



IMPACT OF MERGERS AND ACQUISITIONS ON CORPORATE CULTURE

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ABSTRACT

Mergers and acquisitions are a common strategy for organizations to adapt to changing business conditions and capitalize on new opportunities. These transactions help companies expand their operations and diversify their portfolios. Improve their competitiveness. However, the successes of mergers and acquisitions, the corporate cultures of the participating organizations have a significant impact. This study investigates the significance of corporate culture in mergers and acquisitions. The analysis highlights Differences in organizational values, norms, and practices can significantly impact the integration process, and, ultimately, the success of the merger or acquisition. This study looks at key factors like communication, employee engagement, and cultural. Alignment and examines strategies for effectively managing the cultural integration process. During merger and acquisitions. The results indicate that a thorough comprehension and proactive management of corporate culture is critical for organizations trying to navigate the complex landscape of Mergers and acquisitions, and reap the full benefits of these strategic initiatives. By addressing cultural considerations throughout the merger or acquisition process allows companies to Increase the likelihood of successful integration and achieve the desired results. Corporate mergers are an important driver of growth, and yet many mergers fail to produce value for the shareholders of the acquiring firms. Survey and anecdotal evidence suggests that corporate culture is central to the success of mergers and acquisitions (M&A), and that cultural differences are an important causal factor in merger failures.

Keywords: Culture, Mergers and acquisitions, corporate culture, communication and employee engagement

INTRODUCTION

Mergers and acquisitions (M&A) are now increasingly prevalent in the contemporary global business landscape as organisations strive to achieve growth, gain competitive advantages, and increase shareholder value. M&A activities involve combining two or more companies through various forms such as mergers, acquisitions, consolidations, or joint ventures. While M&A activities can create significant value for companies, they can also have significant implications for various stakeholders, including shareholders, employees, customers, and the broader community. Mergers and acquisitions are a strategic tool used by organizations to drive growth, strengthen competitive positioning, and capitalize on new market opportunities. These transactions allow businesses to expand their operations, diversify their product and

service offerings, and leverage synergies to improve their overall competitiveness. Mergers and acquisitions allow organizations to rapidly scale up their operations, gain access to new technologies, intellectual property, or customer bases, and strengthen their position in an industry. The success of these strategic initiatives is typically measured by a variety of criteria, including improved financial performance, increased market share, improved operational efficiencies, and effective integration of the organizations' cultures, processes, and personnel. However, mergers and acquisitions are inherently complex endeavors that frequently necessitate meticulous planning, effective communication, and a thorough understanding of the potential cultural and organizational challenges that may arise during the integration process. Companies that address these issues



proactively can increase the likelihood of a successful merger or acquisition and achieve their long-term goals corporate culture is a critical factor that influences the success or failure of mergers and acquisitions. In the context of mergers and acquisitions, corporate culture is critical to determining whether the integration process succeeds or fails. When two organizations with opposing cultures merge, the potential for conflict, confusion, and employee disengagement grows significantly. Differences in communication styles, decision making processes, and work practices can cause friction and impede the smooth integration of the merged entity. Effective management of corporate culture during mergers and acquisitions requires a multifaceted approach. This includes conducting comprehensive cultural assessments, effectively communicating the combined organization's vision and values, encouraging employee engagement, and implementing strategies to bridge cultural gaps.

LITERATURE REVIEW

Kh Khaled Kalam (2021) The study will explain the critical analysis of the motivations behind each deal for acquiring BG Groups by Royal-Dutch multinational Shell PLC. The study also analyzes various Financing methods, similarities and differences, and relating those differences to the acquirer's financial strategy and previous financial position. Various Post Bid Defenses that a target company could employ to repel an unwanted bid approach and explain the shareholder value after the Acquisition occurred. Lastly Estimation Window, Event Window, Synergies and Valuation from the study, it is clearly explained that the combined firm's valuation would surpass the two firms' sum by \$56 trillion, which means synergies with performance. In addition, cash flows, sales and primarily operating cost synergies are projected to be \$30 trillion and thus generate value through fusion theoretically. Clearly, Royal Dutch Shell should try to diversify from being highly dependent on oil

to gas though the Acquisition is a successful event.

Jinling Jiang (2019) Synergy theory holds that horizontal mergers and acquisitions (M&A) are conducted to obtain economies of scale. Horizontal M&A help companies restructure assets and resources, thereby improving the efficiency of management. Technology diffusion from the same industry help companies complement each other in R&D and improve product quality and efficiency. In addition, horizontal M&A can eliminate duplicate labor and achieve efficient use of equipment, thereby reducing fixed production costs. Scholars have made fruitful researches on the motives of horizontal M&A, and tend to agree that companies can profit from horizontal M&A. There are mixed results of empirical research on the effect of horizontal M&A, and cases of M&A failure occur from time to time. Event study method is used to compare the volatility of stock prices in the event window of each participant to test the short-term performance of horizontal M&A.

Natika Poddar (2019) Merger and Acquisition had been the most popular means of inorganic expansion of companies over the years. It is extensively used for restructuring the business organizations. Companies undertake mergers and acquisitions based on strategic business motivations that are, in principal, economic in nature. This research study attempts to evaluate the impact of pre and post financial performance of the acquirer companies. This will be done by comparing the pre-merger and post-merger performance of the acquirer company in selected M & A deals in India in two periods—2007-2008 (selected due to 2008 global financial crisis) and 2012-2013 (Many deals rose after 2010 and then again in 2012-2013) using select financial ratios and paired t test at 5% significance.

Syamala, S. (2015) The “inconclusive” existing literature on long-term horizon studies of mergers is the motivation of this study to reexamine the post-merger performance and



explore the reasons of unsatisfactory performance. We test efficiency theory of mergers by examining the industry adjusted operating performance of mergers. Unlike the existing literature which examines the operating performance of mergers at end level (ROA or ROE), we not only examine the operating performance at end level but also analyze the performance at each stage of operation i.e. material, labor, overheads, tax, interest and sales. We do not find synergy creation at the end level (i.e. ROA level). However, we observe synergy creation at tax and interest level and synergy destruction at labor and overheads level. The performance of different categories of mergers which are group/non-group mergers, related/unrelated mergers and BIFR/non-BIFR mergers is also examined.

Yongqing Wang (2013) This study sheds light on how synergies arise through mergers and acquisitions (M&A). Enterprises go through the process of Mergers and Acquisitions (M&A) with the goal of improving performance, increasing efficiency and obtaining business synergy. Prior literature suggests that synergies could arise due to taxes, market power or efficiency improvements. This study evaluates the efficiency of M&A in Brazil among publicly-traded companies. We used models with multiple objectives from Goal Programming and Data Envelopment Analysis (GPDEA), employing accounting indicators as input and output variables, and thus evaluated the emergence of synergy gains. These models allow us to analyze and classify the M&A according to the efficiency obtained in such processes. Some of the M&A cases analyzed were mistakenly considered efficient when used traditional models.

Theories And Models Of Corporate Culture In M&A

He claims that by employing these strategies, businesses may adjust to one another and prevent conflict. Which acculturation method will work best in a merger will depend on the traits of the two companies. He characterizes

them as: a) Integration: Members of the acquired firm seek to integrate the two structures while preserving their own culture. This means that while the members of the acquired company are willing to be incorporated into the acquirer's structure, they still retain many components of their culture and ideas. b) Assimilation: In this acculturation style, the acquired company takes on the acquirer's culture. This is probably the case when the acquired company has a history of failure and the employees feel that their culture and procedures are impeding their ability to operate. b) Separation: This acculturation method entails maintaining the firm's culture and customs apart from those of the dominant group. This usually occurs when members of the acquired organization refuse to integrate with the acquirer and prefer to stay completely independent of the acquirer while still being covered by the acquirer's finances.

The Importance of Corporate Culture

Corporate culture has been recognized by researchers as playing critical role in both business strategy implementation and human capital relations. Researchers have indicated that corporate culture affects strategy implementation and is a source of sustainable competitive advantage. Further, researchers have shown that the perceptions of corporate culture influence employees' intentions to stay with an organisation especially in acquiring companies. According to culture is trickier to define, as well as to analyze. Moreover, culture has been largely ignored in economics for decades, but things are starting to change when economists have begun to assess the effect of culture on economic activities that used conceptions of culture such as the "customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation". When organisations merge and acquire, employees are integrated in newly formed culture develops. This new culture is hoped to be a culture that is valuable, productive, and in alignment with the purpose for integrating organisations. However, the evidence shows the newly corporate



organisation may get stuck in building culture values due to factors such as longer term integration process and overlook the new resultant cultures as management team are busy with other tasks regarding financial and technological matters.

Previous studies of Corporate Culture in M&A

For the past three decades, there has been growing of research interests identifying the variables that affect the success of M&A activities. However, the key factors for success, and the reasons why M&A often fail, remain poorly understood. There are many researches has been examining the relationship of corporate culture and its influence to M&A success and failure .All employees, across five sites were asked to complete a survey on the firm's premises during normal working hours with an objective to strengthen the validity of the Perceived Cultural Compatibility (PCC) index to help managers manage M&A more effectively. The results show evidence of a second-order factor model for perceived cultural compatibility rather than the single factor view of culture offered The study found that culture differences between the merged companies are a key element affecting effectiveness of the integration process and consequently the success of M&As. All of these studies revealed positive relationship of organisational culture and performance of companies that have experience M&A exercises.

Possible Impacts Of Mergers And Acquisitions

The following are the impact of Mergers and Acquisitions on different segments of business. Mergers and acquisitions may have great economic impact on the employees of the organization. In fact, mergers and acquisitions could be pretty difficult for the employees as there could always be the possibility of layoffs after any merger or acquisition. If the merged company is pretty sufficient in terms of business capabilities, it doesn't need the same amount of employees that it previously had to do the same amount of

business. As a result, layoffs are quite inevitable. Besides, those who are working would also see some changes in the corporate culture. Due to the changes in the operating environment and business procedures, employees may also suffer from emotional and physical problems. The percentage of job loss may be higher in the management level than the general employees. The reason behind this is the corporate culture clash. Due to change in corporate culture of the organization, many managerial level professionals, on behalf of their superiors, need to implement the corporate policies that they might not agree with. It involves high level of stress. Impact of mergers and acquisitions also include some economic impact on the shareholders. If it is a purchase, the shareholders of the acquired company get highly benefited from the acquisition as the acquiring company pays a hefty amount for the acquisition. On the other hand, the shareholders of the acquiring company suffer some losses after the acquisition due to the acquisition premium and augmented debt load.

Reasons for merger and acquisition

It is a common misconception to think that the reason for merger and acquisition is for greediness, the main idea for the business venture is eliminating the competition. With the joint powers and process, the competition in the market will lessen and the new business might make it on the top. Another factor might be in the sense of cost efficiency which is good in the business. As addition that they can even control the market behaviour because knowing what the real preferences of every individual are is the start of success.

Mergers & acquisitions and employees behind the curtain

The merger and acquisition has a great impact on the employees of the company and on their working environment. At the beginning of the business combination, the employees are the first people that will have a hard time in the new mind set of the working environment. The employees needed much time before they realize the importance of the merger and



acquisition, and the goodness it will bring. There are uncertainties in the merger and acquisition phase in shifting the focus from productive work issues to other conflicts, and career growth. With the various situations which regards to change in ob portfolio of the employee may appeared in the performance of the employees. If the two companies decided to get into merging, they might push each other idea and pull the goals into different direction - ending up done nothing. The culture in the work environment will affect on the individual or group, under the presence of merger and acquisition. Reorganization and restructuring of the company during the business operation can put more difficulty on the side of the employees.

RESEARCH METHODOLOGY

To address the research objectives an explorative qualitative research was conducted to obtain deeper insights about the causes related with mergers and acquisitions high failure rate and to identify solutions to enhance their outcomes. Furthermore, this research explores specific antecedents, such as cultural and organizational preparation for mergers and

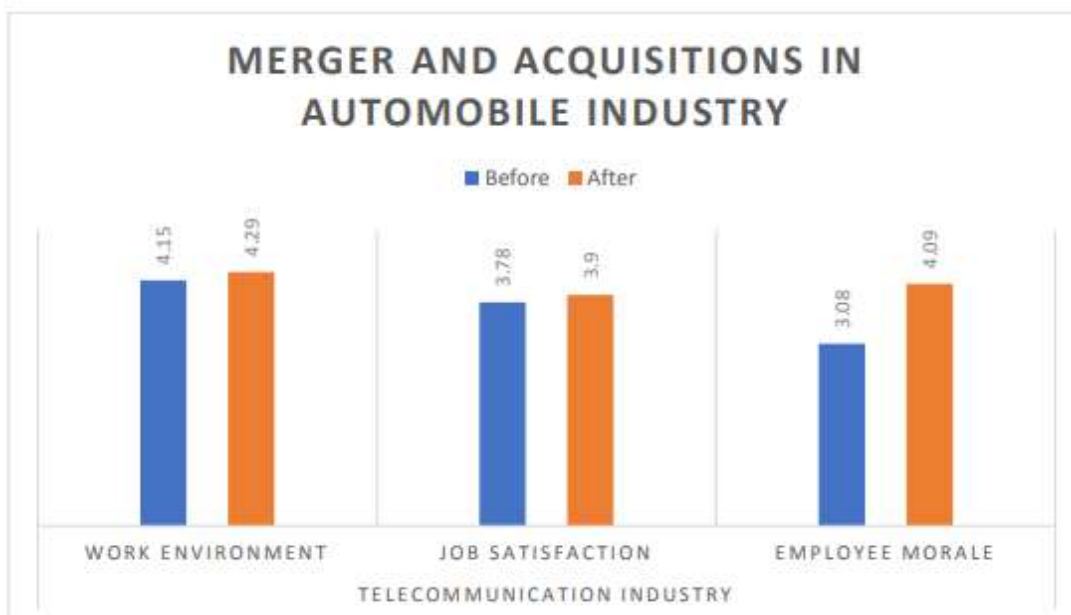
RESULTS AND DISCUSSIONS

Table 1 and Graph 1 shows the descriptive of the outcome variables that is work environment, job satisfaction and employee morale for Automobile Industry. For 80 employees involved in the study, the work environment quality, job satisfaction and employee morale dropped after the acquisition or merger, but scores were significant for employee morale only ($p < 0.05$).

Table 1 Work Environment, Job satisfaction and Employee Morale in Automobile Industry

	Before		After		Paired t-test	Significance
	N=80		N=80			
	Mean	S.D.	Mean	S.D.		
Work Environment	4.29	0.016	4.15	0.18	16.16	-
Job satisfaction	3.9	0.6	3.78	0.3	12.43	-
Employee Morale	4.06	0.12	3.08	0.19	5.36	0.05

acquisitions. We followed a ‘systematic combining’ approach by promoting an intertwined application of the different activities in the research process since it is better suited for qualitative research than a “standardized conceptualization of the research process as consisting of a number of planned subsequent ‘phases’” specifies the relationships between the investigation specific objectives and the interview questions, as well the the broad topic of the variables that influence mergers and acquisitions ramifies into the generic categories and later into the subcategories. The central focus of this exploratory investigation, is on two vital interrelated attributes of success, that is, human resource and cultural factors in the M&A process, using largely qualitative data. Such data may have potential interpretation biases. Findings from five case studies are expected to add further insight to the importance of “soft” due diligence assessment, and critical success factors in M&A implementation, particularly on HR and cultural issues.

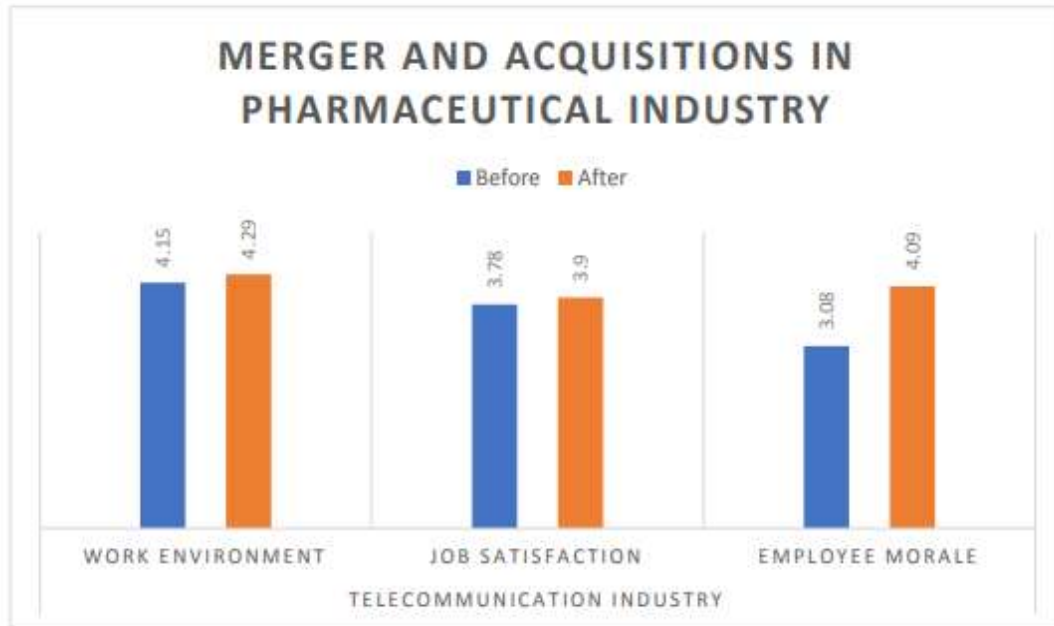


Graph 1 Merger and Acquisitions in Automobile Industry

Table 2 and Graph 2 shows the descriptive of the outcome variables that is work environment, job satisfaction and employee morale for Pharmaceutical Industry. For 80 employees involved in the study, the work environment quality, job satisfaction and employee morale dropped after the acquisition or merger but scores were not significant for Work Environment only ($p > 0.05$).

Table 2 Work Environment, Job satisfaction and Employee Morale in Pharmaceutical Industry

	Before		After		Paired t-test	Significance
	N=80		N=80			
	Mean	S.D.	Mean	S.D.		
Work Environment	4.3	0.2	4.27	0.2	1.77	0.5
Job satisfaction	3.9	0.6	2.6	0.3	18.69	0.05
Employee Morale	4	0.5	2.1	0.2	21.66	0.05



Graph 2 Merger and Acquisitions in Pharmaceutical Industry

CONCLUSION

Therefore, to manage the process of the integration in the M&A phases efficiently, companies should put their best people in charge of implementing M&A deals. More emphasis needs to be placed during the planning stage of the integration process. It is believed that cultural integration is one of the most important activities in each phase for successful M&A integration. Earlier strategic pre-M&A planning with culture as a key role of integration process and the creation of a positive environment are likely to contribute to M&A success before initiate any actual integration of human and physical assets. From the preliminary research, it can be concluded that companies should put the best people in charge of implementing M&A deals. More emphasis needs to be placed on early planning of the integration process. It is believed that corporate cultures integration is the most important activity for successful M&A integration. As the country is looking for new sources of economic growth, it is hoped that the findings would be able to provide a foundation theory of new corporate companies specifically in post M&A phase as well as companies that decide to undertake M&A

decision so that early planning can be strategized earlier for better performance

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