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Mergers and acquisitions of indian companies : issues & concerns

Issues arising out of M & A relating to personnel, materials, management and others have been highlighted here.

M. Selvam * S. Vanitha * M. Babu *

A decade into the era of LPG, more companies in the corporate sector face a wild jungle like situation with fierce competition for survival. A lot of debate is going on about the merger process. The post-merger scenario in the case of two organizations generates several issues. The staff of both the organizations sit side-by-side and work together .The books, registers and products of one organization are likely to be discarded totally. The systems and procedures of one organisation (absorbing company) have to be imbibed by the staff of another (merging) company. The physical and psychological stress is not minimal in the process of merger. It is against this background this paper discusses the issues relating to M & A transactions in India.

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The Initial Question

When one thinks of merger of two companies, the initial question one faces is: "When an Indian company is having high percentage of loss, is it necessary or beneficial to think of merger?" It may not be profitable to merge companies when the merging company is plagued with heavy loss. The recovery proceedings/process may be affected if the companies are merged. The timely action and effective legal measures cannot be enforced during the merging process. The cases or suits filed by the merging companies in different courts, DRTs, BIFR etc., need to be represented by persons concerned and followed up carefully. Further, the format of documents differs from company to company. In the case of suits or cases already filed by the merging company, the respective courts are to be properly informed on these aspects. The courts may prolong the cases because of the complex nature of different documents. This results in continuance of the loss rather than quicker realization of funds through legal measures.

Issues Involved

The issues involved relating to the preparatory and the post-merger stages are briefly outlined in the following paragraphs. They are categorized under four heads.

1. Issues relating to personnel
2. Issues relating to material
3. Issues relating to management
4. Other issues.

1. Issues Relating to Personnel

There are two issues relating to personnel i.e. a) Conflict among trade unions of two companies, and b) Training cost

a. Conflict among Trade Unions of Two Companies

It is common in India that the staff of every company becomes members of 2 or 3 unions, which are in turn affiliated to some political party or other. There are several hierarchical posts enjoyed by the office bearers of these unions. The power and supremacy enjoyed by each leader within his company varies. When two companies merge, naturally, there is a possibility for power struggle among the leaders themselves. In the process, it is likely that the interests of the members go unprotected.

b. Training Cost

In order to successfully run the corporation, every corporation would have to spend enormous amounts in familiarizing the systems and procedures of the corporation to its staff. Once the merger takes place, staff of both corporations suffer under the new system. The staff of absorbing corporation need to know briefly about the procedures of the merging corporation; the staff of merging corporation need to know every thing about the absorbing corporation. As the staff of both corporation have to be trained, that too in the shortest possible time, there will be enormous pressure on the training system and the new management. This process would involve enormous cost and strain to the staff.

2. Issues Relating to Material

Issues relating to material include a) Change of systems and procedures, b) Synchronization of longstanding system c) Waste of company - specific technology, and d) Additional overheads cost.

a. Change of Systems and Procedures: Each corporation has its own sysgtems and procedures, developed and improved over a period of time. It would have already invested several crores of rupees and man hours in publishing the books of instructions and familiarizing them to all the operating staff. When the merger of two corporations takes place, employees and supervisors of the corporations (especially from the merging corporation) face utter confusion. Further, change of the age-old, established practices will not be relished nor the new systems easily understood by the employees.

b. Synchronization of Longstanding System : Generally every corporation would have traditionally stabilized in a particular system of functioning or accountig. After merger of two corporations, a need may arise to modify the longstanding system in the absorbing corporation to synchronise with the needs of the new environment. So, the absorbing corporation may come across a situation which it had not encountered earlier.

c. Waste of Company-Specific Technology: As a result of increasing needs of customers, computerization has already taken place to a significant extent in each company. Each company would have paid huge sums as royalty and spent several manhours in getting suitable software developed for the specific accounting needs of the company from a particular vendor. If and when two companies need to be merged, all the money and labour spent by one company would go a total waste because of the likely incompatibility of the two separate softwares of the merging companies.

d. Additional Overheads Cost: At any point of time, all companies maintain fixed assets, security forms and stationery worth several crores of rupees for smooth functioning of their branch office or division office located at several places. As a result of merger, the printed stationery lying with merging company may turn out to be unusable. On the other hand, safe and supervised disposal of these forms adds cost to the company. The two merging companies may already have branches in the same town/city. The existence of two branches after the merger, in the same city or town may not prove economical. The overheads incurred on one of them may be viewed as additional burden till a decision to relocate the branch is taken.

Both companies after a final decision regarding merger is taken, will spend sizeable sums and valuable time/manpower in observing the formalities related to merger. Further, they need to communicate or publicize about merger proposal with a view to getting the consent of their shareholders. Both companis need to inform and educate their customers. Several legal formalities, involving stamp and procedural hassles, have to be tackled. These problems ultimately lead to escalation of cost.

3. Issues Relating to Management

Issues relating to manageement include a) Apprehensions of top level staff, b) Reluctance of shareholders, c) Loss of attention on business targets, and d) Communication delay.

a. Apprehensions of Top Level Staff : The General Manager of a small company is not equal, in any respect, to the General Manager of a big company. The length of service put in, the pay drawn, the sanctioning powers exercised,the area of operation, the size of balance sheet under his control etc., may be different for each General Manager. After merger, ego clashes may arise at the top management of the companies. In this process, company and customers may not be drawing the best out of the talent/experience lying in these two General Managers.

b. Reluctance of Shareholders : While the shareholder of weak company may thank his stars over a merger of two companies (a weak company and a strong company), the shareholder of the strong company will raise hue and cry to stop the merger, because of the lingering fear that his share may not be earning as in the past and its value may deteriorate. Even if two strong companies merge, the apprehensions of the shareholders cannot be easily dispelled in the initial months till success is achieved and better returns realised.

c. Loss or Attention on Business Targets: During the process of merger, the branches concentrate mostly on the system related problems. The new system throws up lots of problems (administrative, legal procedural etc.) which take away most of the time and attention of the Head or Branch Office. Thus the business targets do not get their due attention.

d. Communication Delays: When the process of merger is going on, the Top Management of each company may face several unexpected complex problems from different quarters. The Top Management would not be in a position to take a comprehensive view in certain cases, pending the completion of merger. If, as a matter of abundant caution, a co-ordination committee or an implementation committee has already been constituted, many issues may have to be referred to the committee. In relative terms, the time taken in decision making would be more in the committee approach. It is possible that the employees and customers will experience the delays as unbearable during the merger process/transition period, leading to all round dissatisfaction and unrest.

4. Other Issues

Other issues include a) Fluctuation of share prices, b) Customer service, c) Confusion of customer, d) Poor credit management, e) Reconciliation of outstanding entries, f) Insider frauds, and g) Market capture by other players.

a. Fluctuation or Share Prices: On account of merger process, the losses of the weak company may be transferred to the healthy company. The profits of the healthy company may be affected for some time. On account of decrease in the profits of the company, the market value of the share of healthy company also may be affected to same extent.

b. Customers Service: In the competitive era, customer service, customer satisfaction, and customer delight are the watchwords for any industry. On account of merger, the recognition of customers and personalized service rendered in the past may be affected to some extent.

c. Confusion of Customer: Each company, before merger, may be popularizing its own style of distribution and products by different names and most of the customers would have, over a period of time, got accustomed to these names. When the merger takes place, not only the insiders (staff) but also the customers start experiencing the confusion. Eg. The title "Kisan Bandhu" in a bank may be a deposit product; a similar title "Kisan card" will be a loan product in another bank. As a result, some customers may keep away from the bank and the very purpose of opening/merging the bank may be lost.

d. Poor Credit Management: Each company branch identifies the debtors and the functionaries of borrowal units. But when two companies are in the process of merger, both the companies may not give due attention to credit despensation or to follow-up/supervision of the advances. The debtors also may not get prompt responses to their requests for enhanced credit limits or temporary excess drawings. Company staff also may not give full attention to die recovery aspect.

e. Reconciliation of Outstanding Entries: Normally every company may have some unreconciled entries in their systems. Each company is fighting this menace to avoid penalties and provisions on this score. On account of merger of two companies, the unreconciled entries of the merging company may create problems in the post-merger stage. Unless detailed and patient action plaming is done well before the merger for arriving at the total value of outstanding entries and also about the procedure for dealing with these outstanding entries the post-merger stage may witness chaos or spurt in frauds.

f. Insider Frauds: There is considerable scope for damages or pilferage. Hence the process of merger may be used as a god-sent opportunity to defraud the company by any insider with malafide intentions.

g. Market Capture by Players : While the merger process of two companies is going on, the delays on account of administrative reasons or unpreparedness of staff may occur. Other players will exploit this opportunity to lure away the important clientele of the merging companies and increase their market share.

Conclusion

In spite of the above issues / constraints, the mergers of company may still be viewed as the only alternative left in the place of other hard choices. It is true that merger of companies may increase the size of the balance sheet, widen the network and trade opportunities in new areas, generate scope to offer more user friendly products, and opportunity to the staff to prove efficiency. Whatever be the reasons for approving the merger, the planners and supervisors in the merger process should consider the above issues/constraints to plan a smooth transition of merger. ❑