

Overcoming Organizational Inertia with Cross-Border Merger & Acquisition Activity

An Empirical Case of India

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Abstract

The current research study aims at understanding the relationship between organizational inertia and M&As. We study telecom, pharmaceutical and software sectors in India. As cross-border mergers are considered over a 20-year period, the results may be relevant for other emerging markets and advanced economies to some extent. There emerges a negative correlation between inertia; and size, age, deregulation. Deregulation has a significant negative impact on the organizational inertia. Competitive response is tardy and thus inertia increases with lesser M&A activity. More firms participate in the M&A activity as a competitive response to the market pressure. Inertial forces in acquirer slow down or hinder the post-merger progress with no other supervising entity to correct them. Young, small firms are more active and less prone to inertia than big, old firms.

Introduction

Organizations have seen M&As as one of the modes of growth, as an entry option into a new market or country, as a way to improve financials of the company and as a way to gain technological or product gains. Organizational inertia has also found its origin in environmental complexity, and linkages between organization and environment. Inertia has weakened the organization due to various reasons like poor environmental assessment in the face of environmental uncertainty, merging target and inhabiting environment without appropriate change in a dynamic world, and where the firm is caught in bureaucracy. This in turn hinders the opportunity assessment leaving untapped segments of customers or markets thus affecting the business performance.

Also, competitive pressure from market environment has made players adopt M&A as a competitive response. Johnson & Johnson, P&G, Kraft, are examples of giants that became market leaders based on their international business orientation, profitability tactics, and volumes. These companies have worked on their strategies to suit the market environmental changes and hence have avoided inertia. Kraft has faced the problem of inertial tendencies in the past but it has overcome the same by continuous product/ brand innovation in the form of new chocolates/ packaging, and acquisitions of competitors. P&G has faced the problem of inertia when the premium segmentation did not receive the matching high pricing strategies initially but it stuck to its niche by emphasizing on quality finally making the customers willing to pay for the high prices. The customers have accepted the quality difference that came with the high pricing strategies of P&G.

The extent of institutionalization in terms of organizational boundaries, employee motivation, performance, leadership and conflicts all have been found to have delayed or resisted changes like M&As. The converse is true that M&As have been lagging due to inertia as inertia affects the employee performance. Organizational conflicts do not find a better negotiation if the leadership is not tackling the existing organizational inertia.

Research Problem, Objectives & Plan

If inertia pulls down M&A performance then inertia accounts for the lost performance in future. M&A activity is an ongoing activity in the industrial economy in telecom, pharmaceutical or software sectors. The ability of M&A in promoting growth poses a challenge to the organizational inertial tendencies and hence the subject is of constant study in one form or the other. Whether big or small a company may face the same doom or success because companies have different sizes but similar goals. They may not reach the goals and underperform due to which they need to face a decline. The research problem is formulated to understand the variables of organizational inertia and that of the M&As. The research questions are derived out of the research problem to determine the relationship between the variables of inertia and M&As. Merger has 3 phases of existence – pre-merger, transition and post-merger performance. We try to evaluate the impact of inertia on all three phases. We try to address the research problem as – the impact of inertia on M&As. Organizational inertia has impact on the initial decision and announcement of M&A, the following transition and the final performance of the M&A. The unit of analysis is firm.

The objectives are: (1) to identify the inertial elements in the pre-merger and transition phases; (2) to identify the performance elements of the merger; (3) To find out the impact of organizational inertia on the M&As; and (4) to understand how top management can take active steps to curb inertia and propagate change through different layers of the merging firms, to propose productive activities to be practiced during inertia, while taking steps to overcome the same.

With these objectives in view, the paper has been organized as follows: the literature and relevant cases, to the constructs in this work, were reviewed and analyzed. A research model is proposed then. Hypotheses are formulated for testing in this study. This is followed by an explanation of the procedures used to obtain data, measurement, and validation procedures as well as testing of hypotheses. Finally, the results of the model, and a series of conclusions with global business implications are presented; then certain limitations and future lines of research are highlighted.

Literature Review

First we understand the research works defining organizational inertia and its types. Then the next section reviews the studies combining M&As and overcoming inertia so that the factors, variables and model can be developed well.

Organizational inertia

Inertia in management is defined as an overarching concept that encompasses personal commitments, financial investments and institutional mechanisms supporting the current way of doing things; and resistance to initiate change comes from individual cognitive processes (Huff, Huff, 2000; Huff, Huff, & Thomas, 1992). Inertia influences cognition to imply similar things to past by deriving something from a view of understanding that the other thing has been done (Schank, 1986). According to Schon (1971), organizational inertia is the tendency for organizations to exhibit apathy to change and lethargy towards taking action. Scholars in population ecology have directly attributed inertia to the cause for survival or death of organizations (Hannan and Freeman, 1977, 1984 and Aldrich, 1979). Inertia prevents the anticipated benefits of horizontal mergers from appearing within such a brief period (Barnett and Freeman, 1997). The underlying presumption is that successful organizational adaptation is not generally the outcome of a rationally planned and carefully administered strategy, but rather the occasional product of happenstance (Lubatkin, *et al.* 2001). Structures of organizations have high inertia when the speed of reorganization [core feature change] is much lower than the rate at which environmental conditions change" (Hannan and Freeman, 1984). Their theory is often referred to as 'inertia theory'. According to inertia theory, the occurrence of a peripheral feature change such as a merger is not associated with an increase in the probability of failure (Hannan & Freeman, 1984). Attempts to change peripheral features do not raise questions about organizational identity and do not

disrupt organizational operations. Therefore, peripheral feature change may decrease the probability of failure or, in the worst case, cause a small but insignificant increase in its probability (Kelly & Amburgey, 1991). Peripheral structures protect an organization's core from uncertainty by buffering it and by broadening the organization's connections to its environment. Kelly also argued that lack of competitive response in some form or the other could lead to competition inertia among firms.

Impact of Organizational Inertia on Mergers & Acquisitions

Horizontal and market-extension merger and acquisitions are considered to be peripheral changes and not core feature changes in the organization whereas vertical integration, product extensions and conglomerate mergers affect organizational cores due to which they are considered to be core changes (Aldrich, 1989; Kelly, 1991). In such cases inertia leaves less control with more organizational constraints, goal-displacement and bureaucracy (Weber, 1978; Merton, 1968). Cross-border Mergers have their set of issues for buyer and seller like those of identifying partners and targets, framing strategies for target acquisition, grooming a MNC business for sale, appointment of professional advisers, crystallizing value, due-diligence, legal and taxation considerations, negotiations, shareholder concerns to the conclusion of contracts even to the extent of withdrawals where the bidder/target may cancel the deal (Reuvid, 2007). Inertia also limits the propensity of the firm to respond to market changes or adopt innovations. An inability to act in the presence of a significant threat or opportunity such as technological or regulatory changes is a major source of organizational failure (Henderson and Clark 1990, Levinthal 1992). Scholars argue that when an existing form and function persists for long, organizational design lacks plasticity and resists change in the goals, forms of authority, core technology and marketing strategy; and slows down competitive response (Gresov, 1993; Rumelt, 1995).

Overcoming Inertia

Firms need continuous process and technology improvements to yield results. Firms have to overcome strong internal forces for stability to enable revitalization, strategic renewal, and pursuing new business opportunities (Hammer and Champy, 1994). Rumelt (1995) suggests strategic innovation, fragmentation, increased incentive intensity act, to reduce the sources of inertia. Setting clear guidelines and expectations for the integration will serve as a roadmap for the integration team (Morschies *et al.* 2011). Bringing in novel ideas different from the past practices by hiring new directors, CEOs, new governance mechanisms can overcome cognitive inertia by bringing in novelty, discrepancy and deliberate initiative (Louis and Sutton 1991; Westphal, 1999). Firms need to overcome inter organizational pressures that demand continuity and this conflict increases all the more in case of merger where two companies come together to combine their best practices in the form of a new company and both firms want to retain their policies as their employees are more comfortable with their own company's ways and want to resist change proposed by the merging entity due to cultural inertia (Birkinshaw, 2004; Milgrom, 1988). In the process of overcoming organizational inertia, companies may face opposition from managers due to negative feedback from important stakeholders on proposed changes or due to lack of managerial championship as they feel that changing to external developments will cause a major disruption in existing routines and organizational policies that are embedded in the organization's values and culture and may also result in a loss of control and power over their inter organizational processes (Nelson and Winter 1982; Porter 2001). March (1991) suggests that ambidexterity is a way of overcoming inertia by taking care of two sides - implementing entrepreneurial processes and behavior patterns, but at the same time preserving existing efficient processes to build sustainable organizations. Allcorn (2008) argues that organizations should reduce knowledge inertia by encouraging members to acquire new ideas and methods. The problems dissipate with experience as the organization learns and adjusts to the new form (internal organization) and circumstances (market environment) (Amburgey, Kelly and Barnett, 1993).

Developing the research model and Hypotheses

The theoretical concepts discussed in the last section formed the foundation of the research model. Based on the literature review, we use the **measures of inertia** as- No. of mergers for the last 20 years; Age, size of the companies; Hierarchy, [Lack of employee resistance to change may be seen in flat organization. Lack of responsibility and hence reluctance to change may be seen in bureaucratic firms. Decision-making may be slow in such firms and hence prone to inertia. This is not used in calculations but more for interviews]; Number of Standardized routines; the competitive pressure and competitive response constructs are calculated using the GEMCAT procedure (Oliva, 1987). A value between 0 and 1 is assigned to each of the inertia variables and total inertia is calculated as the sum of all inertia variables.

Independent variables - Industry deregulation assumes a value of 0 for software sector owing to liberalization from 1991, assumes a value of 1 for telecom sector since this sector still faces government regulation to a greater extent, Pharmaceutical sector assumes a value of 1 as government bestows regulation on this sector also. **Control variables** - To control overall firm restructuring effects acquirer firm performance is included. Unit relatedness is dummy coded (related = 1, unrelated = 0). All the models have a mean VIF of less than 1.6, and the largest VIF was less than 4, suggesting that multicollinearity is not a major concern. Company websites are used to collect data on the number of employees, ROIs, directors information, new hires information from their annual reports, annual general meeting notes and news announcements. A multivariate point-process model is used to estimate probabilities of M&A and probability of inertia. The model has situations where discrete point events occur in time. These are multiple repeatable events like M&As across the industrial space. Model 1 tests data under Hannan-Freeman model. Model 2 includes the notion of competition. The hypotheses to be tested are -

- H1- The presence of inertia in one or both of the merging entities at any of the three phases of merger, creates a significant impact on the performance of the merger.
- H2- The organizational change of the merging two entities, creates a significant impact on the organizational inertia in the new entity.
- H3- The probability of change in the form of M&A is reduced as the organizational size increases.
- H4- The probability of change in the form of M&A is reduced as the organizational age increases.
- H5- The M&A as a competitive response to the competitive pressure to avoid future inertia within the firms, has significant role in thwarting the inertia.

Population & Sample Design

A set of 2480 mergers is collected from the SDC database of the Indian companies that were merging with the domestic and global firms during 1990-2010. Target firms are in India and acquirer firms are based anywhere in the world, including India. The time frame for M&A activity is the last ten year period from 2001-2010. Both cash and stock merger deals are considered in this study. A sample is chosen consisting of- 2480 firms in Indian industrial sector (cross-border M&As), 110 software firms (M&As), either acquirer or target from India; 370 pharmaceutical firms (M&As), either acquirer or target from India; 30 telecom firms (M&As), both acquirer & target from India. Primary data was collected from 510 M&As in India. There were 200 responses out of which 100 responses were incomplete. Despite the low response rate the respondents were highly representative of the population and gave appropriate responses with regard to the market conditions. Secondary data is used from 2177 firms from India that entered into merger & acquisition deal during 1990-2010.

Research Design & Data Collection

The research design involved a cross-sectional survey that was conducted in the beginning of 2013. However, the data collection process was divided into two stages. In-depth interviews helped in

understanding the TMT's stand on the steps taken to overcome inertia and resistance faced during change (M&As).

Second stage was to carry out the survey with the help of questionnaires. Feedback was implemented based on the preceding sections, inputs on conceptual and business issues from academicians and business experts. Top managers are the key participants in change and have access to the company strategies, plans and organizational structures. The responses are collected to identify the elements relevant to address organizational inertia before, during and after a merger. After a merger, performance is the key concern and hence the merger elements will be correlated with the inertial elements to gauge the impact of the latter on the former.

Data analysis & model testing

We use SPSS and Market Engineering software. We use hierarchical regression analysis (stepped below) to test the hypotheses of the study predicting that the sources of organizational inertia affect the relationship between acquirer and target in terms of the performance of the merged entity. Step 1- the merger variables are entered in terms of pre-merger, transition and post-merger phases. Dependent is coded as 1, and freestanding firms are coded as 0. Step 2- the moderator variables performance, size, dependency are entered. Step 3- we enter the cross-product of variables with the moderator variable e.g. top management new hires by performance, advanced technology by performance. We get a table of standard deviations, coefficient alphas, reliabilities and correlations. Variables are measured such that betas with negative signs would be consistent with our hypotheses. Negative betas would indicate that high performing, small, dependent mergers have less inertia than low-performing, large or independent firms. We use a maximum-likelihood method to estimate the effects of the independent variables on the probabilities of merger and failure (performance goals not being met). We use F-tests to assess the significance of the coefficients of the individual variables and likelihood-ratio tests to assess the significance of the hierarchically nested models. The likelihood ratio, H, is the ratio of the model under the null hypothesis to the model under the alternative hypothesis. The term - 2 log H is chi-square distributed with k degrees of freedom, where k is the number of additional parameters in the alternative hypothesis.

Findings & Interpretation

Acquirer size and age were factor analyzed, and a single composite measure was created, using a weighted linear combination of the two variables. The two variables clearly loaded on one common factor (eigenvalue = 1.25, eigenvectors = .73 both for age and size). The older the firm, the more difficult it gets for the organizational inertia to be reduced. Similarly, larger firms also find it difficult to reduce inertia within the organization. Their processes and systems are so widespread amongst employees, and even competitor knowledge that inertia prevailing in the systems can be warded off with much effort, time and cost.

| Independent Variables | Means | SD | Means, Standard Deviations and Correlations ⁱ | | | | | |
|--------------------------------------|-------|--------|--|-------|-------|-------|--------|------|
| | | | 1 | 2 | 3 | 4 | 5 | 6 |
| 1. Industry Deregulation | 0.8 | 0.34 | | | | | | |
| 2. Organizational Age | 12 | 13.61 | -0.54 | | | | | |
| 3. Organizational Size ⁱⁱ | 5.42 | 5.47 | 0.33* | 0.1 | | | | |
| 4. Cumulative M&As ⁱⁱⁱ | 170 | 145.92 | 0.24 | 0.03* | -0.01 | | | |
| 5. Cumulative Performance Change | 32.39 | 274.25 | -0.64 | 0.22 | -0.12 | 0.1 | | |
| 6. Competitive Pressure | 47.2 | 303.62 | 0.25 | 0.41* | 0.13* | 0.83* | 0.23 | |
| 7. M&A as Competitive Response | 46.18 | 127.35 | 0.36* | 0.23* | 0.06* | 0.19 | -0.11* | 0.39 |

ⁱN=2480

ⁱⁱThis measure was a natural logarithm.

ⁱⁱⁱCross-border and Indian mergers were measured.

* p < 0.05

number of cumulative M&As is 170. The average change in the cumulative performance of M&As is 32.

Table 1

The average age in the population is 12 years. The logarithm of average size is \$5.42m in total assets. The mean value of total assets is \$226m with a standard deviation of \$236.67m. Many firms in the telecom, pharmaceutical and software sectors entered into mergers, but some firms did not enter into mergers. Also, some firms did not experience any change. Most of the firms experienced changes in the given period. The average

The competitive pressure on the firms is on an average 47. On an average 46 M&As took place as a competitive response to the pressure created by the international markets on the firms in India. All acquirers and targets are related firms, i.e., firms belonging to the same industry. Hence the competitive pressure is relevant for all firms in that industry. The response is however, not given by all firms but some as seen above. This is an indicator of inertia since the pressure is rampant and known by all companies.

Hypothesis 1 - The announcement period sees a smooth M&A completion if the target is actively participating in the merger. At the same time, if the target is not displaying inertia the acquirer faces a slow transition from the announcement time. Here it takes more time as both the parties engage in active transition and hence every task needs to be scrutinized and perfected from both the sides, thus doubling the efforts and time. Similarly if the acquirer shows inertia, it has been found that some mergers were left uncompleted after announcements or were called off. Some mergers have taken more number of years for transition than expected. The results are true for relative inertial degree between target and acquirer.

When acquirer inertia is absent or less than that of the target then the M&A transition takes less time and the pre-merger activities are completed with less complication. Such mergers have seen better and speedier transition.

Hypothesis 2 - Next, our results show that the presence of inertia in both acquirer and target also has a definite correlation with the performance of the M&A. Acquisitions have performed better than predicted when targets have less or no inertia. This is due to better collaboration between the acquirer and target by active involvement in bringing about the changes to the merged entity smoothly and effectively. The cultures are managed well when both the firms actively engage in change management rather than just one. The employees of both firms have equal stakes and this is better understood when they participate in mutual discussions, meetings, trainings, workshops, seminars and conferences to adapt to the best practices that emerge out of the acquisition. Resistance in the target alone has shown a fall in the performance. This reduces the cooperation and collaboration with acquirer who now has to take on more responsibilities than otherwise. The three sectors (95% of the top executives admitted) do not prefer rigid hierarchical structures in their firms because that poses the first hurdle in overcoming organization inertia and may promote it to a worsening state of company performance. Even the customers want different governance models and operating structures thus forcing the companies to keep their hierarchical structures flexible. Customers help in preventing organizational inertia to a great extent as admitted by 90% respondents in all the three sectors. The senior managers from Pharmaceuticals companies agree that employees are concerned about their growth after M&A is announced but the management ensures that the change works not only for the betterment of the firm but also for the employees. The directors of IT firms say that they are concerned about keeping their customer relationships on the safest side and hence the employees interacting as point of contacts with the clients are very much valued. They are taken into confidence by involving them in the merger committees, creating contests about company's probable strategies and chalking out alternative career paths. Those who still want to stick to old ways are deemed to be promoters of inertial tendencies within the organization. Such employees whether a CEO or a manager are asked to move to a new job with a new company. The TMTs of telecom firms say that they communicate the M&A events very early on to their employees on a regular basis till the deal reaches its target performance or sufficient time has passed to alleviate any employee resistance. They find that the hierarchy becomes more accessible after the merger because both merging entities want full employee cooperation.

Hypotheses 3 & 4- Factor analysis for inertia shows that factors 1 & 2 - age and size (Table 3) explain over 70% of the inertia within organizations. The third factor employee career growth differences between the merging firms, explains 10% organizational inertia. Factor 1 –size explains over 40% inertia; Factor 2 – age explains about 30% of the organizational inertia; Other factors explaining inertia are number of locations, capital invested from owners, founders and other investors; number of shares owned by the board in the organization; number of business lines, organizational structure, company vision/mission, and product-market-customer mix.

Hypothesis 5 - The first column of table2 tests under Hannan-Freeman inertia model. Deregulation has a significant negative impact on the organizational inertia.

This is unlike expected since firms are expected to comply with regulation more than with de-regulation.

Table 2

| Variables | Effects of Organizational inertia on M&A ⁱ | | | | | | | |
|-------------------------------|---|----------|--------------|----------|------------------|----------|-------------|----------|
| | M&As comp res | | Comp pres | | Cum perf chng | | Cum M&As | |
| | Model 1 | Model 2 | Model 1 | Model 2 | Model 1 | Model 2 | Model 1 | Model 2 |
| Industry Deregulation | -3.8823* | -3.4129* | -2.6234* | -2.8973 | -1.7273* | -0.4942 | -0.6462 | -0.8732 |
| (0.5342) | (0.5558) | (0.3932) | (0.4322) | (0.6421) | (0.4222) | (0.3212) | (0.5457) | |
| Organizational Age | -0.0001* | -0.0002* | -0.0003* | -0.0000 | 0.0003 | 0.0000 | -0.0000 | 0.0001* |
| (.0000) | (.0000) | (.0000) | (.0000) | (.0001) | (.0001) | (.0000) | (.0000) | |
| Organizational Size | -0.5409 | 0.3294 | -0.8043 | 0.02983* | 0.1098 | -0.0396 | 0.4325 | 0.0203* |
| (.2976) | (.1298) | (.0932) | (.9208) | (.5321) | (.6032) | (.1021) | (.1239) | |
| Cumulative M&As | 3.9629 | | -2.7583* | | -2.2522 | | -2.1573 | |
| | (.6249) | | (.5342) | | (.4928) | | (.3564) | |
| Cumulative Performance Change | -12.9957 | | -14.5377 | | 2.3314* | | 1.9876 | |
| | (600.3496) | | (111.9837) | | (1.8934) | | (0.5367) | |
| Competitive Pressure | 1.3349 | | 1.5692* | | -0.3735 | | 2.3945* | |
| | (.3492) | | (.5528) | | (.04483) | | (.3755) | |
| M&As as Competitive Response | 1.9843* | | 1.4957 | | -0.5356 | | 2.4531* | |
| | (.4874) | | (.5359) | | (.2049) | | (.2013) | |
| Constant | -9.7734 | -11.3452 | -7.9622 | -5.432 | -11.4255 | 10.3212 | -18.9924 | -4.5632 |
| | (1.5467) | (1.3409) | (1.9833) | (1.3496) | (3.2143) | (1.3245) | (2.3145) | (2.3343) |
| Number of events | 50 | 50 | 15 | 15 | 35 | 35 | 40 | 40 |
| Chi-square | 34.56 | 72.35 | 90.43 | 89.24 | 94.22 | 15.46 | 32.65 | 40.52 |
| Degrees of freedom | 3 | 7 | 3 | 7 | 3 | 7 | 3 | 7 |

ⁱFigures in parentheses are standard errors.
• p < .05

negatively affected by the deregulation in Model 2. Competitive pressure is also significantly positively affected by deregulation in Model 2. As deregulation increases, competitors face more pressure from each other. Hence the competitive response is tardy and thus inertia increases with lesser M&A activity (here as the response). More firms are seen to however participate in the M&A activity as a competitive response to the market pressure. This is a contradiction to the inertia theory. When companies respond to government decision like deregulation, more companies compete rather than collaborating. Cross-border Merging is more like collaboration because multiple entities come together to conduct international business as one. A response to deregulation (Table 3) may not be considered as competitive because companies are encouraged or discouraged by the government move and act in order to comply with the pressure situation in most cases, rather than react to the situation. The data also provides weak support for the hypothesis that organizational change reduces with size (Hypothesis 3). Glaxo-SmithKline Beecham (SKB) is a merger between big firms; TCS has entered into several mergers with small and big firms alike; Bharti Airtel and Hutchison Vodafone are big players entering into mergers all over the world. Thus the hypothesis is weak for Indian firms entering into domestic or cross-border M&A deals. The data supports that competitive M&A deals between firms take place as competitive response to the competitive pressure created by the market. It was not quite expected that Glaxo would merge with SKB when the two were leaders competing against each other. However, the merger has proved to be better than expected. The synergies have lasted and the two competing firms have really merged as a response to the market pressure. M&As are seen to be a long-term solution to the problem of competitive pressure. Inertia in the acquirer alone has also shown weakening of the performance (Hypothesis 1). This may be because acquirer management has a more prominent role in setting the target's goals, providing the resources for performing in a new environment, synchronizing the merger's activities, meeting the goals, matching the technologies with those of competitors and finally satisfying/ delighting the customers in the market.

For the combined sample of pharmaceutical, IT and telecom firms, there emerges a negative correlation between inertia; and size, age, deregulation (Hypotheses 3 & 4). Thus as the firms are young, small they are more active with changes happening in their environment and less prone to inertia than big, old firms. Pharmaceutical firms need to invest hugely in technology and R&D which lags as they grow heavier and older. Telecom firms need to keep updating their systems and technologies to avoid inertia as they get stuck with the same old systems or find it difficult to replace the widespread stagnant.

But practically, firms become more active in deregulated times and react in liberation to emerging markets and competitors. The second model tests the role of competition in organizational change (M&A). Null hypotheses are rejected based on chi-square values. On adding cumulative changes in Model 2 it is revealed that competition is significantly negatively affected by industry deregulation. M&As as competitive response is

Table 3: Effect of variables on performance

| Variables | Beta | SE (Standard errors) |
|---------------------|---------|----------------------|
| Organizational size | -.1700 | .0623 |
| Organizational age | -0.0000 | 0.0000 |
| Deregulation | -.2564 | .3286 |
| Number of events | 77 | |
| Chi-square | 55.62 | |
| Degrees of freedom | 10 | |

Table 4

| Effects of M&As on Organizational Inertia | | |
|---|----------|-----------------|
| Variables | Inertia | |
| | β | Standard Errors |
| Cumulative M&As ⁱ | -0.4729 | 0.5604 |
| Cumulative Performance Change | 0.7832 | 0.8329 |
| Competitive Pressure | 0.2231 | 0.1129 |
| M&A as Competitive Response | -0.3421 | 0.2131 |
| Industry Deregulation | -0.7801 | 0.8802 |
| Organizational Age | -.0000 | .0000 |
| Organizational Size | -0.2317* | 0.0324 |
| Constant | -7.3954* | 2.5002 |
| Number of events | 260 | |
| Chi-square | 98.22* | |
| Degrees of Freedom | 7 | |

ⁱ Cross-border and Indian mergers were measured.

* p < .05

technologies in the larger organization. IT firms stagnate to death if they ignore the warning signals posed by growing size and maturing age. They need to keep innovating to avoid inertia. More regulation restricts the freedom of firms and hence they are more prone to inertia (Table 4). Still inertia can be overcome by extensive innovation as no regulation can curb new offerings that result out of innovation. Customers always prefer something better in their products and services.

Hence inertia can be reduced if firms actively engage with customers and follow customers' needs and requirements. Gresov *et al.* (1993) argued that high and low rates of systemic change (Hypothesis 2 & 5) are indicated by high and low slope values, inertia can be defined

mathematically as the inverse of the slope function (i.e., high inertia means small rates of change and vice-versa). This is true of all industries – Pharmaceutical, IT and Telecom. The combined sample (Table 5) shows the figures for inertia and response across the time scale. As inertia decreases, the rate of response increases. Or rather as the rate of response decreases, the organizational inertia increases. It is true because when organizations have been under inertia for long, their rate of response falls on its own. Therefore, it is necessary that organizations take quick remedial actions to prevent their structures from inertial tendencies both in the short-run and long-run.

Table 5

| Year | 1990 | 1995 | 2000 | 2001 | 2002 | 2003 | 2005 | 2006 | 2007 | '08 | '09 | '10 |
|----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Inertia | 0.201 | 0.199 | 0.177 | 0.165 | 0.145 | 0.124 | 0.114 | 0.192 | 0.182 | 0.179 | 0.144 | 0.121 |
| Response | 0.083 | 0.088 | 0.090 | 0.098 | 1.009 | 1.426 | 1.432 | 1.288 | 2.68 | 3.322 | 3.567 | 4.569 |

Conclusion

We find that M&A is a change that helps an organization break out of inertia. Mergers are considered to be one of the many ways of growth but additionally, M&As have an impact both on the internal and external environment of an organization whether limited for a short duration or a longer one. The competitors react, government reacts, market responds, industry curve sees a change in learning or growth stage, other industries like advisory and consulting find new topics for research and the firm itself sees a new lease of functioning. This is the reason that the presence of inertia has an impact on the performance of the merger whether present in one of acquirer and target or both. As M&A is challenging the inertial state of organization(s), the performance of M&A is affected to some extent (lesser or greater depending on the merging firms). The issue of organizational inertia can also be tackled by engaging employees in training sessions or seminars and workshops. New knowledge becomes useful in situations to prevent resistance of change by sharing, say, the advantages of change as already seen by other competitors, personal advantages accruing to the employees in -reduced response times, more

productivity, less manual intervention, reduced working hours, or better career growth. Entering into a merger with increased agility and flexibility will make it a better merger with less transition resistance and better post-merger performance in the new entity. Also, as firms go with their customers' changing needs they are able to prevent or reduce inertia. Finally, organizations must not promote rigid hierarchies but flexible ones that can adapt with customers' engagement models.

Limitations & Future Research Scope

First, the sample size is limited to few industries. Although potential biases associated with the design were carefully controlled, a larger sample could facilitate the generalization of the findings from this research. Because survey data are difficult to collect in longitudinal studies, selecting a particular industry with sufficient unit data may be a promising avenue for studying long-term effects while controlling for environmental variations. Next, competitive experience and competitive pressures are not considered in detail in this study. Changes in inertia reflect changes in organizational design variables as competitive pressure increases. Competitive experience derives from the recent and distant past experience in responding to the rival moves. Historical competition is the number of competitors faced each year by an organization over its history. As market pressure increases for establishing survivors and leadership positions, competitive response increases amongst players, but not at a proportional rate. Cases of mergers can be studied to understand industry-specific or sector-specific factors of organizational inertia. Each country will have its own culture and cross-border as well as domestic M&A deals will have a different set of factors affecting the two companies. How does it pose a barrier to the development and use of dynamic capabilities in an organization? Does it hinder innovation or does it foster innovation when the organization chooses to continue in its current innovation mode without showing much momentum in positioning itself as per the market needs? Finally, the dynamism of customers and its role in reducing organizational inertia can be explored further.

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Acknowledgement

The author thanks whole-heartedly all the senior management personnel from the various companies in IT, Pharmaceutical and Telecomm sectors in India for their valuable time. They have provided invaluable inputs to the paper by answering the questionnaire and interview queries. Any suggestions are welcome at the email address: cvasanta.madhavi@ispagwon.com