International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

Case Study on Mergers & Acquisition: Analyzing Strategic Management Aspects

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A B S T R A C T

Mergers & Acquisition are regarded as one of the most complex business transaction that rely heavily on proper management and strategization. The research paper aims to create a framework and become a one-stop read for understanding and developing a plan for Mergers & Acquisition. The paper uses the acquisition of by Welspun Corp as a case study example. In each of the sections, relevant examples are given to help readers get an in-depth understanding of the strategy/ concept provided. The scope of the study includes: identification of targets, due deiligence, integration planning process, post-merger evaluation tactics, impact of post-merger integration, different M&A strategies, art of a successful M&A, key challenges faced and techniques to optimize an M&A. The paper also focuses on the role of IBC in the process.

Keywords: Merger & Acquisition, Strategic Management, Strategic Management Framework, IBC

LITERATURE REVIEW

Mergers The literature review in the study of Merger and Acquistion identifies that in todays corporate world, M&A has become an integral part for any company corporate strategy to diversify into a new industry or achieve faster economies of scale. The Indian M&A activity totaled to almost $50 billion for the year 2022 with some successful ones like TATA acquisition of Air India while some struggling to exist in the market due to unrelated diversification and some deals which have been called off like 'Reliance Retail and Future Group.' The review demonstrate that even some large & high profile mergers could fall off due to lack of synergy, culture clash and improper knowledge on the process. The study shall thus encompass a crystal clear approach on the Merger and Acquistion Process. and display some successful strategies to do the same

1. Introduction:

The phrase "mergers and acquisitions" (M&A) describes the combination of firms or their primary financial assets through financial transactions between organizations. A company can make a tender offer for another company's stock, start a hostile takeover, entirely buy out and absorb the other company, merge with it to create a new company, or seize control of some or all of its important assets. Each of them is an M&A activity.

Key Points:

- Although the terms "mergers" and "acquisitions" are frequently used interchangeably, they have different connotations.
- In an acquisition, one company fully acquires another.
- The uniting of two companies to form a new legal entity with a single corporate identity is known as a merger.

Merger: A merger is when two companies voluntarily combine under nearly equal terms to form a single new legal entity. The size, client base, and operational scope of the enterprises that agree to join are very comparable.

Mergers can be put up in a variety of ways depending on the relationship between the two companies participating in the transaction:

Vertical merger: Merger between a client and a business or between a firm and a supplier.

- Horizontal merger: The joining of two businesses that directly compete and have comparable markets and product lines. Think about the union of an ice cream maker and a cone vendor.

- Congeneric mergers: Include two businesses that serve the same customer base in different methods, such as a TV manufacturer and a cable provider.
- Market-extension merger: Merger of two enterprises that sell the same products in different markets.
- Product-extension merger: A combination of two companies selling different but related products in the same market.
- Conglomeration: is a pairing of two separate companies with nothing in common.

Acquisition: When a company purchases the majority or all of the shares of another company in order to take over that business, it has made an acquisition.

Using cash, equity, the assumption of debt, or any combination of the three, a company can purchase another company. In smaller transactions, one firm frequently purchases the whole asset portfolio of another business.

2. PROCESS OF M&A

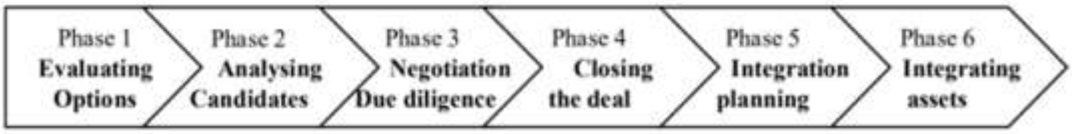

Fig. 1 – Process of M&A

2.1 Pre Acquisition Process

The process commences when a company needs to assess different growth options, including internal development, acquisitions, or alliances. Each option presents unique opportunities and challenges, and there is no one-size-fits-all solution. The choice depends on factors like available resources, time constraints, and market conditions, as noted byj Yip in 1982. It's essential to recognize that acquisitions aren't inherently a strategic choice but rather a potential means to execute a growth strategy, as long as they result in higher economic value.

In the decision-making process for acquisitions, information plays a pivotal role, as acknowledged in management literature. Information is increasingly recognized as a fundamental factor contributing to the challenges and setbacks often associated with M&A deals. These challenges include inadequate screening of potential targets, misjudgment of a target's value, overestimation of synergies, ineffective negotiations, overpayment, and excessive confidence. Information flows among various parties involved, such as financial advisors and board interlocks, are also seen as critical components of the acquisition process.

Information Economics (IE) contributes significantly to the understanding of the role of information in M&A deals by highlighting the concept of adverse selection, which arises from information imbalances between sellers and acquirers. Timely access to information can reduce competition for the target, and having more private information about potential targets benefits the acquirer in assessing their value and, ultimately, achieving success in the acquisition.

2.2 Acquisition Criteria

•Which is the right acquisition candidate?
•Resources and competencies complementarity
•Synergy exploitation
•Strategic/organizational/cultural fit
•Goals reached (which could not be attained by other options)
•Price

•How to negotiate an effective agreement?

•Which is the integration model to implement?

•Which is the proper organizational model to adopt ?

•What kind of "human troubles" the acquiring firm will face?

•How to integrate functional areas?

Fig 2– Questions to ask

The preliminary checklist provided above serves as an outline of the primary considerations when choosing a partner. The selection of the right acquisition candidate depends on various factors, including alignment in terms of strategy, organization, culture, and the potential for synergy. These typologies reflect the desired benefits and integration requirements that emerge from the market and production relationships between the merging companies. It's important to note that while strategic fit is crucial, it does not automatically imply organizational fit. Organizational fit focuses on the compatibility of administrative and cultural practices, as well as how the characteristics of personnel from both merging firms may influence integration.

This classifies acquisitions based on modes of acculturation, taking into consideration the multicultural aspects of both the acquiring and acquired firms, the type of acquisition, and how attractive the acquirer is perceived to be by the target company. However, achieving strategic, organizational, and cultural fit alone does not guarantee value creation; it is closely tied to the exploitation of synergy. Synergy represents the additional value generated by combining acquiring and target firms, which would not be attainable if these firms continued to operate independently.

Synergy can be categorized into two main groups: operating and financial synergies.

Operating synergies impact the operations of the combined firms, encompassing factors like economies of scale, increased pricing power, and higher growth potential, generally resulting in enhanced expected cash flows.

Financial synergies, on the other hand, have a more focused scope and include benefits such as tax advantages, diversification, greater debt capacity, and uses for surplus cash, ultimately leading to either higher cash flows or lower discount rates.

Synergies differ in terms of the likelihood of value creation and the costs associated with implementation. Implementing operating synergies is generally more challenging and costly compared to financial synergies. Consequently, a meticulous assessment of synergies serves as an effective tool for decision-makers during negotiations, providing guidance on setting the most advantageous price for the deal.

2.3 Closing Deal

Closing an acquisition deal is a complex and lengthy process that involves negotiations on critical terms, including the purchase price and risk management strategies.

The assessment of the offered price is a pivotal aspect of these negotiations, particularly when multiple potential buyers are vying for the same target. The price not only determines the immediate outcome but also profoundly influences the long-term value creation process of the acquisition. Essentially, it defines how the economic value created will be distributed between the buyer and the seller. However, there's a time gap, with the seller receiving their share immediately, while the buyer must realize the anticipated synergies over time.

Competition for the same target tends to erode potential gains for all prospective buyers unless unique, private, or exceptionally valuable synergistic assets are involved. These assets are characterized by their exclusivity or the inability of other firms to replicate the value they bring. If information is widely available, or if other equally beneficial combinations are feasible, bidding can push the target's price to a point where potential synergistic benefits are absorbed by the acquisition cost.

Moreover, the value created by synergies can vary among potential buyers, as can transaction and integration costs, influenced by cultural and organizational fit. Additionally, buyers may need to consider defensive implications when valuing a target, factoring in potential losses if the target were acquired by a competitor.

Once the price is roughly set, negotiations should encompass various aspects to pre-empt uncertainties and disagreements. Due diligence is a critical part of this process, involving a thorough examination of the target's financial records, legal matters, and potential issues. Information uncovered during due diligence, which is typically not publicly available, can impact the value of the target.

To manage risks and disagreements about the future performance of the acquired company, tools like earnouts and collars come into play. Earnouts tie payment to future performance benchmarks, making them useful when selling managers stay in charge. Collars, on the other hand, are used when payment involves acquiring company shares and allow for renegotiation if share prices fluctuate significantly.

In essence, a successful acquisition hinges on meticulous negotiations, thorough due diligence, and effective risk management tools to ensure the deal's value aligns with expectations.

2.4 Post Acquisition phase:

The post-acquisition phase involves orchestrating interactions and implementing changes in processes and organizations to realize synergies and projected cash flows. The timing and execution of these changes are crucial, as they ultimately determine whether the acquisition was worthwhile. However, achieving a good fit between the acquiring and target firms doesn't automatically guarantee a successful acquisition. Recent insights, like those from Shaver in 2006, highlight the paradox of synergy exploitation resulting from post-merger integration. Two effects come into play: the contagion effect, where changes in one business impact others due to interdependence, and the capacity effect, which relates to resource constraints hindering the realization of positive external changes.

While intriguing, these theories lack empirical support, and integration can still be a key factor in acquisition success. Integration involves asset rationalization, activity alignment, and employee cultural adaptation. It's about blending the value-adding activities of both companies to generate synergies while also fostering employee satisfaction and a shared organizational culture.

The speed and approach to integration matter significantly. Starting with cost-cutting measures may yield rapid results but create workforce dissatisfaction, while beginning with cultural integration may lead to happy employees but minimal cost savings. Balancing task integration (activity alignment) and human integration (cultural adaptation) is essential but often challenging, as they can be at odds with each other.

Choosing the right integration approach is critical. Over-integration or under-integration can result in value destruction. Existing typologies offer perspectives from the acquiring firm but may overlook the target firm's preferences. A more nuanced view considers both short- and long-term objectives, as well as adaptations to evolving situations and human reactions during integration.

In the integration process, three levels of actors can be identified:

Top management: responsible for defining the integration model, appointing the integration manager, and approving key decisions.

Integration manager: responsible for overseeing the integration process, working cross-functionally, and building trust with key executives.

Transition team leaders: responsible for specific integration tasks under the supervision of the integration manager.

3. Identifying the target for mergers and acquisitions:

A corporation should identify its existing business position and its future orientation as part of the strategic planning process. Second, a gap analysis will be created to identify the needs necessary to take advantage of new business opportunities in order to fulfill these new business objectives. The following stage is to decide how to best meet these requirements: A merger or acquisition is one of the following options: a) naturally utilising current resources; b) establishing a joint venture or strategic partnership; or c) looking for one. Therefore, the first step in the M&A process is the company strategy. The M&A strategy aims to match the corporate goals with the strategic vision.

Before approaching the owners, there are a number of approaches to locate the ideal company for a merger or acquisition:

Make a target shortlist: Create a profile of the type of company you desire. Gather as much information as you can on the markets, businesses, products, and services that you require. After creating the target profile, you can:

- Consider the businesses you currently buy or sell to. There are several mergers and acquisitions of businesses that are already doing business together.
- Senior workers should be encouraged to use their networks to research potential clients in your industry.
- Send out information about what you're looking for. If suitable, use investment banks or corporate financing organizations that sell comparable companies.

Finding the target: The best way to find a target is typically to work with a seasoned advisor in your industry. They ought to have experience managing transactions with a size that is comparable to both yours and the target company's. The majority of the adviser's fee would typically be paid once you have successfully completed business with the final target, even though you should ordinarily ask for a shortlist of 10 possible businesses.

The following are the criteria for choosing the right target to acquire or merge(not exhaustive):

- Will the Target support the business plan?
- The target size is that what you wanted?
- Does Target have the right products, services, and technology?
- Does Target have a market with a lot of growth?
- Can the Target fit in with the culture and business?
- What are the chances of sustained growth for Target?
- Is the time right to go after the Target?

Evaluating merger & acquisition candidates:

1. Price evaluation: Each industry has its own set of parameters that investors use to evaluate acquisition candidates. When acquisitions fall through, it's frequently because the target company's asking price is too high.

2. Debt evaluation: A target company's exceptionally high level of liabilities should be taken as a sign that trouble may be on the horizon.

3. Legal evaluation: Despite the fact that lawsuits are typical in business, a strong acquisition candidate does not have a litigation load that is greater than is acceptable and customary for its size and sector.

4. Financial evaluation: Clear, orderly financial statements from a potential acquisition target make it easier for the acquirer to do due diligence. Financial information that is complete and clear also helps to avoid unpleasant surprises when the transaction is finished.

4. Due Diligence required for mergers and acquisitions:

Mergers and acquisitions (M&A) occur for a variety of strategic business motives, including but not restricted to diversifying goods or services, acquiring a competitive edge in the marketplace, enhancing capabilities, and reducing costs. However, not all M&A transactions result in the accomplishment of the stated corporate goals.

Some M&As fail because of a scenario change that neither the buyer nor the seller can fully control. However, a number of M&A deals are doomed from the start. Organizations can improve an M&A's chances of success by recognizing and removing potential failure factors at the outset. When it comes to helping firms through the complexity of the M&A process and reduce risks, M&A Consulting Services' knowledge is put to use.

What is the due diligence process?

An extensive study and audit of a business must be performed before any transactions are completed and throughout a merger or acquisition. Making sure businesses are making the best decisions possible to increase their prospects of delivering more value to an M&A deal is the main objective of the due diligence process.

4.1 Areas of due diligence:

1.Financial Matters: The target company's past financial records, associated financial measures, and the accuracy of the target's performance estimates will all be of interest to the buyer. There will be inquiries or concerns on the following subjects:

- What can be learned about the company's financial performance and condition from its annual, quarterly, and (if available) monthly financial statements for the last three years?
- For how long, if at all, are the company's financial accounts audited?
- Are all of the company's liabilities, including current and contingent, disclosed in the financial statements and corresponding notes?
- Are the company's profit margins improving or declining?
- Are the business's future estimates and underlying assumptions realistic and credible?
- What differences exist between the company's current-year predictions and the board-approved budget for the same time period?

2. Intellectual property and technology: The scope and caliber of the target company's technology and intellectual property will be of great interest to the buyer. These areas of investigation will frequently be the focus of this due diligence:

- What issued and pending patents—both domestically and internationally—does the business own?Has the business taken the necessary precautions to safeguard its intellectual property, such as confidentiality and invention assignment agreements with current and former workers and consultants?
- Any significant exceptions to these assignments (rights retained by workers and consultants) exist?
- What trademarks and service marks does the corporation have that are both registered and common law?
- Which items and content protected by copyright are used, managed, or owned by the business?
- Does the company's operation rely on the preservation of any trade secrets, and if so, what efforts has it taken to ensure their confidentiality?

3.Clientele and sales: The buyer will want to have a thorough understanding of the client base, sales pipeline, and degree of concentration of the target company's largest customers.There will be inquiries or concerns on the following subjects:

- Who are the top 20 clients and how much money does each one bring in?
- What dangers or difficulties arise from customer concentration?
- Will it be difficult to retain customers after the acquisition (including problems with the buyer's identity)?
- How happy are the customers with the way they interact with the business? (Calls from customers are frequently appropriate.)
- Do any current or former customers have warranty concerns?
- What is the backlog of customers?

4. Strategic Fit with Buyer: The buyer will want to know how well the target firm will integrate strategically into the broader buying organization in addition to how well the target company will likely function in the future as a stand-alone corporation. The following issues and fields of research will be related:

- Will the company and the buyer have a strategic match, and if so, is that perception based on past business ties or just on unproven future expectations?

- Does the business offer goods, services, or technology that the customer doesn't already have?
- Will the business provide important personnel (is this an acqui-hire?) and, if so, what are the chances that they will be retained after the closing?
- What kind of integration will be required, how long will it take, and how much money will it cost?
- What savings on expenses and other synergies will be possible following the acquisition?

5. Contracts for Materials: Reviewing all relevant contracts and agreements of the target organization is one of the most time-consuming (but crucial) parts of a due diligence investigation.The following are some of the sorts of contracts that are crucial to analyze and comprehend:

- Contracts involving payments over a significant dollar amount;
- Guaranties, Loans, and Credit Agreements;
- Customer and Supplier Contracts;
- Partnership or Joint Venture Agreements;
- Limited Liability Company or Operating Agreements;

6. Management and Employee Problems: In order to gauge the caliber of the target company's management and workforce, the buyer will want to consider a number of factors, including:

- A summary of any labor issues;
- A management organization chart and biographical information
- Employment and consulting agreements, loan agreements, and documents pertaining to other transactions with officers, directors, key employees, and related parties.
- A schedule of compensation paid to officers, directors, and key employees for the three most recent fiscal years, showing separately salary, bonuses, and non-cash compensation (e.g., use of cars, property, etc.).
- Information regarding any previous, current, or threatened labor stoppage.
- A list of the benefits provided to employees, as well as copies of any pension, profit-sharing, deferred pay, and retirement schemes.

7. Tax Issues: Depending on how the target company has operated historically, tax due diligence may or may not be essential, but even for businesses that haven't had to pay taxes in the past, it's still crucial to understand any tax carryforwards and how they can benefit the buyer.A review of the following will frequently be part of tax due diligence:

- Tax returns submitted in the last five years from the federal, state, municipal, foreign, and other jurisdictions;
- Government audits
- Copies of any communication or notices received regarding any filed tax return (or any failure to file) from any foreign, federal, state, or local taxing body.
- Transfer pricing and tax-sharing agreements (Harroch and Lipkin #)

8. Cultural due diligence: The term "due diligence" describes a thorough investigation and assessment of company potential in mergers and acquisitions. Although early-stage due diligence frequently includes financial and strategic analysis, one of the most crucial aspects of due diligence is early examination of corporate culture. (Denison and Ko #)

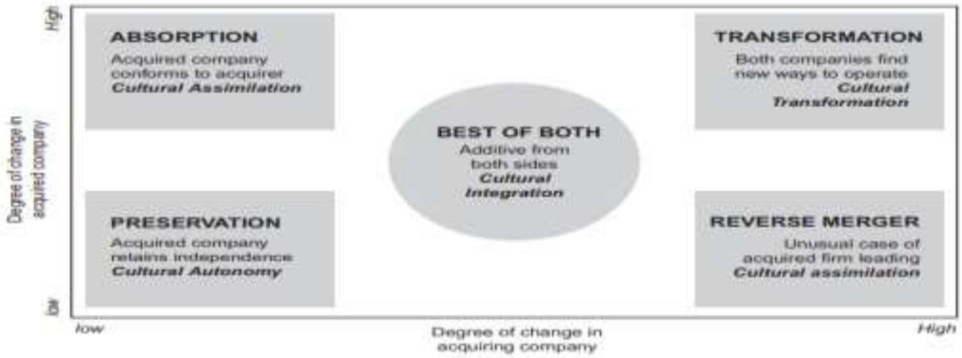

Fig. 3. Cultural Dynamics of M&A. *Source*: Adapted from Marks & Mirvis (1992).

Fig 3 – Cultural Dynamics

Exhibit 1. Due Diligence Dimensions and Environments

Internal Environment	External Environment
Tangible	**Tangible**
• cash	• share of market
• plant equipment	• supplier/distributor contracts
• accounts receivable	• physical location
• patents/trademarks	
• technology	
• inventory	
Intangible	**Intangible**
• quality of leadership	• brand product awareness
• training of personnel	• customer loyalty
• corporate culture	• competitive positioning
• quality of infor./analysis operating system	
• loyalty of personnel	
• trade secrets	
• data bases	
• personal/professional networks	

Fig 4 – Due Diligence Environment

4.2 Typical M&A Due Diligence Obstacles:

A complete understanding of a company might be a sophisticated procedure that is outside the scope of most people without prior experience in the industry.

Although there are many potential difficulties, the following are frequently experienced:

• Not knowing the right questions to ask: Having a due diligence checklist handy during a merger or acquisition will help you understand how to look into potential hazards.

• Slow execution: The transaction may be delayed if the documentation is lengthy.

• Lack of good communication: When two companies merge or buy another, poor communication can cause tension.

• Insufficient knowledge It's not always desirable to hire professionals to perform due diligence because it can be difficult.

• Cost issues: Due diligence can be time- and money-consuming, leading buyers and sellers to take shortcuts. To make sure all parties are happy with the arrangement, it is always better to consult a specialist.

5. Key entities involved in M&A

Entities from the Acquiring Company (Buyer):

• Board of Directors: The board of directors of the acquiring company plays a crucial role in approving and overseeing the M&A process. They are responsible for making strategic decisions regarding the acquisition.

- Senior Management: Executives and senior management of the acquiring company, including the CEO, CFO, and other key leaders, are involved in the strategic planning and execution of the M&A.
- Legal Team: The acquiring company's legal department or external legal advisors are instrumental in conducting due diligence, negotiating the terms of the deal, and ensuring legal compliance throughout the process.
- Financial Advisors: Financial experts, such as investment bankers and financial analysts, help the acquiring company assess the financial aspects of the target company and structure the deal.

IT and Technology Teams: These teams are responsible for evaluating and integrating the technology and information systems of both companies.

Entities from the Target Company (Seller):

- Board of Directors: The board of directors of the target company is responsible for evaluating the proposed acquisition and deciding whether to accept the offer.
- Shareholders: Shareholders of the target company have a say in the M&A process, as they must approve the deal, often through a shareholder vote.
- Management Team: The target company's executives and management team are involved in negotiations, due diligence, and transitioning the company's operations post-acquisition.
- Legal Advisors: The target company's legal team or external legal advisors work on behalf of the company to protect its interests during the M&A negotiations and ensure legal compliance.
- Financial Advisors: Financial experts on the target company's side may be engaged to assess the offer and help negotiate terms favourable to the shareholders.
- Regulatory Authorities: In some cases, regulatory bodies may need to approve the M&A transaction, especially if it involves companies in highly regulated industries.

6. Integration Planning

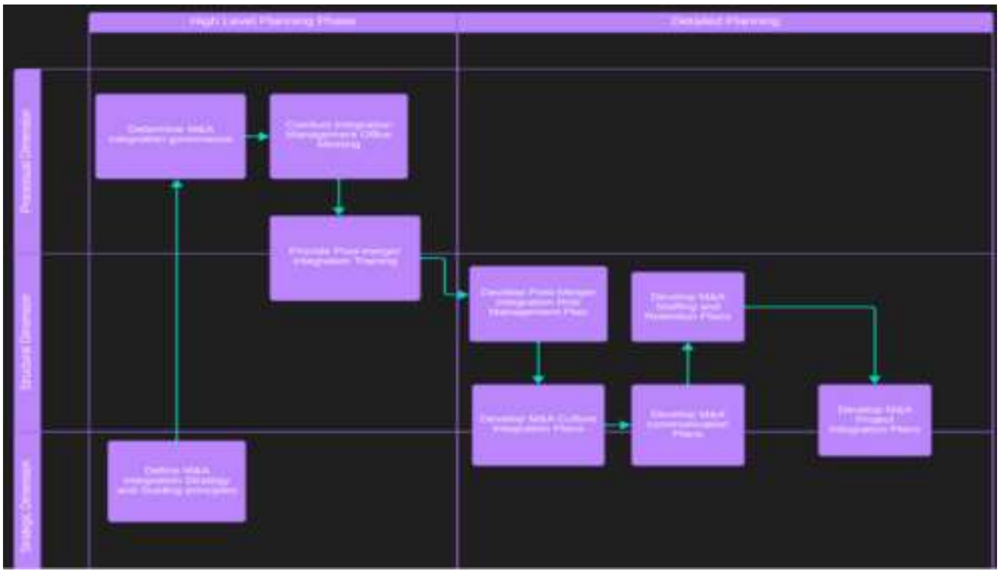

Fig 5 – Integration Planning Framework

6.1 The three dimensions of Integration Planning Process:

Strategic Dimension

The strategic dimension talks about what are the fundamental drivers for the merger - it’s objectives and outcomes. It comprises activities that talk about strategic intent and all its components such as mission, vision, core values and key words. The strategic dimension also prioritizes speed and momentum of the merger using techniques of time-boxing, milestone based planning and avoidance of unnecessary perfection. There is a strategic dimension in nearly every part of M&A decision-making.

Structural Dimension

Motives for creation of M&A can be categorized into three possibilities: Efficiency Theory, Empire-building theory and Process Theory. As the title suggests, the structural dimension aims to provide an organization structure during M&A and focuses on creating a compelling picture of the vision whilst giving tangible outcomes.

Processual Dimension:

This dimension aims to provide a direction for the information processing capacity of the organization and eases transition of the M&A process.

6.2 8-step Integration Planning:

The above planning process has been taken from Prichett Consulting, who handle major mergers and acquisition in Northern America.

“Define M&A Integration Strategy and Guiding principles”

Integration strategy defines: targets, priorities, metrics for success, must-haves , and the extent of the integration.

This is done 2-3 months prior to the actual merger. The guiding principles of the M&A can be defined across the functional fields: financial performance and growth; employee experience and growth; cultural fit; Innovation; and Focus, direction and synergies.

With each of the functional area, it is possible to put the plan of action into 3 broad categories i.e preserve, leverage and integrate.

The strategies can be defined upon two parameters:

Operation methodology – separate or jointly (support-orientation, partial or full)

Strategy – no changes or significant changed

A framework to see strategies of brand integration is mentioned below:

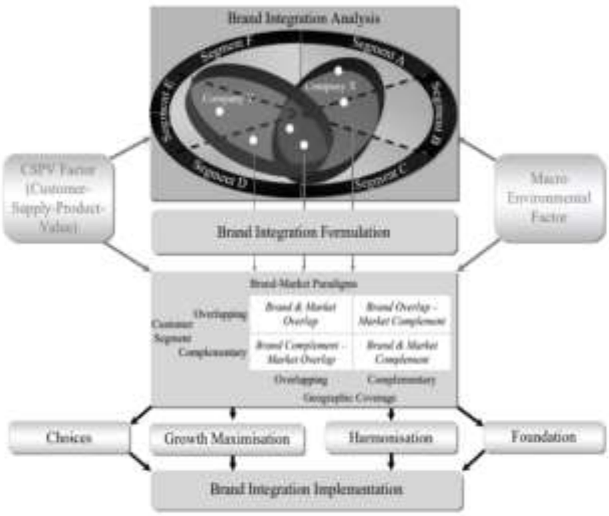

Fig 6 - Table: Strategic framework for brand integration (Anh et al., 2009, p.12)

(1) Choice strategy: Herein, the two companies have a high amount of overlapping products and customer-segment. Hence the strategy involves asset divestment to reduce redundancy and increase synergy. In this case,

(2) Growth maximization strategy: Here, there is focus on the resource deployment strategy and how the functioning of the two companies can be combined. This can involve rationalization of the products. Here brand overlap but markets complement.

(3) Harmonisation: Here, the focus is on cost-savings as a synergy benefit. Instead of combination, the focus is on alignment. This involves equalization of the products and rationalization of production. They will leverage each-others brands for their products. It involves resource-deployment. Here brands complement but markets overlap.

(4) Foundation: The focus here is to merge the two brands to create new products that will essentially be the foundation of the new company.

“Determine M&A integration governance”

Good governance aims to provide direction to the organisation and teams. This includes formation of team, defining their functions and

adding accountability to them. It helps the company to make the right decision at the right time. Due to complexity of the integration process, a company appoints the following committees for governance.

The committees are:

A steering committee (offers guidance and direction) of 2 to 4 senior executives who will guide the integration strategy. Ideal representation includes both the organisations.

An integration management office (provides central coordination of the teams): usually consists of 3 to 5 full time employees who make decisions for day-to-day integration queries and decision-making.

Function-based teams or by business unit or geographic location

“Conduct Integration Management Office Meeting”

The Integration Management Office (IMO) conducts a meeting that will align all teams and departments to business principles and integration priorities. Since, it an open-discussion meeting, it is also a good place to understand how the employees feel about their reporting structure and new guidelines of working.

It also covers the following points:

- Review of communication plan
- Workstream design and objectives review
- Discuss and prioritize each workstream’s initiatives – an interdepartmental discussion
- Review upcoming steps and timing for workplan development

“Provide Post-merger Integration Training”:

Chart: Google Images

The above is classification of different areas that M&A training experts can focus on to provide management integration training.

Fig 7 – PMI Integration Areas

“Develop Post-Merger Integration Risk Management Plan”

To curb risks, it is important to first understand what are the possible risks. These are:

One of the biggest risks that M&A face is the lack of adherence to their M&A strategy. This happens when either the employee communication is unsatisfactory or the integration objective and outcomes are vague. The decision-making of M&A is heavily affected by timing of decision-making, governance issues and lack of prioritization. The more qualitative aspects that pose as a risk are cultural differences and lack of synergy.

It will be easier for the company to put in all of their projects in the following framework:

Fig 8 – Project Risk Evaluation Framework

"Develop M&A Culture Integration Plans"

Cultural Integration is one of the must crucial aspects of a merger and acquisition. While strategy is a statement of a company's future, culture is a testament of a company's past. Hence, it is very difficult to change. Before arriving to a change, here are the 5 methods that companies use to address cultural-related issues.

Ignore or even suppress cultural change; Do nothing – analyse and respond as required; Analyse and be prepared to address it beforehand or Proactively address and manage cultural issues

Here are 4 main strategies of culture integration:

1. Cultural Assimilation: The culture of the small/ incoming organisation changes to replicate the culture of the bigger/acquiring organisation.

2. Forge New Culture: The two cultures combine to create a new culture.

3. Operate with sub-culture: the different sub-cultures must be identified and allowed to be retained. An example for this would be different working cultures in different regions.

4. Keep separate cultures: This goes hand-in-hand with integration strategy wherein the acquired business operates for supporting function or has minimum integration. It allows the businesses to operate separately, but still create value.

The following activities are suggested as a means to integrate cultures:

- Create Culture Integration Project Milestones
- Conduct Formal Culture Diagnostics
- Conduct Culture Training
- Identify & Assign Culture Projects
- Integrate Culture & Performance Management (Core Competencies)

Here is the 3-step integration framework given by Bain & Company:

Set Cultural Agenda - Diagnose the differences that matter -Define the culture you are trying to build

Setting the cultural agenda talks about defining the current culture. Herein, culture is defined using three parameters which are: behaviours exhibited by everyone in the organisation, corporate strategy and the operating model of the company.

The differences in culture are subtle. The best tools for capturing the cultural differences will be management interviews, video-recording of people doing their jobs, employee surveys and accountability mapping.

Defining the culture the new company is trying to build can be best described using the organisation's vision, mission and values. However, it must include all the components of a vision such as core ideologies, envisioned future and their subcategories. The best tool for building this culture is intent workshops. Culture development is most effective when targeted at key groups of employees whose behaviours can influence those around them.

"Develop M&A communication Plans"

The rumor mills start working whenever a new merger is announced. Hence, it is important that official communication provides sufficient details and confidence to secure their investors and market sentiments. 75% of merger problems are rooted in communication.

The communication strategy should be centred around a core message that reflects the strategic intent of the organisation. The communication plan should include the following documents:

- Press Release
- Memo to accompany press release for employees, vendors, customers and government officials
- Leadership talking points for key announcements
- Documents prepared for answering employee questions (different documents for different sites)

The company should focus on a unified time-line to release the above documents. For this, it is important to have a brand identity and integration. This has been done in the first step of the process. Apart from this, they also focus on the implementation of the New Brand in the market. This will include planning and releasing of the new brand's website (in case of a merger).

"Develop M&A Staffing and Retention Plans"

Post-merger integration is a time where it is possible to not only retain good talent, but also let go of the ones who do not adhere to the new company's vision. However, it is also the time of highest employee turnover. Hence, employee retention and selection of which employees should be retained is key.

It is important to refer to the country's employment laws such as minimum time prior notice, compensation and more before implementing the retention plan.

These are the steps to be followed for best employee retention:

- Assess Impact of Loss – Identify the value of criticalness of each employee.
- Define the Role of the Individual – Are they critical to the transition, in the long-term, or both?
- Identify Key Motivators – at least 2 per employee and leverage them for better performance
- Take Action – A conversation, a title change, a promotion, even a call from a company founder or CEO can serve to "re-recruit" people to the new organization.

It is also important for the companies to discuss the following aspects:

- ESPO Plans
- Employee head-count (planned termination, benefits included)
- Standard employment agreements, employee offer letters and employee policies
- Details of expatriate employees and employee work permits (Visa)
- Moonlighting policies

"Develop M&A Project Integration Plans"

Herein, all the projects undertaken by the two companies are listed out and rated. One of the best ways to rate the different projects are by their risk factor and by how much the projects share in common in terms of assets/ processes required.

In the early days of integration, when perfection is not the top-priority, it will be better to keep the high risk-high priority projects within individual companies. Once sufficient cross-functional synergy and system is generated, projects can be integrated.

Projects are also dependent on functional capacities. Out of the functional categories, it is important to focus on the financial strategy since all the remaining have been discussed in sub-sections.

Financial Planning:

These are the key questions that must be answered during financial planning:

1. Which financial statements/ valuations are required for chosen integration method?
2. Are independent valuations required or in-house valuations are alright?
3. What are the auditing requirements related to integration, and if the auditors will change?
4. What is the proposed basis for calculating purchase price for asset transfer?
5. What are the main cost-centres for integration in each department?

Financial planning also includes what all assets will be transferred between the companies and which documents are required for the transfer. The decision-making for the transfer of assets will depend on factors such as: income-tax purposes, VAT purposes, Stamp-duty purposes and more. It will also be important to compute net deferred tax assets and liabilities so that the companies can combine them to achieve maximum value. Intellectual property rights in particular are an important area for negotiation, in their costs, tenure and more.

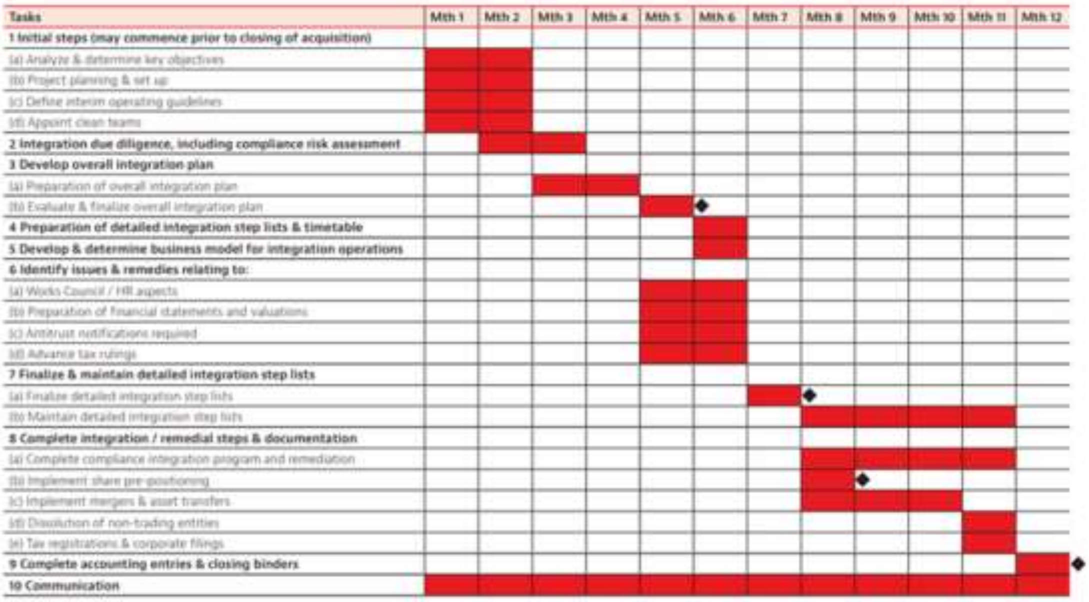

Fig 9 – Timeline of Activities

7. Post-Merger Evaluation Techniques

7.1 Event Studies

$R_{it} = \alpha_i + \beta_i R_{mt} + \delta_{it}$

Rit = expected return of firm, Rmt is the return on market portfolio, alpha I is the intercept term, Bi is sensitivity of return on the firm to market returns and sigma is the zero mean disturbance term

The above formula uses daily returns to calculate the regression. Regression is a prediction model, and here it is used to predict what would be the normal stock returns by using data of at least 20 days prior to the M&A announcement. The aim of event studies methodology is to find the abnormal returns. 200 days is usually used to calculate the returns.

Abnormal Returns = Actual – Expected stock market returns

However, this method can be affected by mispricing or consumer-behavior in the stock markets, which are very unpredictable. It is also affected by the time period taken for the regression. It does not identify the unique synergies created by the merger.

7.2. Accounting Return

Focus on accounting return metrics such as Return on Equity, Return on Asset, Return on capital employed and more. Other metrics included herein are: Return on Capital Employed, Asset Turnover, Debt/equity, Operating Profit Margin, Gross and Net Profit Margins. The metric also places a greater emphasis on operating cashflow.

The computed return metric of cash flows is defined as: (Sales – COGS- Admin Exp – Selling Exp + Depreciation + Goodwill)/ (Market Value of Equity + Debt)

7.3 Economic Value-Added

This metric involves deducting cost of capital from the operating profits.

Annual operation performance estimate is found using pre-acquisition market values of both companies (standalone) and the acquisition premium. Expected increase in EVA is calculated and compared with actual EVA. This gives the Market Abnormal Returns. The methodology helps companies understand the combined targets required to create value for shareholders.

7. 4 Residual Income Approach

$$V_{pre} = \frac{E_{-1}\,(DPS_0)}{(1+r_e)} + \frac{E_{-1}\,(BPS_0)}{(1+r_e)} + \frac{E_{-1}\,(EPS_1 - r_e.BPS_0)}{(1+r_e)^2} + \frac{E_{-1}\,(EPS_2 - r_e.BPS_1)}{(1+r_e)^3}$$

$$V_{post} = \frac{DPS_{-0}}{(1+r_e)} + \frac{BPS_{-0}}{(1+r_e)} + \frac{(EPS_1 - r_e.BPS_0)}{(1+r_e)^2} + \frac{(EPS_2 - r_e.BPS_1)}{(1+r_e)^3} + \frac{(EPS_2 - r_e.BPS_1)}{(1+r_e)^3}$$

V_{pre}- Value of acquirer pre acquisition
$E_{-1}(DPS_{0,1,2})$ - Expectation of dividend per share in year of acquisition, one year after acquisition and two years after acquisition.
$E_{-1}(BPS_{0,1,2})$ – Expectation of book value per shae in the year of acquisition, one year after and two years after acquisition.
R_e _ Cost of Equity

V_{post}- Value of acquirer pre acquisition
$DPS_{0,1,2}$ - Dividend per share in year of acquisition, one year after acquisition and two years after acquisition.
$(BPS_{0,1,2})$ – Book value per shae in the year of acquisition, one year after and two years after acquisition.
R_e _ Cost of Equity

Comparison of pre and post fundamental value of acquirers.

Vpost -Vpre = fundamental value generation

7.5 Questionnaire Method

This is most useful in acquisition of small companies. This questionnaire is usually filled by either: managers either company or external experts such as Stock Market Analysts. The questions are descriptive or radio-button based and involve questions such as the individual's opinion on profitability of the company, changes in functional efficiency and more.

7.6 Data Envelopment Analysis

This is generally used to test the decision-making efficiency of the company. It is a linear programming technique. Herein efficiency is defined as a ratio of input variables to output variables. It is also useful in checking the cost-efficiency of the companies.

7.7 Innovative Performance

This focuses on the ratio of patenting frequency of the acquiring firm. This is extremely important in cases of technological acquisitions. Synergy is tested using innovation performance as well. This helps the firm understand whether the synergy is a right fit, missing out, failure to translate or a synergy dilution.

7.8 Case Study Approach

This method involves an in-depth analysis of the factors affecting the M&A and how each of them are contributing to the success or failure of the M&A. This is better to evaluate qualitative aspects such as leadership, cultural fit and direction.

8. Impact of Post merger Integration

Post-Merger Integration and the Corporate Culture Challenge underscore the significant role of mergers and acquisitions (M&A) in enhancing innovation, profitability, market share, and stock prices. Research has indicated a positive impact of mergers on post-merger company performance, with a direct link between pre-merger announcements and subsequent operating performance. Practitioners in M&A widely acknowledge that the integration phase, post-merger, is the most precarious and often where the deal falters. Integrating two companies involves harmonizing various elements, including cultures, visions, policies, ethics, missions, key resources, processes, responsibilities, and specialized resources like human and financial assets, brand identities, facilities, inventory, and real estate. Beyond culture and resources, integrating critical operational aspects such as organizational structures, shared objectives, standards, services, product/service design, production, supply, financial controls, and key responsibilities is crucial.

In the healthcare sector, the challenges of post-merger integration were echoed, leading to the following recommendations: meticulous planning for the immediate post-closing phase, recognizing the centrality of blending cultures for merger success, a need for high-level organizational and operational redesign, and the imperative of multi-level operational integration.

While many firms focus their integration efforts on achieving financial or strategic goals, it's worth noting that acquisitions primarily driven by financial objectives, such as increased income, often do not involve the integration of acquired company's resources, operations, or technology. This approach, referred to as a financial culture, aims to enhance value through the implementation of superior top-down management strategies within a short timeframe.

The M&A success factors, several key elements emerge: a strategic motivation leading to network efficiencies and synergies, a clear alignment with core business, economically sound pricing, prudent financing through cash or debt, and effective integration planning. The post-merger plan should outline the new company's goals, the support framework for resource, system, and responsibility integration, and a well-defined integration timeline.

It identifies seven top integration success factors: strong executive leadership support, comprehensive management involvement, a well-optimized project plan utilizing all available resources, a dedicated integration team, transparent employee communication, achieving synergy targets, and addressing cultural compatibility.

The concept of integrating different cultures post-merger remains a subject of debate because culture influences attitudes, behaviors, performance, functions, enforcement norms, structures, symbols, organizational stories, and traditions. While cultural clashes can cause discomfort and reduced performance, the evidence from literature suggests that they rarely lead to financial failure.

9. Merger & Acquisition: Different Strategies

9.1 Merger

Merger is when two existing independent companies combine to form a new single entity. A merger is generally done to strategically align the resources between both companies leading to reduced cost and stronger market share.

A merger could either be a friendly one or hostile. In a friendly one, both companies agree to the terms & conditions voluntarily, and further successfully work together. In the latter one, a company tries to merge or take over another company against their wishes. A prominent example could be Reliance Industries Limited's attempt to take over a 14.91% stake in L&T finance in 2011; without L&T's approval.

There are various Merger strategies as listed below:

i) Horizontal Merger:

A merger between two companies that share the same product line or stock-keeping units. The primary purpose of the above is to develop economies of scale and capture a greater market share. A major benefit of this is that the existing rivalry between both companies is eliminated and now both work together as one team/ company. Seizing of rivalry is better among the companies as they now don't have to cut on the margin on product to gain greater market share than the other. However, it can turn out to be harmful to the customer as it could lead to a monopoly in the market. Gaining resources like better talent is an added advantage to it.

Vodaphone India and Idea Cellular Limited merger to form a new single entity,

‘ Vodaphone Idea’ could be an example of a horizontal merger. It was done due to the entry of Jio into the telecom industry, disrupting the entire market. Hence, this merger favoured reducing the existing debt and capturing greater market share together as these two combined were now equal to Jio alone.

Another example could be Adani Group merging Ambuja and ACC cement after its completion deal with Holcim Group, making Adani Group the 2nd largest cement player.

ii) Vertical Merger

A merger between two companies existing in the same end product line but different supply chains. The primary purpose of this merger is for them to gauge greater economies of scale reducing the overall cost of the product.

Adani Enterprises is focused on the construction of roads, airports, and rail which requires cement as its major raw material. Hence, Adani Group's acquisition of ACC and Ambuja Cement could be termed as an indirect vertical merger for the Adani group. Another noted example could be between AT&T and Time Warner.

iii) Congogeneric Merger

A merger between two companies that serve the same clientele although have different products to offer. The purpose of this is for both companies to access a wider market and generate higher sales. Also offering two complimentary products together as an offer to customers could boost sales. Let's look at a cricket ball and bat manufacturer. Both are different product lines and supply chains but same clientele.

For example, Zee Enterprises Entertainment Ltd, a broadcaster and Dish TV, distribution platform operator. Both offer similar clientele.

9.2 Acquistion

In this, the acquiring company attempts to obtain a majority stake in the acquired company without forming a separate legal entity.

Acquisition of assets is when the acquiring company solely acquires the assets of the acquired company. For example, the MPL group based in Hyd solely acquired the assets of a shut steel plant in the state.

The purpose of an acquisition is to gain control and help the acquirer gain a better marketplace.

Adani acquisition of controlling stake in major cement companies, ACC and Ambuja gives Adani Group to leverage sales prices in favour towards its sister company Adani Enterprises Ltd.

RIL's acquisition of Shubhlaxmi polyester ltd gives RIL a wider market reach and efficiencies of scale.

9.3 Leveraged buyout

Acquisition of a company using a significant amount of borrowed funds. In this type of acquisition, the interest on the borrowed funds used for acquisition shall be deducted as int. expense on the acquired company P&L statement.

Blackstone, an investment firm and Hilton Hotel could be a classical example of a Leveraged buyout.

10. The Art of a Successful M&A

For primary research, our team conducted an interview with Mahesh Singhi, promoter and director at Singhi Advisors. Singhi Advisors is a leading M&A and strategic investment advisor.

Below listed are key steps he ensures his client takes for a successful acquisition:-

i) People Integration

“A company is nothing without its employees.”

A company has to ensure that the culture or work style among companies merged or acquired is similar or integrated in a healthy manner to ensure the smooth working of the firm. As quoted in the Welspun interview, Welspun had a 6-day work culture while the acquired company favoured a 5-day work culture. At this stage, Welspun management couldn't forcefully add an extra day to the employees all of a sudden as it could lead to dissatisfaction among employees. Therefore, they went slowly by adding an extra day once in two weeks and so on.

Hence, understanding the culture of the company being acquired is essential.

ii) Product Integration

Product integration refers to the acquiring company successfully merging acquired company SKUs into its existing SKUs.

It shall make sure that the new product line doesn't harm the brand image of the acquirer company's existing company. Assuming, LV a luxury brand acquires U.S. Polo, a company engaged in mass clothing could harm LV's existing brand image in front of customers.

Before anything, the acquiring or merging company shall first do a thorough analysis of their own company and ask themselves some questions like:-

Q) Is there company ready for some interruption or disruption?

Q) Does your company have a global mindset?

Q) Can the M&A be a boon or bane for the company?

Q) Are the company's top management comfortable with sharing responsibilities with acquired company management?

Q) Is your profitability above cost of capital?

Many times, a company ends up generating super cash from its existing cash cow. This makes a company cash-rich but with just one major brand. Now with excess cash and greed, these companies end up acquiring various other companies in new markets- new products and diversifying into a completely new field. Likely, it loses focus in the parent business and goes all down the drain.

A classical example would be Videcon, which initially started with colour TV; and ended up diversifying into numerous fields like oil exploration, power, etc. leading the company to its downfall. {Admitted to Bankruptcy}

11. IBC and its role in M&A

1991, was a historic moment for India, as companies got the 'Right to Entry'. It was when India shifted towards LPG, Liberalization, Privatization and Globalization.

In 2002, India passed The Competition Act which reduced the power of monopolies formed by some companies in India through mergers and acquisitions.

However, a major thing which was missing was ' Right to Exit'. The flexibility for companies to easily liquidate when bankrupt.

In 2016, it was when the Indian parliament passed the Insolvency Bankruptcy Code.

This means that it reduces the NPA[Non-Performing Assets] held by banks for so many years. It also has acted as a boon for the nation as banks/ creditors are able to get back their lost-gone money faster from bankrupt companies.

According to statistics 8 out of 10 entrepreneurs fail in their business losing huge money of to banks.

The process of the IBC is:-

- Appeal to NCLT/DRT [Plea to be accepted in 14 days]
- Lenders form a committee of creditors [COC]. COC appoints an Insolvency professional who heads the company till the interim period.
- COC forms a deb recast plan. [COC is given a time period of 180 + 90 days]
- Either debt recast plan by COC is adopted or company assets are liquidated.

The resolution plan is where the creditors generally call for offers from various other companies interested in buying in. It is a competitive auction process where the company with the highest bid wins the bankrupt company from the NCLT.

Generally, creditors avoid liquidation of assets as it just gives them barely 20-30% of the loan. Primarily as the assets with the company are depreciated value and bring barely any return to the company.

Let's look at the Welspun-Sintex BAPL deal of 1251 crore.

It was a win-win for Welspun and the creditors. Welspun got the company at almost 40-50% of what Sintex BAPL owed to the banks. Basically, got it at a discounted rate.

On the other hand, bankers got more than they would get if the company was merely liquidated as assets were not more than Rs 600 crore. However, Welspun agreed to pay that premium for the brand value Sintex BAPL has created among India across its tenure, It paid a premium for Sintex BAPL's strong network of 900 distributors and 14000 retailers.

Overall, IBC has helped the market to move away the inefficient businesses and reallocate capital to more efficient businesses.

12. Key challenges faced during integration and post-merger

1) Cultural integration

When two companies with different cultures merge, employees from both companies may experience culture shock. They may have different values, work styles, communication methods, and expectations. This can lead to conflict, confusion, and decreased productivity.

To address this challenge, companies should develop a plan for integrating the two cultures. This plan should include the following:

- Identifying the key differences between the two cultures: This will help the companies to understand the areas where they need to focus their integration efforts.
- Developing a shared culture: This will involve identifying and promoting the values and behaviors that both companies want to see in the new organization.
- Communicating the new culture to employees: Employees need to understand the new culture and what is expected of them. Companies should communicate the new culture through a variety of channels, such as employee town halls, training programs, and internal communications.

2) Systems integration

Systems integration is the process of combining the IT systems of two companies into a single system. This can be a complex and time-consuming process, especially if the systems are incompatible or the data is in different formats.

To address this challenge, companies should develop a detailed plan for systems integration. This plan should include the following:

- Assessing the compatibility of the two systems: This will help the companies to identify the areas where they need to make changes.

- Developing a migration plan: This plan should outline the steps that will be taken to migrate the data from the old systems to the new systems.
- Testing the new systems: It is important to test the new systems thoroughly before they are rolled out to employees. This will help to identifyand fix any problems.

3) Synergy realization

Synergies are the benefits that are expected to be achieved from a merger or acquisition. These benefits can include cost savings, revenue growth, and operational efficiencies. However, it is important to have a realistic plan for realizing synergies.

To address this challenge, companies should develop a detailed synergy plan. This plan should include the following:

- Identifying the potential synergies: This will help the companies to focus their efforts on the areas where they can achieve the greatest benefits.
- Developing a plan to achieve the synergies: This plan should outline the steps that will be taken to achieve each synergy.
- Tracking progress towards achieving the synergies: It is important to track progress towards achieving the synergies and to make adjustments to the plan as needed.

While these three challenges are interrelated, they are also distinct. Cultural integration is about combining the values, work styles, and communication methods of two companies. Systems integration is about combining the IT systems of two companies. Synergy realization is about achieving the benefits that were expected from the merger or acquisition.

Companies that are able to effectively address these three challenges will be well on their way to success in the integration and post-merger process.

4) Employee engagement

Employees from both companies may experience uncertainty and anxiety during the integration process. They may be worried about their jobs, their career prospects, and the future of the company. This can lead to low employee engagement and morale.

To address this challenge, companies should communicate regularly with employees throughout the integration process. They should keep employees informed of the progress of the integration and answer any questions they may have. Companies should also provide employees with opportunities to participate in the integration process.

5) Customer retention

Customers may be concerned about the impact of the merger on their relationship with the company. They may be worried about changes to the products and services that they receive, or about their ability to do business with the new company. This can lead to customer churn.

To address this challenge, companies should communicate regularly with customers throughout the integration process. They should assure customers that their needs will continue to be met and that they will continue to receive the same high-quality products and services. Companies should also make it easy for customers to do business with the new company.

6) Risk management

There are a number of risks associated with the integration process, such as customer churn, employee turnover, and regulatory compliance issues. It is important to identify and manage these risks.

To address this challenge, companies should develop a risk management plan. This plan should identify the key risks, assess the likelihood and impact of each risk, and develop mitigation strategies. Companies should also monitor the risks throughout the integration process and make adjustments to the risk management plan as needed.

By addressing these key challenges, companies can increase their chances of success in the integration and post-merger process.

13. Techniques for business to optimize M&A

Fewer than one quarter of mergers and acquisitions achieve their financial objectives, as measured in ways including share value, return on investment, and post combination profitability. Many factors account for this dismal track record: buying the wrong company, paying the wrong price, making the deal at the wrong time. Another factor, however, seems to be at the core of many failed combinations—the process through which the deal is conceived and executed. (Miivis, 2001)

Effective M&A strategies require alignment and consensus among top executives, corporate planners, and line managers. This consensus is enforced by defining clear strategic criteria for potential acquisitions or merger partners. Before embarking on the M&A process, it's essential for a firm to establish and openly discuss these criteria, allowing for debate and agreement. Resolving conflicts or confusion about these criteria at the outset is crucial to avoid problems later.

Having a unified understanding of what synergies are sought in the M&A sets the stage for successful planning and implementation. Two sets of criteria are typically used: generic criteria that guide the overall combination strategy and specific criteria tailored to the partner being sought. These criteria ensure that the chosen partner aligns with the firm's objectives and values.

Ultimately, prioritizing and weighting these criteria helps in evaluating and selecting the right partner that will bring value to the combination, rather than pursuing an acquisition solely for the sake of doing a deal.

Thorough screening

The successful acquisition of Benham Capital Management Group by Twentieth Century Advisors began with a comprehensive screening process that considered strategic, operational, human, and cultural factors. This process assessed the alignment of corporate values and delved into the motives of the sellers, management teams' mindsets, and their willingness to collaborate. It also involved technical and professional staff to ensure a successful combination. This screening process, including face-to-face due diligence, is essential for understanding the human and cultural dynamics of the deal, beyond financial and operational aspects, and is crucial for a successful integration

Psychological Preparation

Preparing for a merger or acquisition involves psychological preparation to understand and address the different mindsets of combination partners. This preparation raises awareness about what to expect and aims to align both buyer and seller mindsets towards a partnership approach.

In many cases, employees from both sides participate in sensitization seminars to discuss their concerns and hopes, as well as learn coping strategies for dealing with different mindsets.

Educational initiatives, such as readings, presentations, and discussions, are also used to inform individuals about the human realities of a combination. Organizations often distribute materials and engage in workshops led by experts to discuss the dynamics of mergers and acquisitions. Additionally, experienced individuals who have been through combinations can share their first hand experiences with newcomers.

Cisco, for example, has successfully used a buddy system, pairing veteran acquirees with newly acquired executives, as a key part of its acquisition strategy. This approach helps integrate new leadership and foster a collaborative mindset.

Combination preparation workshops

The experiential activity involved a two-day meeting where executives from both sides engaged in hands-on simulations and discussions. Tensions arose during the simulation as they planned strategies, but it allowed them to experience each other's challenges. In post-simulation discussions, they gained insights and empathy for each other, leading to the establishment of formal ground rules for combination planning. While complete behavioral change wasn't expected, the activity built confidence in their ability to collaborate during the merger or acquisition.

Commitment from top leadership

Effective leadership is a critical factor for the success of mergers and acquisitions, and it plays a pivotal role in managing the significant changes that come with these transactions. While GE Capital places great importance on the integration leader, larger mergers like BP & AMACO or Chrysler and Daimler Benz highlight that leadership is required at multiple levels within the organization for effective integration. This aligns with established leadership principles and is supported by research conducted by Heskett and Kotter (1992). Their work, including the influential book "Leading Change" by Kotter (1996), emphasizes that leadership must permeate throughout the organization to facilitate lasting and impactful change, even beyond the tenure of top leaders. In essence, leadership at various levels is essential for change to take root and endure successfully. (DiGeorgio, 2018)

Pre combination Planning

Many organizations are adopting proactive precombination planning approaches, especially in industries like telecom and healthcare where mergers and acquisitions are frequent. They understand that these strategic moves are crucial for their long-term survival and growth. Examples include Kaiser Permanente, which formed an Acquisitions and Alliances SWAT Team to train managers in identifying, evaluating, and integrating potential targets, and Weyerhauser, which assessed past acquisition performance and openly discussed challenges and success factors. Some organizations even utilize the time before legal approval to prepare. Pfizer, for instance, conducted merger-management training programs to raise awareness of integration challenges. Overall, proactive precombination planning is becoming essential for successfully navigating complex mergers and acquisitions.

Preparing to Move Forward

The pre combination phase in mergers and acquisitions is critical for setting the direction of a successful or unsuccessful deal. During this phase, leadership defines growth objectives, business strategy, and partner criteria.

Key actions taken in this phase include:

Self-scrutiny and Analysis: Companies assess if they can achieve strategic goals more effectively through a combination than independently. This analysis informs the rationale for seeking a merger or acquisition.

Search and Screening: Criteria are established for partner selection, and potential candidates are evaluated based on strategic fit, culture, values, and bench strength.

Due Diligence: Thorough due diligence explores compatibility, synergies, and the ability to manage the combination while running the core business. It builds trust and chemistry between parties.

Psychological Preparation: Seminars and simulations educate employees about the mindsets necessary for successful combinations, addressing concerns and challenges that may arise during integration.

Integration Planning: Executives identify integration points, define cultural objectives, and plan for the formation of transition teams. Allocation of executive time and talent is considered.

Communication and Training: Preparation includes ramping up communication efforts, conducting training, and developing retention and layoff policies.

Effective pre combination planning helps organizations navigate the strategic and psychological challenges that arise during mergers and acquisitions. It readies individuals and teams for integration, contributes to mining strategic synergies, and establishes the dynamics for a unified post combination organization.

In summary, the pre combination phase is where leadership sets the stage for a successful merger or acquisition, addressing both strategic and psychological aspects of the combination process.

The importance of the M&A growth strategy has never been greater. From a commercial perspective, M&As are fast becoming the chief engine of retail corporate growth. Indeed, we are currently witnessing an unprecedented ‘wave’ of merger activity that has broken all existing records both in terms of the number of transactions and the size of those deals. From a regulatory perspective this process of M&A induced change has increasingly important consumer interest implications. (Mark Birkin, 2002)

14. Conclusion

In conclusion, we hope to have provided you with a clear understanding of how an M&A works, which strategy of M&A must be applied, how to plan for a successful M&A, which key entities to involve in an M&A and finally how to overcome challenges that most of the M&As face.

Acknowledgements

We would like to thank Dr. Arpita Baijal for giving us this opportunity to research about M&A. We would like to thank Singhi Advisors and Welspun Corp for their time and insightful contribution in the workings of M&A.

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