acquisitions are no longer restricted by border or geography anymore, because technology and the passion to grow, has made everything possible. There was time when merger and acquisition activities were very less in India, Unlike USA, which had waves of merger and acquisition activities throughout its history. But in the last decade, even India has witnessed a tremendous shift in its gear and the growth for hunger has given a thrust, largely seen around when 1344 merger and acquisition deals were struck.

An ambitious organisation would like to grow fast and develop strategies for it. While formulating a strategy, be it any kind, an organization needs to consider few very crucial things-right from the strategy formation to how can it be successful implemented. The organization needs people who will strategies based on the need for growth and who will keep in mind not only the long term implications but also the short term objectives of the organisation which needs to be achieved as well.\(^3\)

7.1.1 Theories and Schools of Strategy:

There are many schools of thoughts that propound different strategies which an organisation should use. These are:

1. **Boston Consulting Group**\(^4\): Boston Consulting Group emphasizes on three concepts, firstly, the experience curve which represents volume-cost relationship. According to this concept, the larger the cumulative output the company achieves the lower cost it incurs. Thus, it suggests an early entry and price policies to develop volume. Second concept is about the product life cycle. This includes the phases a product goes through in its life, i.e. right from developing it to maturity and decline of its profits. Based on this, the last concept of portfolio balance suggests that total corporate cash inflows will roughly balance total corporate investment. But the issue with Boston Consulting Group approaches is that it is not fit for every type of organization.

\(^3\) *Ibid.*

2. **Porter Approach**: Another school of thought is the porter Approach. Michel Porter discusses his approach in 3 steps:

- Step 1: Select an attractive Industry.
- Step 2: Develop competitive advantage through cost leadership.
- Step 3: Develop attractive value chains.

This approach is very subjective in nature, as for every organization the approach will be viewed in a different light and would bear different results. For an organization to decide which strategy to use and when, requires in depth knowledge and study of the environment, changes which are prevalent in the industry, markets, SWOT of the organization and the synergy achieved etc.

3. **Blue Ocean Strategy**: This strategy gives a systematic approach to making the competition irrelevant. Blue Ocean Strategy has six principles basically dealing with how to reconstruct market boundaries, focus on the big picture, reach beyond existing demand, get the strategic sequence right, overcome organizational hurdles, and build execution into strategy. This is a very revolutionary new way of thinking that the organization should now worry about how to tap newer markets than to worry about how to exist in the same market where their rivals have already established themselves.

7.1.2 **Types of Strategy**:

There are various types of strategies. Such are:

1. **Value oriented strategy**: value oriented strategy is a planning to create the greatest value for shareholders. This is a long term strategy aimed at building shareholder value. It aims for steady gains in share price, not immediate bumps.

2. **Customer oriented strategy**: customer oriented strategy is a planning to create the greatest value for customers.

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5 Supra Note 1, P.3
6 Ibid.
3. Competitor oriented strategy: competitor oriented strategy is a planning to beat competitors.

4. Technology oriented strategy: technology oriented strategy is a planning towards creating and marketing a particular technological breakthrough.

5. Social service oriented strategy: social service oriented strategy is a planning towards a particular social goal i.e. curbing illiteracy, planting trees.

6. Finance oriented strategy: finance oriented strategy is a planning to meet specific monetary/financial needs. Finance oriented strategy is different from value planning strategy, because value planning is long-term; finance oriented may focus more on exit strategy.

7. Work oriented strategy: work oriented strategy is a planning to create the greatest value for employees and creating the best environment in which to be productive.

8. Exit oriented strategy: exit oriented strategy is “How do we, the owners, position the company for the best price”?

9. Flexible strategy: flexible strategy is a planning to provide the most flexible in a time of change.

Although there are various types of strategies that an organization uses but it depends whether the organization is going for internal or external growth.

External growth is favourable when certain goals and objectives are achieved earlier, cost of building and starting from the scratch requires loads of time which can be saved, tax advantages and other opportunities are available.

On the other hand, internal growth is favourable when the above stated advantages are less or minimal in nature. Also at times it is more economical. But, it seems like from the trends seen, an organization which wants to grow merger and acquisition activity opens up a brighter horizon.

For instance, the Ispat steel co. has become one of the world’s largest steel companies because of the long series of successful acquisition. Also, Lakshami Mittal considers the mergers and acquisitions to be the best way to
grow business and an effective way too. But then there are many other businessmen who feel that acquisitions are certainly very good way to add a product line or distribution channel that would be too costly to build from scratch. But they don’t replace the internal growth or alliances. Assets go up the elevator at night and down in the morning. They usually like to build internally when they feel confident that they have the product and process knowledge to capitalize on an opportunity quickly.

7.2 FORMULATION OF STRATEGY:

Once an organisation knows the need of the hour, the next step comes of formulating a strategy. Formulation of strategy is one of the most crucial and decisive steps for an organization, as one wrong decision might end up making loads of trouble for them. Strategic formulation is thus, a combination of three main processes which are as follow:

1. Performing a situation analysis, self-evaluation and competitor analysis: both internal and external; both micro-environmental and macro-environmental.

2. Concurrent with this assessment, objectives are set. These objectives should be parallel to a time-line; some are in the short-term and others on the long term. This involves crafting vision statements (long term view of possible future), mission statement (the role that the organization gives itself in society), overall corporate objectives (both financial and strategic), strategic business objectives (both financial and strategic), and tactical objectives.

3. These objectives should, in the light of the situation analysis, suggest a strategic plan. The plan provides the details of how to achieve these objectives.

So every merger and acquisition decision needs to be framed in tune with the overall corporate strategy and emanate from the mission and vision.

There is a variety of drivers and motivating factors at play in the merger and acquisition world. Apart from personal glory (or greed), merger and acquisition decisions are often driven by such factors as market expansion, technological advancement, regulatory changes, and economic conditions.
acquisition deals are often driven by many justifiable market consolidation, expansion or corporate diversification motives. And, of course, every present as an inspirational force in merger and acquisition is the old reliable financial, generally tax related motivation. Expansion is one of the primary reasons to cross the borders as the national limits fail to provide growth opportunities. One has to look outside its boundaries and play out in the global arena to seek new opportunities and scale new heights. With the habit of creating an empire it becomes difficult for there entrepreneurs to stay within its limits. The simple fact is that most key players in many markets have already extracted a significant proportion of the available value from the domestic resources. They have improved profitability through better cost management and through efficiency gains realized after domestic consolidation.

Another reason is to gain monopoly, the company which has been acquired by the acquirer is always a company which is trembling financially but had something to offer the acquiring company. it may be the market share or intellectual capital or other reasons but one thing that the acquirer looks is for is the untapped resources to be exploited which can lead the company a step higher in the ladder of success. Globalization is a key to help in the rapidity of the merger and acquisition as it is globalization that integrates world economies together and many nations have opened themselves, the countries have made laws and regulations that attract new companies to come into the country and make it easy for the companies to easily perform their operation of merger and acquisition.

7.3 STRATEGIC MOMENTUM AND THEIR EFFECT ON Meger ACTIVITY:

7.3.1 Strategic Momentum:

Firstly, for the clear explanation of strategic momentum, there is a need to understand the meaning of “inertia” and “Strategic behaviour”.
“Inertia” means staying in uniform motion. When inertia occurs in strategic behaviour, it can be thought of as strategic momentum.9

“Strategic behaviour” is a conscious behaviour arising among a small number of competitors or players in a situation, where all are aware of their conflicting interests and interdependence of their decision.10

“Strategic momentum” is a tendency to maintain or expand the emphasis and direction of prior strategic actions in current strategic behaviour.

Strategic momentum occurs in merger activity. The effect of strategic momentum on merger activity can be drawn by the two approaches. First is a theory of organizational routines and second is a theory of managerial actions. These two theories define the three strategic momentums, (a) Repetitive, (b) Positional, and (c) Contextual, with their effect on merger activity.

Repetitive momentum occurs when organization repeat previous strategic actions. Positional momentum occurs when organizations take actions that sustain or extend existing strategic momentum. Contextual momentum occurs when general traits, such as organizational structure give shape to the strategic action in a consistent fashion.11

7.3.2 Effect of Strategic Momentum on Merger Activity:

The three strategic momentums (a) Repetitive, (b) Positional, and (c) Contextual are the explored evidence which shows that strategic momentum occurs in merger activity. The effect of these strategic momentums on merger activity can be drawn by the following:

1. Repetitive Momentum:

Repetitive momentum occurs when an organization repeats a specific previous action. It is the most basic kind of strategic momentum. It is suggested that theories of organizational routines and competencies and theories of managerial cognition imply the occurrence of repetitive momentum in merger activity. Theories of organizational routines and competencies view routines

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(repetitive patterns of activity on the part of organizational members) as basic component of organizations.\textsuperscript{12}

As an organization takes actions over time it develops routines and competencies which then become independent engines for further actions.\textsuperscript{13} As a result, an organization undertakes some activities, such as mergers, because it knows how to do them. Although favourable performance resulting from an action increases the likelihood that it will be repeated, unfavourable outcomes can also increase the likelihood that an action will be repeated. From this perspective, when a company engages in an acquisition, for whatever reason, it develops competency in the process of making that type of acquisition. Each acquisition of these types allows these competencies to be refined, which increase the likelihood of even more acquisition of the same type.

Cognitive theories also suggest the same outcome will result, but for different reasons. Perceptual or cognitive constraints can serve as mechanisms leading to inertia\textsuperscript{14}. Organizational mindsets or ideologies can affect perceptions of the environment and constrain the types of actions conceivable to organizational strategists. A common mindset or cognitive map can develop among managers in the dominant coalition which limits and shapes strategic action on the part of the company.\textsuperscript{15}

A wide variety of factors have been proposed as determinants of cognitive maps or knowledge structures, but as points out there seems to be some consensus that knowledge structures form with experience in a particular information environment. It suggests that when a company engages in an acquisition, for whatever reason, that type of acquisition takes a more central role in the cognitive map of the dominant coalition.

2. Positional Momentum:

Positional momentum proposed that strategy can be conceptualized in terms of: (A) position, and (B) perspective. A strategic position represents the substance of the company's strategy: its choice of product/market domain or its specific competitive advantage. A strategic perspective is the integrated sets of ideas through which problems are interpreted and from which streams of decisions flow. Positional momentum occurs when an organization takes strategic actions that sustain or extend its existing strategies.

Position, regardless of how it arrived at that position. For example, a company that reached a diversified position through internal expansion has a strategic position of diversification. If positional momentum occurs, such a company should be more likely to undertake a diversifying merger than other companies. If positional momentum occurs in merger activity, then diversified companies tend to make diversifying mergers but not other types of mergers.

3. Contextual Momentum:

Contextual momentum occurs when broad organizational features, such as structure or culture, shape strategic actions. In general, theories of contextual momentum predicted that strategy determines structure. This idea ‘Strategy determines structure’ has been proposed not only as a normative prescription, but has also been argued as an historical fact. Looking at decentralization, observers of contextual momentum have argued and produced evidence that diversification has led to decentralize administrative structures.

That argument is efficiency considerations to permit and encourage the diversified company to adopt a decentralized structure. Further it has been suggested that structural decentralization leads to a climate and training context in which individual managers become more capable of assuming major new enterprises. This process leads to a link between decentralization and diversification. Greater decentralization, when embodied in the divisional-zed

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17 Ibid.
form, may give more time and objectivity to senior management, which in turn makes it more likely they will perceive opportunities outside their standard areas of expertise. They will be more likely to perceive the possibility of diversifying mergers. On balance, these arguments seem to imply that decentralization should lead to greater merger activity and to diversifying mergers in particular.\footnote{Ibid.}

7.4 ORGANISATIONAL INTERDEPENDENCE:\footnote{www.istor.org/../2092683 (Visited on June 27, 2012)}

Interdependence, generally, is a relationship in which each member is mutually dependent on the others. The term interdependence differs from a dependence relationship where some members are dependent and some are not. In an interdependence relationship, organization may be friendly, economically, and ecologically related on and responsible to each other.\footnote{http://en.wikipedia.org/wiki/interdependence (Visited on June 30, 2012)}

One of the significant objectives of any organization is to achieve economic growth. For achieving this, organizations review and improve its policies from time to time and introduce various measures. Besides these policies, interdependence is another important factor for the organization to achieve objectives, because interdependence involves major organizational change.

Organisational interdependence positively related to the percentage of business done with the government, as determined on the industry level of analysis. Industries that do more of their business with the government tend to have higher measures of diversification, or sell a lower proportion of products in the primary industrial group.

To the extent that diversification is prompted by doing a large percentage of business with the government, it should be possible to account for the variation in the correlation coefficients obtained when merger behaviour based on an absorption strategy for reducing interdependence was predicted.
To the extent that industries doing a large percentage of their business with the federal government were merging not to absorb interdependence but to diversify away product market interdependence, correlations in these industries should be relatively lower. When the transactions correlation coefficients themselves are correlated with the percentage of business done with both the federal government and with government in total, the results are consistently in the expected direction, but are not significant, partially because the sample size is limited to eighteen industries. Of the twelve possible correlations (each of the three transaction interdependence measures with each of the two percentage sales measures), ten are in the expected negative direction, meaning the more business that was done with the federal government, the less the model that accounted for only the absorption strategy worked in explaining merger behaviour.

7.4.1 Merger as a Response to Organisational Interdependence:

Merger is one possible strategy for an organization to employ in managing environmental interdependence. Three types of the merger are indentified – those which (1) reduce symbiotic interdependence; (2) reduce communalistic or competitive interdependence; (3) diversify and avoid precious interdependencies.

In an examination of patterns of industrial merger behaviour, a strong association between patterns of resources exchange and patterns of merger activity is apparent. Competitive mergers and diversification are also considered. An analysis of merger activity also permits an explanation of variations in the profitability of acquired company’s prior to acquisition.

The operations and decisions of organizations are inextricably bound up with the conditions of their environments. Cyert and March\textsuperscript{22}, in their simulation of a duopoly, traced the mutual adjustment of one organization to another and, as part of their behaviour theory of the company, noted that organizations attempt to establish a negotiated environment.

Hazard has also commented on the fact that businessmen seek certainty in their surroundings and that this is incompatible with some requirements of the antitrust laws. The impact of the environment on the organization has been widely noted.

Thompson has postulated that organizations attempt to manage their external dependencies or to control the environment. Also writing from an open systems perspective,

Hawley recognized the tendency for organisms to attempt to control their environments, and he suggested that they employed a growth strategy.

Katz and Kahn spoke of a growth and related this to the organization’s requirements for certainty and survival, which are hypothesized to be enhanced through growth.

Starbuck has proposed that organizations operate on their environments to make them more munificent. This research raises three distinct issues.

However, there are other mechanisms for managing environmental dependency, and there may be other motivations for organizational growth. Finally, there is the issue of how to grow – internally or through merger – and the simultaneous question concerning areas in the environment into which to expand.

The evidence on patterns of company’s merger activity is consistent with the view that organizations attempt to manage their dependence on the environment. The evidence, however, is also consistent with many of the other motivations for organizational growth.

The pattern of mergers among companies has been analyzed as a response to organizational interdependence. It has been shown that there exist statistically significant associations between patterns of resource exchange and

patterns of merger activity and that these associations are able to account for about one-half of the variation in merger behaviour.

Merger, when thought of as a response to organizational interdependence, is a strategy that can be utilized in managing the organization’s environment. It is also a strategy that can be analyzed in a consistent conceptual framework across types of organizations.

7.5 CONCLUSION:

The strategic momentum Repetitive, Positional, and Contextual occur in merger activity. Merger is an important organizational action. Many different explanations of merger activity have been proposed by the strategic momentum. Some of the strategic momentum explanations of merger activity focused on external environment. Factors such as shifts in the structure of capital markets and industrial activity, differences in valuation of companies, transaction costs in the market for corporate control, and patterns of resource flows as served as the focus on mergers activity. Other explanations focused on factors internal to company, such as reduction in risk, managerial acquisition of power.

Some other explanations focus on environmental and managerial incentive. Environmental explanations, for example, may not account for variability among different types of mergers. For example, identified factors that increase the aggregate level of merger activity but remained silent about what types of mergers would occur. The work made predictions about horizontal and vertical integration mergers but treated diversifying mergers as a residual category of last resorts.

Similarly, managerial incentive explanation sometimes ignores the organizational context of strategic decision making. Managers may act in their own self interest but a variety of work suggests that other factors also shape decisions. The context and structure of managerial decision making and the consequences of managerial cognition and behaviour may be as important as the preference functions of top managers. In is natural, then, to turn to the possibility of strategic momentum as an additional source of merger activity.
The repetitive momentum shows that the greater the number of prior mergers of a given type, the higher the probability of another merger of the same type. While the positional momentum makes it clear that high level of current product diversification increases the probability of a future diversifying merger. Finally, contextual merger explain that structural decentralization increases the probability of a future diversifying merger.

Further, the pattern of mergers among companies is a response to organizational interdependence. It is also clear that there is existence of significant associations between patterns of resource exchange and patterns of merger activity. These associations are able to account for one-half of the variation in merger behaviour. Merger, when thought of as a response to organizational interdependence, is a strategy to be examined along with other types of merger strategy that can be utilized also in managing the organizational environment. Thus, strategic momentum gives effect to the merger activities and merger activities gives the environment of organizational interdependence.

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