

# The mergers and acquisitions management essay



In May of 1998, two of the largest car manufacturers in the business – Daimler-Benz and Chrysler Corporation – agreed to combine their organizations in what they agreed to be an egalitarian merger.

Egalitarianism is a cultural value which represents the opposite of a hierarchy (Brett and Okumura, 1998) and which communicates the nature of the company's social structure (Brett, 2000). Whereas an organizational social structure defined by hierarchy demands respect, advantage, and authority to those in the top tier of the corporation, an egalitarian social structure places less demands on lower-level staff members, based on the premise that superior status is subject to change (Brett, 2000). However, an egalitarian merger would prove to be a challenge as German and American styles of management appeared to be polar opposites. German organizational structure was authoritarian, bureaucratic, and centralized; while American organizational structure was mostly participative, empowered, and egalitarian. To further complicate company relations, a statement emitted by Jurgen Schrempp in an interview with the Financial Times (1999), indicated the true intentions of the transaction, stating that the merger “ was never intended to be among equals”. Such a statement revealed inherent flaws in communication which would disrupt perceived trustworthiness of Daimler-Benz, as well as control issues based on mutual misunderstanding as a result mutual insensitivity to cultural differences.

Because an autocratic management style predominated in Daimler Benz, the acquisition instilled a sense of entitlement to authoritarian values within the German company, imposing upon Chrysler a top-down management approach which disregarded existing Chrysler company values and interpersonal dynamics. However, Chrysler also failed to recognize and adapt

to dominating German styles of operation, choosing to adopt a more passive approach which reduced effective leadership within the American workforce.

Because cross-cultural integration was so poorly prioritized within the Daimler-Chrysler merger, steps to generating a more adaptive response to the merger are recommended. First and foremost, both companies should create contingencies to account for the integration of potentially dissonant company values. Culture is a highly influential variable which must be thoroughly researched and communicated to both parties in order to create a higher understanding of mutual approaches. Once culturally sensitized, organizations must create and implement new organizational values which transcend both parties' particular cultures, in order to create a "third culture" in which communication and productivity is based on awareness, respect, and commitment to fulfilling mutual company goals. Thus, by appointing an integration manager, the acquired company should report arising doubts stemming from the cultural aspects of the merger. In addition, company restructuring and related downsizing should be done as quickly and as respectfully as possible, in order to increase organizational efficiency. Finally, inclusive team-building amongst both entities should be promoted in order to generate innovative problem-solving ideas which strengthen and unite company relations.

## **What is a merger?**

In general, a merger can be defined as the integration of an acquired company into the existing, acquiring company. In terms of finance, an acquiring company purchases the majority of shares from the acquired company, thus merging both assets into one expanding share. A merger

tends to be a permanent arrangement and usually the company who acquires the shares retains its namesake. The International Competition Network identifies three major types of merger transactions: Share Acquisitions, Asset Acquisitions, and Joint Ventures. A share acquisition is defined by obtaining “ a controlling equity interest in the target such that it can exercise ‘ decisive influence’ over the target’s business operations” (ICN, 2010). On the other hand, an asset acquisition is defined as a “ buyout strategy” in which valuable elements – rather than shares – of a financially unstable company are purchased. Furthermore, the acquiring company can choose which specific assets or liabilities it wants to purchase. Finally, a joint venture is defined as a partnership between two companies which participate in a transaction of shared risks and assets for mutual benefit. Joint ventures are commonly proposed to domestic companies of a designated region by foreign companies who wish to expand their markets. In this transaction, the foreign company usually provides an advantage in technology and materials while the domestic company provides established contacts, brand recognition, and fulfillment of required government procedures.

#### Synergy: Reasons for Mergers

Synergy is the belief that current productivity levels and overall value of two separate companies will be greater following the integration of both.

Schweiger & Very (2003) identify four elements which comprise synergy: cost, revenue, market power, and intangibles. A cost synergy implies reducing overall organizational costs of administration and sales, as well as promoting functional consolidation and optimizing sales force and

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distribution, among others. Revenue synergies are associated with increasing volume of sales by selling products throughout a variety of markets with the intention of reducing fixed production costs. Market power is related to the acquisition of a competing market in order to maintain or increase product prices. Finally, intangibles refer to the ability to successfully transfer expertise and brand-name power to the acquired company (Haspeslagh & Jemison, 1991). Synergies provide a company with the motivation necessary to pursue a merger.

Supported by the various synergies are various strategic reasons for pursuing a merger. Schweiger & Very (2003) identify 5 particular objectives to be fulfilled by mergers: geographic market consolidation, extension of technology, services or products, and geographic market expansion, among entering a new business and vertical integration - which is the process of becoming a supplier or distributor in order to increase company value.

Once a company has been acquired and the merger fulfilled, it is important to fulfill certain variables in order to achieve a smooth transition of company management. The level and speed of integration are crucial to organizational adaptation and will vary in success depending on applied integration strategy, organizational culture, and employed acculturation strategies.

Acculturation refers to the process in which the acquired company adopts the acquiring company's organizational culture as its own. It is argued that a successful integration of company values is a greater predictor of overall company progress than financial or strategic factors (Larsson & Lubatkin, 2001). An acquired company which retains a high degree of autonomy and cultural identity is indicative of a successful integration. However, a company

which abandons its cultural identity and structure in favor of the acquiring company's identity suggests previous failure and distrust of proper capacities to succeed. Quality of communication is also a fundamental factor in achieving post-merger success. Poor communication between organizations can lead to a perceived lack of trust and caring by the acquired company, as well as a decrease in commitment and satisfaction. In addition, the degree of retained autonomy displayed by the acquired company directly relates to the level of integration achieved by the company: A higher level of autonomy is suggestive of a low level of integration, and vice versa. Although a certain level of autonomy can be beneficial for the acquired company, it can prove to be counterproductive if it does not correspond to the defining terms of the merger acquisition.

## **Mergers and the Importance of Organizational Change**

Change provides a company with the opportunity to develop, expand, and progress. Future-oriented theories define organizational change as the process of setting, executing, and renewing company goals in order to achieve an ideal state of relevance and innovation. Similarly, life-cycle theories explain change as an externally-dependent process which evolves through various stages: birth (or emergence), growth (or development), maturation, and decline. Finally, dialectical theory compares organizations to multicultural societies with clashing values which generate change. In any case, an organization which embraces change demonstrates its capability to adapt and thrive on an ever-evolving marketplace. Similarly, employees who adapt to implemented organizational changes experience enhanced satisfaction in their performance, additional to as a greater sense of

involvement in their work environment. If embraced properly, positively-promoted change can create a stimulating environment ripe for innovation, as well as a renewed sense of commitment to the company. Thus, effective leadership during transitional states of implemented change is crucial to decreasing employee stress while increasing overall productivity (Halkos, 2012).

## **Reasons for Failure of Organizational Change**

Many factors contribute to failure to adapt to change within an organization. Specifically, there are 6 fundamental factors which influence unsuccessful implementation of change: premature or insufficient willingness to change, lack of contingencies to support the change, expecting immediate results, focus on change as opposed to results, leadership and management deficiencies, and divergence between planned strategy and circumstances of change (Yhang, Zuo, & Yu, 2009). In addition, research by Amburgey, Kelly, & Barnett (1993) has found support for Hannan & Freeman's (1984) Structural Inertia Theory, which states that both internal and external constraints greatly influence the outcome of organizational change.

## **Section 1: Daimler-Chrysler Merger: A Cultural Mismatch**

Q. 1 Mergers and Acquisitions take place to realize the synergies between the two or more companies involved. Using Cultural theories, explain why do you think the Daimler-Chrysler merger failed to realize the synergies that were expected from it?

The merger between Daimler-Chrysler failed to fulfill synergic expectancies because appropriate steps to ensure adequate integration between two

organizational cultures were not implemented. Daimler-Benz did not effectively communicate their true intentions regarding the merger with Chrysler, initially setting expectancies for a joint-venture equalitarian status which was later revoked by Daimler-appointed, Chrysler USA CEO Juergen Schrempp. This lack of communication created expectancies of equality and autonomy among Chrysler employees which were disregarded post-merger. However, Chrysler USA showed lack of leadership in adapting to the new model of organizational structure implemented by Daimler-Benz, thus increasing levels of stress among employees while reducing perceived trust in leadership capabilities, level of commitment to the company, productivity and job satisfaction.

Cultural differences were vast, and failed to adapt to typical inclusion challenges faced by foreign companies intending to establish their presence in domestic markets. Whereas the German organization displayed the level of formality, precision, bureaucracy and orientation to detail typical of autocratic and bureaucratic styles of management, leadership within Chrysler USA inclined towards a participative approach which valued empowerment and egalitarian relations. In order to minimize cultural clash, Schrempp allowed each company to retain their own structural and cultural approaches, suggesting the adoption of a separatist mode of acculturation. However, the lack of communication which accompanied this decision failed to address the uncertainties in organizational procedure brought by the merger, in addition to the true intentions of Daimler-Benz to acquire the company as a subsidiary and not as an equal partner. Thus, the true nature



of the merger was revealed in the way Daimler-Benz promoted cultural assimilation without regard to existing structure in Chrysler USA.

Q. 2 Many a Cross Cultural mergers have failed because proper attention was not given to the difference in cultures between the two companies. What issues should be addressed to make cross culture merger a success? Include an Action plan in your recommendation section.

In order for a cross-culture merger to be a success, cultural issues must be assessed and addressed as thoroughly as possible in order to dispel uncertainty which may give rise to increasing tension and diminished productivity in the workplace. To further any plans without assessing overall adaptation to newly-implemented changes would hinder any opportunities for organizational development. A merger that is both culturally aware and financially sound is fundamental to achieving success as a newly-formed corporation entity.

Even though Daimler-Benz eventually attempted to increase cultural awareness within its organization by promoting seminars on cultural awareness, learning the language and experimenting with a casual dress code, cultural integration remained ineffective as both parties were still heavily entrenched in the bases of their pre-existing organizational structure. American employees were encouraged to learn the German language and increase specificity in their planning, but remained fundamentally adrift in their leadership while their German counterparts continued to eliminate Chrysler authority by replacing top-tier management with German executives. Essentially, both organizations resisted the changes

implemented by the merger and did not manage a successful integration of company cultures.

Because of the complexity involved in adapting and conforming to external cultural values, a new approach focusing on promoting a Third Culture has been suggested by a growing body of research as a way to demonstrate respect for pre-existing cultural identities within the organization. Yan and Luo (2001) suggest a series of actions to motivate intercultural learning. A partner's level of commitment and negotiating skills should be thoroughly assessed; flow of knowledge should be constantly improved through effective communication; and inter-organizational trust should be reinforced (Graen, 2003). In addition, Graen & Wakabayashi (1994) suggest an alignment of diverging cultures by implementing the " LMX Third Culture Way", an overall procedural strategy which encourages mutual respect among cultures, as well as the acceptance and commitment of both parties to a mutual way of fulfilling the merger transaction's objectives.

Subsequently, acquired knowledge should be integrated successfully in organizational practices (Graen, 2003), and knowledge leaks should be prevented in order to maintain organizational unity and edge. Similarly, overdependence in either one of the parties should be avoided, instead incentivizing employees from both parties to provide efficient and innovative suggestions. Finally, all acquired knowledge should be implemented in company culture and promoted through frequent and effective communication, and consultancy and support for both parties should be provided throughout every stage of the merging process. Such support would assist organizational transition by promoting a general understanding

of distinct cultural values and potential attitudes and behaviors related to each of the involved parties. In turn, promoting a company's own awareness helps develop consciousness of typical behaviors inherent in the company and their influence on others, thus developing a greater level of cultural sensitivity which fosters more effective inter-management and management-employee relationships. Finally, constant promotion and reinforcement of third-culture values increase trust and perceived competence among both entities, increasing the overall effectiveness of communication.

## **Section 2: Renault Enters India with a Joint Venture**

Q1. Examine the factors that influenced Renault's Decision to choose a joint venture entry mode as opposed to Green Field entry mode to enter the Indian market. Include in your answer an explanation of how the characteristics of India have affected this decision.

As previously discussed, a joint venture is a strategic merger approach typically employed by a company that wishes to corner a foreign market. By approaching Mahindra and Mahindra (subsidiary of Nissan) as a joint venture, it seizes the opportunity to create a lasting, egalitarian relationship between both parties, in a dynamic which delegates autonomy and expertise to the Indian company while benefitting from the familiarity of its brand name and knowledge of domestic markets. However, profitable benefits are mutual as Mahindra and Mahindra disregard their allegedly small stake in the Indian subsidiary of Ford in order to gain a 20 per cent share of the total auto market in India.

Q2. Discuss the main advantages and disadvantages for Renault using a Joint Venture mode compared to a Green Field entry mode. Explain the main differences between the two modes in terms of control, risk, and flexibility. Include an action plan which includes some steps to portray Renault as a good corporate citizen to reduce its political risk.

In general, a joint venture with Mahindra and Mahindra allowed Renault to benefit from valuable, strategic assets, as well as a quicker and more formidable entry into a competitive, locally-cornered market. Had Renault approached the Indian market through Green Field Entry, it would have spent additional costs in starting a foreign subsidiary and forgone the invaluable expertise and established market shares it earned through the partnership with Mahindra. Furthermore, an analytical gaze at the Indian automobile market reveals that India is developing exponentially, with its southern cluster alone holding a 35 percent revenue share. Had Renault opted for the Green Field approach, it would have had to face a deeply competitive market with no realistic, cost-effective strategy of entry.

Alternatively, both companies have demonstrated a successful adaptation to the merger by focusing on the strategies necessary to achieve mutual benefit. As previously suggested by Yan and Luo (2004), both Renault and Mahindra promote business interactions characterized by Third Culture elements, by incentivizing effective performance by communicating their company objectives and expectations in a direct manner, also reinforcing trust and productivity among both organizations. However, one frequent problem resulting from joint ventures relates to attitude changes by one of the owners (Miller & Glen, 1997), suggesting difficulties in aspects of control.

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Diverging interests in products, disregard for more cost-effective sourcing, and mutual misunderstanding based on insensitivity to cultural differences are only a few of the issues arising from control problems. Thus, it is important for both Renault and Mahindra to continue fostering a Third Culture approach to their relations by continually generating cultural awareness and securing valuable knowledge produced by their interactions and joint experiences, as well as by increasing overall organizational flexibility when approaching overlapping company structures.

## **Conclusions**

Mergers occur for various reasons, which include: increased mutual profit, market power, and intangible assets such as shared expertise. However, the process of merging two distinct companies with particular organizational cultures and structures can prove to be challenging to both parties, especially in regards to integrating new objectives and culturally-influenced expectations of productivity. As seen in the case study of Daimler-Chrysler, an inappropriate communication dynamic, as well as intercultural resistance, diminished the potential to achieve greater levels of productivity and satisfaction among both parties and failed to extinguish increasing levels of stress and distrust among the acquiring and acquired entities. In order to increase opportunities for a successful multicultural merger, both organizations should raise cultural awareness amongst each other through direct and respectful feedback and a constant and secure influx of knowledge which reinforces a general and uniting third culture.