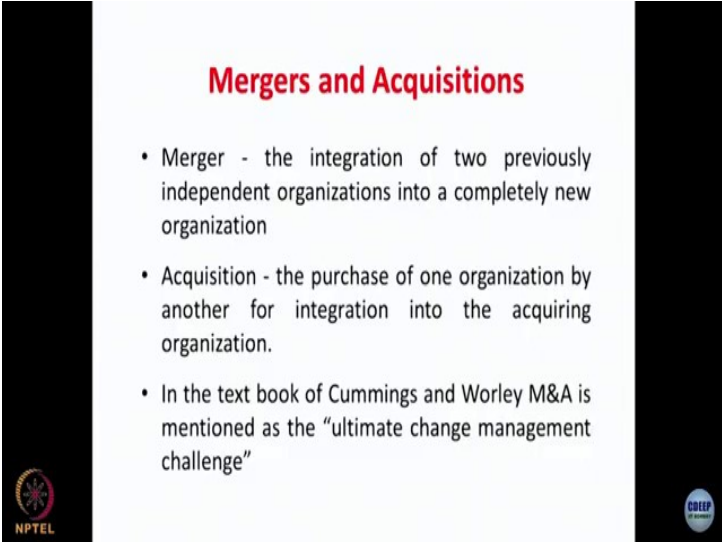


Organization Development and Change in 21st Century
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Lecture – 23
Mergers and Acquisitions - A Special Case of OD

In today's session we are going to look at a very Special Case of OD that is in the situation of Mergers and Acquisitions.

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Mergers and Acquisitions

- Merger - the integration of two previously independent organizations into a completely new organization
- Acquisition - the purchase of one organization by another for integration into the acquiring organization.
- In the text book of Cummings and Worley M&A is mentioned as the “ultimate change management challenge”

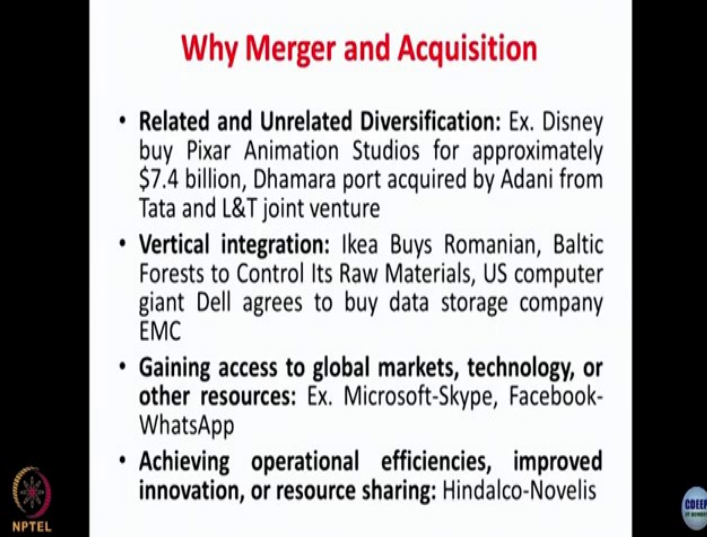
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What is merger and acquisition? Merger and acquisition is a trans organizational OD intervention. It can be looked at as a long-term change initiative which crosses the boundary of one organization. There is a slight difference between merger and acquisition. Merger means the integration of two previously independent organizations into a completely new organization whereas; acquisition is the purchase of one organization by another for integration into the acquiring organization.



In the textbook of Cummings and Worley on organization development and change merger and acquisition (which in a short form we can call M&A) is mentioned as the “ultimate change management challenge”.

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Why Merger and Acquisition

- **Related and Unrelated Diversification:** Ex. Disney buy Pixar Animation Studios for approximately \$7.4 billion, Dhamara port acquired by Adani from Tata and L&T joint venture
- **Vertical integration:** Ikea Buys Romanian, Baltic Forests to Control Its Raw Materials, US computer giant Dell agrees to buy data storage company EMC
- **Gaining access to global markets, technology, or other resources:** Ex. Microsoft-Skype, Facebook-WhatsApp
- **Achieving operational efficiencies, improved innovation, or resource sharing:** Hindalco-Novelis

Why do organizations go for merger and acquisition? There are various reasons and the combinations of those reasons for which organizations go for merger and acquisition. First is related and unrelated diversification, we all know that growth is the law of market and a natural requirement for any business organizations. So, to diversify its portfolio in a similar field, very related field or sometime even unrelated fields, mergers and acquisitions are done.

For example, the famous Walt Disney organization bought Pixar Animation Studio for approximately 7.4 billions US\$. Dhamra port in the eastern part of India was acquired by Adani from the joint venture of Tata and L&T. These are the examples of the diversifications.

Merger and Acquisition (M&A) is also done by organizations for vertical integration. For example, Ikea bought the Romanian, Baltic Forests to control its raw materials. A US computer giant Dell agreed to buy the data storage company at a very high price more than 600 billion dollars.

Vertical integration is about purchasing of the supplier or purchasing the organization which was your consumer. Suppose there is a petrochemical company which is in the business of purifying and selling crude oil to the oil distribution companies. If they also start or acquire the distribution company (that is acquire petrol pumps, gas stations etcetera) it is called vertical integration. So, in the Ikea's case it is a backward integration

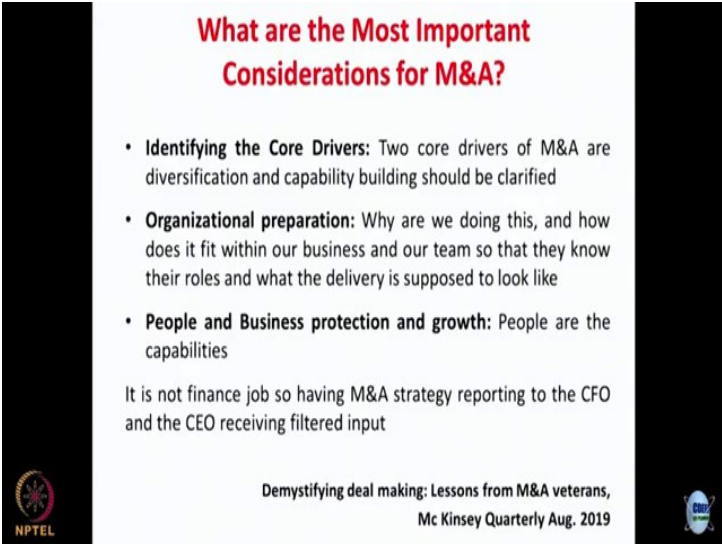
because they have acquired something which is to ensure the supply of the raw material. If a company acquires or merge another organization which is which deals in the activities of the next level of the value chain, we call it forward integration.

So, the vertical integration may be backward or forward integration. Merger and acquisition is a very well used and very common strategy. Organizations also go for merger and acquisition and that is probably more true in Indian organizations or many Chinese organizations which are cash rich and they have acquired many multinational organizations. For example, Tata bought Tetley or Hindalco bought Novelis. These are the examples of M&A conducted for gaining access to global market, technology or improving operational efficiency or innovation.

So, in this category we have example of Microsoft acquiring Skype, Facebook acquired WhatsApp and that of Hindalco acquiring Novelis; this merger is an example of achieving operational efficiency and improved innovation and resource sharing. I must share that these examples do not fall in, do not fall strictly into one or other category.

Many a time there are these reasons like integration or gaining access to global market and operational efficiency, they are together in influencing the M&A decision and the process. But, this classification is useful to understand the concept better.

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What are the Most Important Considerations for M&A?

- **Identifying the Core Drivers:** Two core drivers of M&A are diversification and capability building should be clarified
- **Organizational preparation:** Why are we doing this, and how does it fit within our business and our team so that they know their roles and what the delivery is supposed to look like
- **People and Business protection and growth:** People are the capabilities

It is not finance job so having M&A strategy reporting to the CFO and the CEO receiving filtered input

Demystifying deal making: Lessons from M&A veterans,
Mc Kinsey Quarterly Aug. 2019



What are the most important considerations for merger and acquisition? What are the first few things an organization need to think about while deciding for going for merger and acquisition? First thing is identifying the co-drivers.

The two co-drivers of M&A are diversification and capability building. Any organization planning to go for M&A needs to be clear whether they are looking for diversification or capability building, because that will decide how they will measure their success and how they will plan their processes and systems post M&A.

Second consideration is about organizational preparation. This is about having clarity on why we are doing this, why we are going for M&A and how does it fit within our business and our team. So, that they know their role and what and the delivery is supposed to look like.

So, organizational preparation is extremely important because organizations are nothing, but a collection of human beings. And, human beings do not operate just based on the instructions, they need reason, they need to know the meaning of the activity they are involved in.

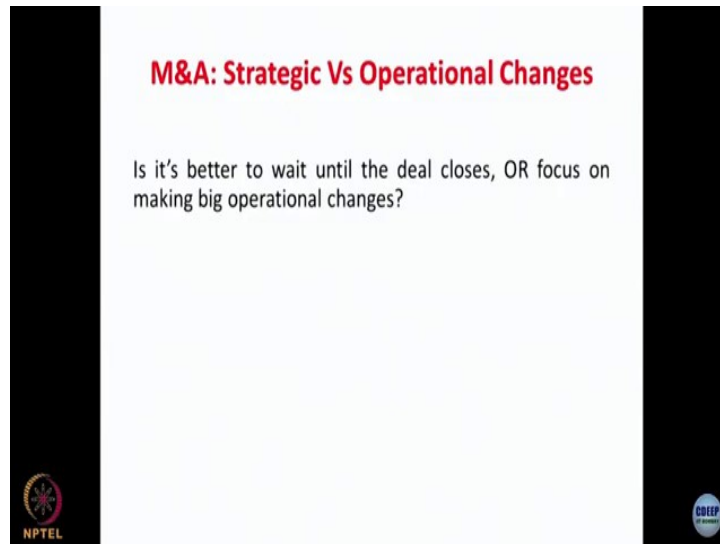
They also look for answers about the questions related to their future. So, whenever an organization go for M&A, they need to identify the insecurities, or the vulnerability felt by employees and according they need to communicate the message. And, that is inevitable part of preparation of the organization for M&A. Third consideration is people and business protection and growth. We all know that people are the capabilities, if talented people are not protected, the success of M&A cannot be realized.

Similarly, if business is not protected, there is no point in going for M&A. So, organizations need to take care of their talent. So, that should not happen that the key talent of the organization leaves after announcement of the merger and acquisition. Secondly, organizations need to communicate to the different stakeholders, their suppliers of course, their customers and any other channel partners. In order to convince them, in order to convey to them the meaning of M&A and how it is going to affect their relationship with these stakeholders.

It is very important to protect the business, protect the existing business with their channel partners. So, we must understand that M&A is not only a financial decision or a

financial process. It is a complete organizational process which involves human resource management issues, strategic issues, IT and marketing issues along with the finance issues. So, in case of M&A, it shouldn't happen that M&A strategy is being reported to the CFO and CEO is receiving the filtered input. This strategy is not just financial and hence CEO should be clearly and fully involved in the process of M&A.

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So, now we understand that M&A requires a strategic reorientation or a strategic visioning as well as operational assimilation. So, the question is, whether it is better to wait until the real deal closes or focus on making a big operational changes from the very beginning of the planning and implementation of the M&A process?

Research suggests that companies that undertake significant restructuring prior to M&A tend to outperform those that do not. And, an evaluation of the major divestiture between 1992 and 2017 showed that preparations completed within 12 months of the announcement delivered higher total returns to shareholders than those that took longer time.

So, the lesson is that time difference between strategic changes and operational changes should not be wide. And, the quicker and clear the M&A process is carried out and communicated, more are the chances of its being successful and well received by the employees as well as by the markets.

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**Merger and Acquisition
Application Stages**

- **Pre-combination Phase**
 - The organization must identify a candidate organization, work with it to gather information about each other,
 - Create an M&A team to and plan the implementation and integration activities
 - Building business case by specifying strategic vision, competitive strategy and system integration potential for the M&A
 - Perform a due diligence assessment: A comprehensive review of each organization's articles of incorporation, stock option plans, and human resource inventories; cultural and talent due diligence
 - Development merger integration plans: Decision about scope and depth of integration; i.e. arms length vs full integration, Integration objectives, filed or scope, organization design and action plan with accountability
- **Legal Combination Phase**

Cummings & Worley, Sr. (c) 2008 South-Western/Cengage Learning

There are several stages in any M&A process. There are three stages being identified as the application stage for M&A by the Worley and Cummings. These are pre combination phase, legal combination phase and post combination phase. Now, we will look at each stage one by one.

So, pre-combination phase is the process and activities have to be undertaken are generally undertaken before the actual M&A starts.

So, pre-combination phase requires identifying a candidate organization, creating a M&A team, building a business case for M&A, performing due diligence assessment a priori based on the mutual sharing of information - the information collected from the market and independent sources and development of the merger integration plan.

These are the important activities in the pre-combination phase. In identifying the candidate organization, any organization which is aiming at acquiring another company has to work and identify the right candidates for the acquisition and merger.

Generally, it is observed that they constitute a team which scout for the prospective M&A organizations. They make a short list which is then considered by other business leaders to finalize the decision about which organization they need to target for M&A.

Creating a M&A team and to plan the implementation and integration activities is also very important. They need to identify the systems and processes which are key in the

M&A process. What are the benefits they are looking for? What is the kind of synergy is being aimed at by M&A process? Accordingly, a team has to be constituted. Team generally happens to be of cross functional in nature; people from marketing, finance, strategy and operations come and make a cross functional team to plan for the M&A.

Based on the short list, the M&A candidates, the team makes a business case by specifying the strategic vision, competitive strategy and system integrated potential for M&A. These in a way are also the criteria to shortlist the candidate for M&A.

These criteria are strategic vision, meaning what ultimately organization wish to achieve by merging or acquiring that organization. How that acquisition will result in the competitive advantage, how that competitive advantage will give strength to the competitive strategy of the organization.

They also need to look at how the two systems can be integrated. If there is a strategic vision and there is a possibility of competitive strategy, but if the systems and processes of the two organization are likely to be very different then the M&A process will face issues.

If the culture of the two organizations is very different, there are chances that M&A may not realize its potential. That is why systems also have to be studied apriori to understand the potential to integrate these systems.

Fourth important point in the pre-combination phase is performing the due diligence assessment. This due diligence is apriori to the actual formal due diligence which takes place as the process of M&A.

So, this due diligence is a comprehensive review of each organization's articles of incorporation, their stock option plans, their human resource inventories. And, that is the stage we look more deeply about the cultural due diligence; meaning how the two cultures can be integrated and the talent due diligence. Meaning how to ensure the talent remains with the newly merged or acquired entity and how that talent can be used or allocated or employed more beneficially to realize the true potential of an M&A.

When these four things are done development of the merger integration plan is made. This is a more specific activity about scope and depth of the integration. Integration post

M&A can be done in different ways. Integration can be at the arms length distance. For example, when Microsoft acquired Skype they did not made much difference, they did not change the top management of the Skype or their systems and processes.

Or, integration can be more close and integrated as when Hindalco acquired the Indal. When Hindalco the famous aluminium company of Birla group and Indal which was the Government of India organization working in the same field that is exploration on the aluminium. When these two companies were merged, they were fully integrated. Some of the operations were closed down; some of the operations were merged with the acquiring company. This M&A was much more integrated.

So, based on the first four ideas about the nature of the organization and the business case and the performance due diligence, organization need to decide the strategy about the integration. To what extent, to what depth of integration they want to achieve through M&A. And, based on that understanding a clear plan has to be laid out which talks about which incorporates which involves integration objectives, field or a scope of the integration, organization design - how the new organization will look like.

How will the reporting system be organized? Who will be leading which function? What will be the nature of the functions and division of the functions in a new merged organization? So a process of creation of action plan with accountability. This is the stage where organizations identify the key executives to lead a specific aspect of M&A. So, this is this all activities have to be completed before actually going for the M&A process.

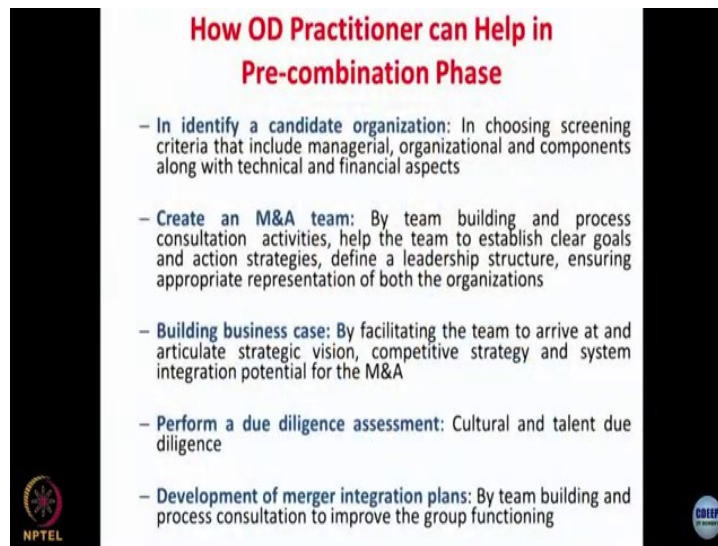
Second thing along with the pre combination phase should be done is the legal combination. Organizations have to follow the rule of the land. If an MNC wishes to acquire or merge some Indians subsidiary, they need to follow the guidelines of SEBI or Company Law Act. If an Indian company goes out to acquire MNC or an organization constituted at on the foreign land, they all they need to follow the rules of that land as well.

So, we must understand that the M&A process is governed by the rules of both the lands; the land of the acquiring organization and country of the constitution, where organization which is getting acquired coming from. If there is an M&A between American and Indian organization this process have to be conducted according to the law of both the

countries USA as well as that of India. And, that is the part of the legal combination phase.

The question is how OD practitioner can help in these different stages of the pre-combination phase? So, OD professional or the field of OD can be helpful in almost all the stages of the pre-combination phase of M&A.

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How OD Practitioner can Help in Pre-combination Phase

- **In identify a candidate organization:** In choosing screening criteria that include managerial, organizational and components along with technical and financial aspects
- **Create an M&A team:** By team building and process consultation activities, help the team to establish clear goals and action strategies, define a leadership structure, ensuring appropriate representation of both the organizations
- **Building business case:** By facilitating the team to arrive at and articulate strategic vision, competitive strategy and system integration potential for the M&A
- **Perform a due diligence assessment:** Cultural and talent due diligence
- **Development of merger integration plans:** By team building and process consultation to improve the group functioning

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First in identifying the candidate organization; OD process can help in choosing the screening criteria that include managerial, organizational, technical and financial aspects. So, OD profession and OD practitioner can identify the appropriate criteria for screening the candidates for M&A for any organization. Secondly, in the second stage OD profession and OD practitioners can very significantly be helpful in creating a M&A team.

By a team building process and process consultation activity, OD practitioner can help a great deal in creating M&A team and making it effective. OD practitioner can also help the team to establish the clear goals and action strategies.

In the previous sessions we looked at how field of OD equips any practitioner to make a good team and to facilitate the teams to function well and to identify their course of action. So, that knowledge can be used at this stage in the M&A process.

OD practitioner can also help in defining the leadership structure, if this is a case of acquisition then generally the acquired company willingly gives the authority to the acquiring company.

But, if it is a case of merger where all together new entity is going to form and both the entities which are getting merged have equal authority; in those situations identifying the effective leader might be a tricky job. And, that is where OD practitioners can be helpful, OD practitioner can also be helpful in ensuring the appropriate representation of both the organizations in the team which is responsible for M&A.

The presence of third party in the form of OD practitioner can be helpful to justifiably pick and choose the most competent and suitable people to constitute the M&A team. In the third stage which is making business case for M&A, OD practitioners can help in facilitating the team to articulate a strategic vision, competitive strategy, and system integration potential for the M&A.

We all know that OD practitioners can facilitate the groups to realize their full potential. They can facilitate the group to articulate which might be there in their wisdom, but which is yet not there on the piece of paper. So, the OD practitioner can help the team to arrive at the right strategic vision, the most appropriate strategic vision. And, also help them to articulate it and to present it which is understandable by large number of people by ideally by the person till the end of the hierarchy of the organization which are involved in M&A.

OD practitioner can help in performance of the due diligence assessment as well; particularly cultural and talent due diligence can be done by OD practitioner. Essentially what is the meaning of culture? Culture means shared values, shared beliefs, rituals, ways of interaction, ways of dealing with business which are shared in the organization. So, the culture is being created by individuals, it is a strong factor which affects the individual behaviour. So, there is a reciprocity in the individual and the culture and their influence on each other.

Culture is a powerful force; it takes time to change the organization culture. So, OD practitioner can identify the strength and the areas of concern in the culture of both the merging or merging entities.

They can decipher the shared values, beliefs, heroes and they can suggest the most appropriate ways of integration, performance management and leadership on the basis of their understanding of the culture. As we looked at previously talent is one of the most important reason, acquiring more valuable talent is one of the most important reason for any organization which goes for M&A.

In that situation OD practitioner can help in identifying the key talent. It is not about person being the most intelligent in x, y, z skills. What is more important about talent is that a human resource which is appropriate and which is suitable for that organization.

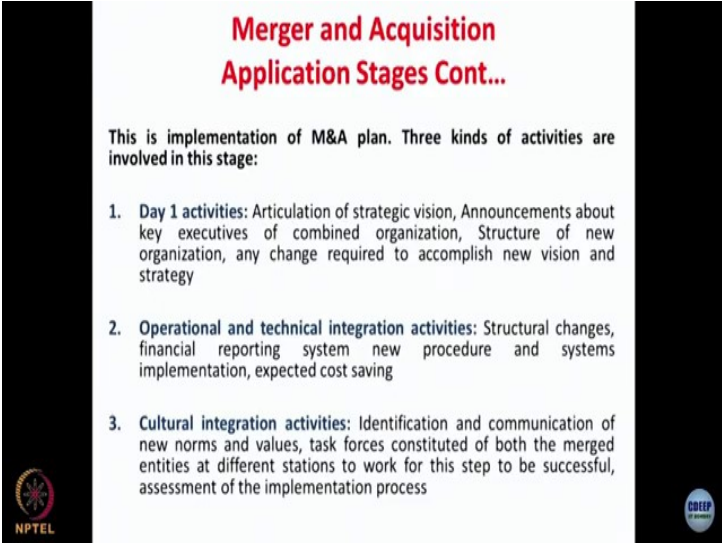
So, OD practitioner can identify the person organization fit. They can identify, they can first define what are the key talents required in at a particular level of hierarchy or amongst the employees belonging to certain function in a newly merged or acquired entity. And based on this understanding, they can help organization for the talent due diligence.

Development of the merger and integration plan, we all know that OD is a field which involves making teams and organizations of course, making individual group and organization to be effective in their role. So, we all know that integration plan cannot be and should not be constituted by a single individual or by the people who are from the same function or having a very similar background with each other.

Integration plan must be chalked out by the people with the involvement of the people coming from different functions and different level of or different kind of exposures. So, OD practitioner can help in help the teams to develop the merger integration plan. So, that the people who are working in the team do not end up just arguing with each other by presenting their perspective.

But, in the presence of OD practitioner as a third party this team with the people having different perspective about the M&A steps and processes can facilitate these people of the different perspective to come up with a integrated plan. Concerns and excitements of both the parties are duly incorporated and addressed.



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**Merger and Acquisition
Application Stages Cont...**

This is implementation of M&A plan. Three kinds of activities are involved in this stage:

1. **Day 1 activities:** Articulation of strategic vision, Announcements about key executives of combined organization, Structure of new organization, any change required to accomplish new vision and strategy
2. **Operational and technical integration activities:** Structural changes, financial reporting system new procedure and systems implementation, expected cost saving
3. **Cultural integration activities:** Identification and communication of new norms and values, task forces constituted of both the merged entities at different stations to work for this step to be successful, assessment of the implementation process

So, there are precisely three kinds of activities involved in the application stage of merger and acquisition. After the legal combination, organizations go for the implementation of M&A. In the implementation of M&A, the first thing need to be identified is day 1 activities.

What will we need as a merger merged entity to operate in the marketplace to function on a very first day? So, it involves the articulation of the strategic vision. It involves the announcement about the key executives of combined organization, the structure of the new organization.

Any change required to accomplish new vision and strategy all that has to be articulated on a very first day of the announcement of the integration; that must be chalked out and implement from the very from the day 1.

Second thing is operational and technical integration activities. It is about structural changes, how the financial reporting system will change according to the norms of the organization or according to the norm of the land or the country where they are going to operate. New procedures and system implementation, what is the expected cost saving, all that has to be taken care of as the part of the implementation process of M&A.

Third is the cultural integration activities which means identification and the communication of the new norms and values and assessment of the implementation

process. All these three things are important. What are the strategic orientation in plans that has to be ready on day one. How the technical and operational integration activities will be carried out, that is the next thing which includes the structural and financial systems, new procedures and operations in the organization functioning and the cultural integration.