Innovation by Mergers and Acquisitions:

Paradox of Acquired Organization's Leadership Teams Commitment to Internal Innovation

النمو عن طريق الأستحواذ: أثر عمليات الاندماج على المدراء التنفذين و إلتزامهم بالبحث و التطوير الداخلى

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Declaration

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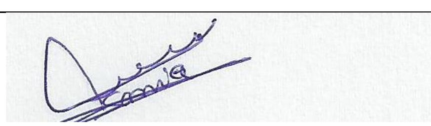

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Abstract

Acquisitive growth has become an integral part of global organizations strategy in recent years, leading to more focus on M&A outcomes, how these merged organizations realize synergies to respond to favourable market conditions and the effect it has on their human capital. Especially, the influence the merger process has on the managers of the merging organizations with the significant increased size, diversification, behavioural procedural controls and increased use of leverage, all leading to the absorption of the managers time.

This dissertation highlights the trade off between growth via M&A and executive leadership team commitment to internal innovation (R&D). It is based on the results gathered from the employees of organizations XYZ and ABC which has combined to form a resultant entity DRC, part of a conglomerate called AIMI. This paper will be limited to determining the effects of mergers and acquisition on innovation. It will seek to determine how managers' commitment to innovations is affected by the drive to pursue acquisitions and mergers. It is worth noting that acquisition and mergers are not a negative development. However, the dissertation will seek to analyze the negative side and specifically on the effects of mergers and acquisitions on innovation. How the success of targeted M&A's leads to the creation of a risk-averse culture and a self fulfilling cycle in which M&A serves as a substitute to innovation.

Keywords: Mergers and Acquisition, Research and Design, Diversification, Innovation

الملخص

أصبح النمو عن طريق اإلستحواذ جزءا مهما من إستراتيجيات الشركات العالمية في السنوات األخيرة، وهذا بدوره أدى إلى المزيد من التركيزعلى النتائج المتحققة من عمليات الدمج واإلستحواذ، والكيفية التي إستطاعت من خاللها الشركات المندمجة اإلستفادة من الجهود المنسقة لإلستجابة لظروف سوق مواتية، واألثر الذي أحدثته عمليات اإلندماج على رأس المال البشري، وخاصة األثر على المدراء في الشركات المندمجة مع زيادة حجم العمل والتنويع والوسائل اإلجرائية في السيطرة وضبط السلوك ، والزيادة في قوة اإلندفاع والزخم لديها، وكيف أدت كلها إلى إنهماك المدراء في أعمالهم وتصريف وقتهم.

هذه األطروحة تلقي الضوء على عملية المفاضلة بين النمو بواسطة اإلستحواذ والدمج وبين إلتزام فريق اإلدارة التنفيذية باإلبداع الداخلي) البحث والتطوير(. وهي مبنية على النتائج المستقاة من موظفي شركتي) أ(و)ب(اللتين توحدتا لتكونا كيانا جديدا إسمه دي آر سي، كجزء من تجمع شركات إسمه إيمي. سيكون هذا البحث معنيا بتحديد نتائج عملية اإلندماج أو اإلستحواذ على اإلبتكاروالتجديد، وسوف يتطرق إلى محاولة بحث مدى تأثر إلتزام المدراء باإلبتكار والتجديد أثناء سعيهم وراء عمليات اإلندماج واإلستحواذ . وبشكل عام، ال تعتبر عمليات اإلندماج واإلستحواذ تطورا سلبيا، و مع ذلك، فإن هذا البحث سيسعى لتحليل واحدا من الجوانب السلبية لذلك وهو أثر عمليات اإلندماج واإلستحواذ على اإلبتكار والتجديد. وكيف أن نجاح عمليات الدمج واإلستحواذ المستهدفة تؤدي إلى تعزيز ثقافة تجنب المخاطر وتخلق حلقة مغذية لذاتها بحيث تصبح عمليات الدمج بديل عن التجديد واإلبتكار.

كلمات رئسية: إندماج وإستحواذ، تصميم وأبحاث، التنويع، اإلبتكار

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Abbreviations

Merger and Acquisitions (**M&A**)

Research and Design (**R&D**)

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Chapter 1

Introduction

1.1 Research Overview

> Mergers and acquisitions (M&As) have become an increasingly popular strategy for achieving corporate growth and diversification, and there has been a dramatic growth in M&As in the global marketplace during the last two decades. During this period the global profile of M&As has changed. One significant shift is that the proportion of cross- border M&As increased from less than 30 per cent in 2000 to almost half the total value of M&As worldwide in 2007.
>
> (Harzing and Pinnington 2011, p. 120)

As organizations expand their global footprint, growth by acquisition has become an integral part of their strategy. Global organizations are currently operating in a VUCA world. VUCA is an acronym used to describe the volatility, uncertainty, complexity and ambiguity of the current global environment (Stiehm & Nicholas, 2002). It has been argued by Johnson (2007, p. 68) "The capacity for VUCA leadership in strategic and operating terms depends on a well-developed mindset for gauging the technical, social, political, market and economic realities of the environment in which people work". The main motivation would be profitability, as the profits made by the merged entity will exceed the profits that were made by the merging entities individually. M&A allows entities that have merged to make more returns than their individual income with the same resources. This situation is called synergy.

The enhancement in revenues is a result of either the reduction in the average cost or general increment in revenues (Myles, 2006). The synergies, can only arise if the merging entities are able to use their production capacities more effectively. To realize such benefits, the merged entity has to rationalize, develop a system of sharing information and at times relocate or move people, rebrand and redesign its marketing strategies and co-ordinate all the functions that are within the entity that has been merged. Due to increased competition in the markets, most entities have opted to either merge or acquire other organizations to the detriment of innovation. This has helped them to reduce competition for the resources and markets that are available by sharing the markets and resources of each of the merging entities. In addition, M&A do not always lead to enhanced productivity, At times; the merging firms would have done better individually had they not merged in the first place (Lloyd, 2010).

It has been widely held that mergers and acquisitions are strategic moves of the company to gain a competitive leverage over rivals. It helps in gaining a larger share of the market thus decimating competition. A big company finds resources to gain entry in to new markets and international mergers help in gaining access to a new market which is hitherto unexplored. Mergers and acquisitions by global organizations working in the technology and data sector is a common phenomenon which focuses on the strategic plan of growth in terms of customer base and market size. Smaller organizations enter in to a merger with larger one to protect and expand their customer base. In these data lead organizations most of the products are similar in nature and merger enables the utilization of funds for growing the business.

Mergers and acquisitions enable climbing up on competitors, creating economies of scale and enable growth and consolidation. It has been seen that companies which offer similar products after merger reduced the costs and personnel engaged in Research and Development. The existing R&D department focused more on product development rather than innovation and also the time spent on new product development diminished rather rapidly. Pitt (1977) argued that large and diversified organizations pursue growth through mergers & acquisition to actualize profits from synergies achieved by using production capacity more efficiently, sharing knowledge amongst the different business units (Morck & Young, 2002) and umbrella branding products (wernerfelt,1988) to increase the use of leverage. Pitts (1977) further suggested that this is pushing innovation to the back seat as these organizations focus on perusing growth through mergers and acquisitions as a substitute to internal (R&D) innovation.

Lamont and Anderson (1985) confirmed the same argument as they stated that there is a greater emphasis on acquisitive growth by large and diversified organization. Mergers and acquisitions are the firm’s competitive strategy and are pursued actively to consolidate and create new synergies. There is a fear of failure and larger companies to avoid risky, costly projects that could result in disruptive innovation. A larger organization can of course provide a larger market and therefore the M&A should focus on providing existing products a better market share and also concentrate on developing new markets and products to enhance customer satisfaction. A second often argued motivation for such a strategy is the fact that in today's world most intellectual capital exists in the form of patents, trademarks, proprietary processes, copyrights, and industrial trade secrets, not to mention the human capital as most knowledge resides in individuals referred to here as tacit knowledge that comes from experience, education, and other forms of learning. Making acquisitive growth post the recession one of the most popular methods for growth to the detriment of the risky internal (R&D) innovation. Therefore acquisitions and mergers are seen to become a major threat to innovation. A merger saps the company's innovation process and thus compromising its ability to stand on its feet. Mergers and acquisitions help in strengthening and renewing the company as the financial clout of the new entity is greatly improved. The company must focus on all departments while undertaking the merger process and have a long term strategy in terms of innovation and increasing of share holder value. To encourage innovation even after mergers & acquisition requires careful planning, cultural shift, change management, and a desire to win. In many cases an innovation driven firm would be a great asset to a firm driven by marketing and sales but the poor cultural fit would hamper decision making process within the company.

1.2 Research Problem

Mergers and acquisitions are common growth strategy and can be effective in increasing organizations scale and scope. However, they often present unanticipated difficulties with motivating high commitment to innovation within the executive team post – M&A. It has been seen that global organizations use merger and acquisitions as a route to success and market consolidation by capturing larger market share. But, the growth is high for the short-term the long terms revenue is stunted when the company either becomes complacent or fails to deliver sufficiently on necessary activities. Despite them being this famous and widely used acquisitions and mergers are not always well understood. The effects of mergers on key aspects of the business should be analyzed before concluding whether a merger or acquisition has been successful. Due to the fact that mergers and acquisition are the easier option and that managers involved in such transaction are set to gain more by pursuing merger rather than research and development, most managers' resort to merger and acquisitions (Daft, 2010).

As highlighted in the research overview section, there is a general lack of understanding and empirical evidence of the link between adaptation of M&A strategy for growth and executive leadership team commitment to internal innovation (R&D). This problem mainly arises due to mangers risk averseness and using M&A as a substitute to innovation. These two highlighted issues form the basis for this dissertation study. There is an established need to improve the management of the integration process to enhance the processes to allow for innovation and greater involvement from leadership team to champion some of the R&D projects.

1.3 Scope

The scope of this paper will be limited to determining the effects of mergers and acquisition on innovations. It will seek to determine how manager's commitment to innovations is affected by the drive to pursue acquisitions and mergers. It is worth noting that acquisition and mergers are not a negative development. However, the paper will seek to analyze the negative side and specifically on the effects of mergers and acquisitions on innovation. The main aim of limiting the research to this area is the fact that the overall effect of mergers has not been well evaluated. Firms do not take into consideration all the other possibility when evaluating the performance of mergers and acquisitions. Therefore, the paper will limit its scope to conducting further study in this area with the aim of seeking to understand better the workings and the effects of mergers and acquisitions.

1.4 Research Aims and Objectives

The aim of this research is to examine the effect of adopting acquisitive growth strategy on executive leadership teams commitment to internal innovation (R&D).

The objectives of the research are:

- Investigate the effect of adopting merger and acquisition as a growth strategy has on the organizations commitment towards internal innovation.
- Determine the impact of merger and acquisition strategy on the acquired company's innovation commitment.
- Develop recommendations which would allow the companies to focus on R&D development in spite of adopting merger and acquisition as a growth strategy.

The volatility, ambiguity, uncertainty and complexity in the external environment are responsible for the organizations to adopt the practice of merger and acquisition to expand their market growth. This helps in development of a global foot print and can actualize profits from synergies achieved by using production capacity more efficiently and sharing knowledge amongst the different business units.

1.5 Research Survey Questions

Part1: Please select the best answer:

1. How long have you been working for in your present organization?
    - 0 – 5 years
    - 6– 10 years
    - 11 – 15 years
    - 16 –20 years
    - 21 – 25 years
2. What is your current position at the organization?
    - Non- Managerial
    - Managerial
    - Executive Level
    - Other, specify
3. Select the department you work in?
    - Central services (operations, marketing, rewards)
    - Commercial (business development, client services)
    - Support Service (HR/ administration, finance)
    - Corporate governance (CEO, MD, COO)
4. What is the nature of your work?
    - IT, operations
    - Commercial (business development, client services)
    - Support Service (HR/ administration, finance, marketing, rewards)
    - Corporate governance &strategy
5. How long has it been since M&A took place?
    - 0 – 6 months
    - 7 months – 1 year
    - Over a year
6. What is the size of the organization you work in?

- Small (30 staff)
- Medium (over 30 staff but less than 200)
- Large (over 200 staff)
- Doesn't apply

Part 2: Please select the best answer:

1. What growth strategies do you think your organization is adopting?
    - Investing in Innovation
    - Minority investments
    - Joint ventures
    - Full acquisitions
    - Strategic alliances
    - All the above

2. To the best of your knowledge, what are your organizations strategic priorities?
    - Become a global industry leader
    - Become a preferred employer
    - Enhance customer experience
    - All the above

3. What factors contributed to the occurrence of M&A?
    - Market entry strategy (access to fast growing markets)
    - Consolidation (elimination of competition)
    - Enhance distinctive capabilities systems (leverage strengths)
    - New industry sector (expand product offering)

4. What are the value drivers for M&A in your organization?
    - Efficiencies through economies of scale
    - Expansion into adjacent products and markets
    - Reinvention of business model

- Reinvention of Industry
- All the above
- Other, specify

5. Does your organization allocate funds or time for employees to innovate?
   - Yes
   - No

6. Post M&A how did your management's commitment to innovation change in terms of time or fund allocation?
   - Yes, it increased
   - No, it decreased
   - No change
7. Is innovation a strategic priority in your acquired organization?
   - Yes
   - No
8. Do you consider innovation important to the firm after merger or acquisition?
   - Yes

   If yes, please explain why?

   ____

   ____

   - No

   If No, please explain why?

   ____

   ____
9. What kind of risks associated with innovation does your firm face?
   - Sector maturity
   - Cash flow and financial management
   - Skills set and resources utilization
   - Keeping up with the market
   - All the above

- Other, specify

10. What extend of leadership commitment to internal innovation exists in your firm?
    - Highly committed
    - Somewhat committed
    - No committed to innovation
11. Does M&A effect the leadership team's commitment to internal innovation?
    - Yes

    If yes, please explain why?

    ____

    ____

    - No

    If No, please explain why?

    ____

    ____

12. What challenges do you face in enforcing internal innovation after the acquisition?
    - Managerial energy absorption
    - Diversification leading to financial controls
    - Formal behavioural controls
    - Size of organization
    - Skill set and attitude
    - Managerial risk aversion

13. What affects the leadership commitment to internal innovation after M&A?
    - Reduction of resources for R&D
    - Reduced investments
    - Perceived risk of innovation
    - Debt in process of acquisition
    - Lack of capital
    - Reduced managerial time
14. How much resource do you set aside for innovation in your organization?

- None
- 0 – 1%
- >1 % – 5%
- >5% – 10%
- > 20%

15. To what extend did the time and energy you used during M&A process impact your commitment to internal Innovation (R&D)?
    - High impact
    - Medium impact
    - Low impact
    - Neutral
    - No impact
16. How did M&A influence your innovation efforts?
    - Strengthen
    - Hinder
    - No significant influence
17. Would you trade innovation resources for other attractive investments?
    - Yes

    If yes, please explain why?

    - No

    If No, please explain why?

    ---

18. How far do you agree with the following statement: The acquisition process absorbs managerial time and energy diverting attention from innovation?

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	2	3	4	5

Part 3: Please select the best answer:

1. What do you believe is the main advantage of M&A?
   - Efficiencies through economies of scale
   - Geographical expansion and access to new markets
   - Expand product portfolio
   - Access to patent rights
   - Social Capital (Talent acquisition)
   - Expansion of Knowledge pool
   - Other, specify

2. What do you believe is the main advantage of knowledge sharing?
   - Market positioning as thought leaders(white papers)
   - Increased efficiency (avoid repeating the same faults)
   - Creation of high performing workforce
   - Product innovation
   - Innovation through new technology
   - Other, specify

3. Does your organization promote knowledge sharing?
   - Yes
   - No
4. Which one of the knowledge sharing tools does your organization use?
   - Use social tools (Facebook, twitter, slide share)
   - Use Enterprise social tools (huddle)
   - Use enterprise content collaboration tools (Yammer)
   - Shares industry insights through sponsoring conferences
   - Develops and shares white papers
   - Other, specify
5. Do you believe that collaboration and knowledge sharing leads to innovation?
   - Yes

- No

6. Overall, do you think your organization is using M&A as a tool for innovation?

- Yes

If yes, please explain why?

- No

If No, please explain why?

1.6 Research Propositions and Hypotheses

Mergers and acquisitions are common growth strategy and can be effective in increasing organizations scale and scope. However, they often present unanticipated difficulties with motivating high commitment to innovation within the executive team post – M&A. It has been seen that global organizations use merger and acquisitions as a route to success and market consolidation by capturing larger market share. But, the growth is high for the short-term the long terms revenue is stunted when the company either becomes complacent or fails to deliver sufficiently on necessary activities.

- Hypothesis 1: M&A impact positively on growth and market share, but negatively on executive leadership team's commitment to internal innovation (R&D).
- Alternative hypothesis: M&A have no significant impact on the executive leadership team's commitment to internal innovation (R&D).

The innovation commitment is measured through the managerial commitment of the organization towards innovation by investing on R&D. A reduced R&D spending reflects the lower commitment to innovation.

1.7 Research Strategy

The strategy adopted for this paper is detailed in Chapter 4; nevertheless it is briefly outlined consecutively below:

- The research seeks to verify a defined set of variables and uses quantitative techniques to test the variables.
- The research focuses on two companies in the technology and data sector which have combined to form a resultant entity DRC
- The study focuses on the two tiers of employees with sample size 100

1.8 Design Limitations of the Study

This paper will be limited to determining the effects of mergers and acquisition on innovations. It will seek to determine how manager's commitment to innovations is affected by the drive to pursue acquisitions and mergers. It is worth noting that acquisition and mergers are not a negative development. However, the paper will seek to analyze the negative side and specifically on the effects of mergers and acquisitions on innovation. The main aim of limiting the research to this area is the fact that the overall effect of mergers has not been well evaluated. Firms do not take into consideration all the other possibility when evaluating the performance of mergers and acquisitions. Therefore, the paper will limit its scope to conducting further study in this area with the aim of seeking to understand better the workings and the effects of mergers and acquisitions (Cassiman, 2006). The design limitations of this research study are:

- The sample size consisted of a limited size of 100 individuals in organization DRC and not the whole conglomerate thus it does not reflect the population.

- The sample predominantly featured mid-level executives due to time and resource constraints, thus doesn't reflect the opinion of Vice Presidents and president of the conglomerate who see the over arching strategy.

- The data collection process was time consuming and the environmental factors drastically changed during the research, thus recommend further research to be broken down to quantitative for the first two parts and qualitative and a short interview for third part to capture senior mangers motives.

- Detailed qualitative research which would have identified the managerial motives was not conducted to supplement the research.

- The questionnaire was only administered in English. Keeping in mind the organizations high level of diversity, it is recommended to incorporate an Arabic version. To eliminate the advantage that native English speakers would have over their colleagues.

The limitations experienced during the analysis and data collection phases of this research study are discussed thoroughly in the Discussion chapter.

1.9 Structure of the Dissertation

The dissertation is structured into seven chapters as shown below:

- **Chapter 1 – *Introduction:*** This chapter details the research overview, research problem, scope, research aims, objectives, research survey questions, hypotheses, and research strategy plus design limitations of this research. In addition, it briefly highlights the structure of this dissertation.

- **Chapter 2 – *Literature Review (Part I):*** This chapter presents the literature review focusing on history of M&A's and how it has progressed over the years in terms of popularity as a growth strategy for global organizations.

- **Chapter 3 – *Literature Review (Part II):*** This chapter presents the literature review of M&A, the effect it has over managers commitment to internal innovation and how in some cases M&A is used as a substitute for innovation.

- **Chapter 4 – *Research Design and Methodology:*** This chapter presents the research approach, strategy and design, methods used to tackle the research questions to test the research hypotheses.

- **Chapter 5 –*Questionnaire Results:*** This chapter details the results, analysis, key findings interns of the relationship between adaptation of acquisitive strategy and executive leadership team’s commitment to internal innovation (R&D).

- **Chapter 6 - *Discussion:*** In this chapter the findings of the questionnaire are discussed, explanation of results is presented in light of the information gathered from the literature review and researcher’s views. The limitation of the data analysis and collection are also discussed.

- **Chapter 7 - *Conclusions and Recommendations:*** In this chapter the conclusions from the research study are presented along with recommendations too of how similar organizations can ensure their M&A strategy is a success as well as gugestions for future research.

The next chapter presents the literature review on M&A and Innovation.

Chapter 2

Literature Review – Part I

2.1 Introduction

Mergers and acquisitions are the order of the day with the total value reaching over $900 billion the last quarter of the last year. This has been a singular achievement as companies moved in to create new synergies and leverage their combined capacity to capture the market. It provides the arsenal to gain access to the market as is indicated through its multiple products, combined organizational strength and strategic depth. When companies are active in the similar markets, it becomes more economical to create a giant within the market to create economies of scale in production, distribution and marketing. These changes affect the competitive landscape prevalent in the environment and also alter the bargaining power of the company.

2.2 State of M&A in the Wold Today in Relation To Innovation

A merger is when one corporation combines with another corporation to create a new entity and an acquisition is a generic term for the transfer of ownership. It may be the purchase of the assets or the stock of the business owning the assets or a merger of the buyer with the business. It has been widely held that mergers and acquisitions are strategic moves of the company to gain a competitive leverage over rivals. It helps in gaining a larger share of the market thus decimating competition. It eliminates immediate competition unless the existing products become obsolete. A big company finds resources to gain entry in to new markets and international mergers help in gaining access to a new market which is hitherto unexplored. Mergers and acquisitions help in acquiring expertise, assets and transfer skills of employees. It combines the abilities of the work force thus increase in efficiency, creativity and creating new synergies. The combined strength of the new combines help in consolidating power and control over the markets and even the nation or the government. But, the mergers also bring in their share of mis-management and perils. One of the important casualties of a merger is the top leadership who leave in droves thus sapping the company of talented leadership. Apart from the top management the employees face the decision of layoffs as the new management confronts the reality of cutting off man power and moving in new faces. This inevitably causes panic and loss of motivation among the work force resulting in low productivity and revenue loss. The implementation of the merger is a costly affair with increased spending on devising new organization structures and other involved costs. In many cases combining two organizations raises questions of stock allocation and power struggle if the not implemented properly. The customers are also hit when the company struggles to stand on a slippery hierarchy and past baggage. The employees who are retained need training and new orientation which is again results in increased cost. In many cases mergers and acquisitions have the history of being resisted by workers, directors and shareholders of the targeted company. For a merger to be successful it is very important to iron out differences at the outset and engage with all the stakeholders to address the outstanding issues. It is always fruitful to engage the unions and other employees about the needs of the mergers and the expectations from the process. This would be useful in quelling rumors and create an effective communication network which would enable the change management process to move forward without any hiccups.

Any change brings in uncertainty and there may be forces opposing it. Therefore it is important to open formal and informal communication channels to enable dissemination of correct information. For international business, mergers make a great sense. In many cases countries have trade barriers of investment and prevent entry of foreign companies due to the fears of harming local businesses. Many companies take the route of mergers and tie ups with local firms who with their local expertise and man power help to gain entry in to the foreign shores. Consolidation of a business always helps in the changing business environment and it is in the interest of organizations to keep them alive for survival. (Wharton, 2006)

In the corporate world, the attempt is to go for bigger synergies and create a conglomerate to tackle the market forces. Many mergers are successful and some examples include Disney-Pixar, JP-Morgan-Chase, ENMBD, Exxon-Mobil and many others. These mergers succeeded in consolidating their potential and grew together as an entity by capturing and growing a large market base. Each company had brought its own strength to the table which when combined becomes a formidable force in terms of creativity, innovation and entrepreneurship. (Hewitt, 2013). Many mergers have also fallen flat on their face and one of the most formidable study points are the Daimler-Chrysler, Sears-Kmart, AOL-time

Warner and many others. In many of these cases there was a clash of corporate cultures which spelled doom for the resulting entity. In the case of a successful company taking over a less performing or bankrupt organization may have its own profits dragged down due to this engagement. In the case of AOL and Time Warner it was a consolidation of two different media companies TV and email which faced an uncertain future due to the lack of innovation and the dot com bust. (DiMaggio, 2012).

Mergers and acquisitions enable climbing up on competitors, creating economies of scale and enable growth and consolidation. But a fairy tale to be successful, a marriage need to translate in to a happily ever after ending. Many companies create potential synergies but do not estimate the impact on innovation and creativity. Many companies which have similarities in terms of technologies and markets are found to be more successful compared to others who are radically different. According to Bart Cassiman companies that operate in complementary areas of technology have a higher probability of achieving long-range synergies and economies in their R&D as a direct result of their merger. (Cassiman, 2006). It is important for the companies to move in the conscious direction of product diversification and marketing growth to stimulate and rationalize the R&D activity. This would lead to more innovation and creativity which ultimately helps in bringing new solutions to meet the needs of the customer. It has been seen that companies which offer similar products after merger reduced the costs and personnel engaged in Research and Development. This is because the company reduced the competitor strength and reduced incidence of copy cat product affecting its product line. The existing R&D department focused more on product development rather than innovation and also the time spent on new product development diminished rather rapidly.

On the other hand companies which had complementary product lines and identical products developed competencies in new areas of research and achieved more in new areas of technology and utilized its resources for product development. This focus on the rationalization of the product line and creating synergies stimulated innovation making the merger a point of success. Researchers agree that it is important for companies to understand the integration process and do not divert valuable time and energy from R&D and other long-term investments. Organization with overlapping R&D operations show negative results for innovation and provokes key personnel to abandon the company due to spending cuts. The management should alleviate the negative effects of the merger by correct managerial action and focus on performances and new product development to retain its dynamism and keep its market share in tact's. (Man, 2005).

Most enterprises have turned to acquisitions and mergers as the only way of solving the challenges that they are faced with in their operations. The rate at which these companies are merging is becoming a threat to innovation if organizations don't examine the value creation post mergers to conclude whether it has been achieved or not. More research needs to be conducted so as to establish exactly how mergers and acquisitions have affected institutions that were merged. The research is focused on looking at the different attributes that influence management commitment to innovation post mergers and acquisitions. Mergers and acquisitions have been used as ways of restructuring by numerous firms since the last half of the 19th century. It forms a very big part of the world of corporate finance. There are numerous transactions that are organized in wall Street every single day. These transactions are worth millions or at times even billions of dollars and they dictate the fortunes of the merging entity and the top officials involved in the transactions (Daft, & Marcic, 2006).

Despite them being this famous and widely used, acquisitions and mergers are not always well understood. The effects of mergers on key aspects of the business should be analyzed before concluding whether a merger or acquisition has been successful. Due to the fact that mergers and acquisition are the easier option and that managers involved in such transaction are set to gain more by pursuing merger rather than research and development, most managers' resort to merger and acquisitions (Daft, 2010). The effect of mergers and acquisitions on acquired organizations management commitment to innovation is a topic that has been discussed widely all over the world and a lot has been published on the same. This is a topic which when discussed at different forums does provoke legal arguments, theories and also social viewpoints. Some of which have been very controversial. In most countries, very few people have put any focus into analyzing the effects of mergers and acquisitions post the merger to asses. Most of the organizations are currently rushing out themselves to mergers and acquisitions without taking into consideration the effects that such moves will have on the institution, their employees, and the society due to low commitment and compromising on innovation. For this reason, all the relevant authorities that are involved in the post merger & acquisition process are required to agree the main objectives from the M&A and all the possible effect that this process is likely to have, shown below in figure 2.

The study will demonstrate the correlation between the effect, more the negative ones, which mergers and acquisitions have on innovation and the different attributes that lead to innovative ideas pipeline leakage; which could have been used to improve the level of production as well as reducing the amount of inputs that are used by these enterprises for production (Peck, 2002). This research paper will address the various ways in which mergers and acquisitions can be dealt with so as to improve on innovation. I will look at the legal perspective and the social problems that this has on innovation. Increased competition and globalization of the economic environment has lead to challenges facing the organization being more demanding and complex. Organizations have developed equally complex strategies for growth not limited to geographical expansion, innovation, M&A, with the later being more popular due to M&A being viewed as a substitute means to organic growth, allowing organizations to remain competitive in ever evolving markets within and across geographical borders. It has been observed by many researchers that there have been different cycles over the years, as it will be further explained in the coming chapters.

During mergers and acquisitions different companies follow different objectives. In vertical mergers the focus is on managing all critical dependencies whereas in a horizontal merger one tends to expand along the product lines and attain economies of scale and scope. This facilitates entering new businesses which would stimulate innovation. In a concentric merger the company expands along the product lines but utilizes its financial capabilities to some extent to bring in new products and develop alternate competencies. In the case of a conglomerate merger the companies use its financial clout to enter in to new businesses. These exclusively target expansion and growth to take out competition and rule the market, (Walters, 1990).

Vertical	High	Manage critical dependencies
	Low	All others
Horizontal	High	None
	Medium	Enter new businesses
		Economies of scale and scope
		Expand along product lines
		Manage critical dependencies
	Low	Utilize financial capability
Concentric	High	Expand along product lines
	Low	Utilize financial capability
Conglomerate	High	Utilize financial capability
		Enter new businesses
	Low	All others

Figure 2-1: Objective Cluster for different types of M&A (Walter, Barney, 1990, p. 84)

Chapter 3

Literature Review – Part II

3.1 Introduction

This research focuses on the effect mergers and acquisitions have on the internal innovation process of the merged organization and their leadership team commitment to internal innovation. Mergers and acquisitions can be traced in five stages which have defined the history of acquisitions and mergers.

3.2 History of M&A

The first stage in the growth of mergers can be dated back to the years 1897 to 1904. During this phase there was a wave where heavy manufacturing companies merged. Most of these companies were monopolies and did not face any competition in areas like electricity and railways. These were mostly horizontal mergers which were mainly started in order to create economies of scale. However these mergers were not successful as they did not create the efficiency that was intended. This was mostly due to a slowdown of the economy in 1903 and crashing of the stock market in 1904 (Pohl, 2001). There was also no legal framework in place to aid in mergers. The supreme passed a mandate that stopped all uncompetitive mergers in an act called Sherman act (Auerbach, 1988).

The second wave came from 1916 to 1929 which was mainly mergers between oligopolies. This was mainly due to the economic boom that came in place after the First World War with increased technological developments like railways and motor vehicles. Most of the companies were mainly those involved in production of primary producers such as metal, chemicals and petroleum. These mergers led to infrastructural developments. Government legislations encouraged firms working together, investment banks were also pivotal in these mergers. This wave ended in 1930 due to the great depression as declared by (Marchildon, 1991).

From 1965 to 1969 came the third wave of mergers. These were mostly conglomerate mergers that partly driven by very restrictive policies towards horizontal and vertical mergers especially in the United States of America. These mergers were also inspired by high interest rates; high stock prices strict antitrust laws. This was where the firms involved had nothing in common, but were looking to increase the share of the market and reduce the average costs while increasing profits. These mergers and acquisitions were financed in form of equities meaning that the investment banks no longer played a role in these mergers. However there was poor performance by conglomerates as they failed to achieve the set targets. The government decided to split conglomerates through the office of the attorney general which led to the end to the third phase of acquisitions and mergers (Coopers, & Finkelstein, 2011).

The fourth wave of mergers and acquisitions took place from 1981 to 1989. The main characteristic of these mergers and acquisitions was the acquisition of targets of a very large scale as compared to those in the third phase. The main reason for these mergers was search for a more effective unit of management. This period was characterized by international mergers and acquisitions. Most of these mergers were hostile takeovers as corporations prepared themselves for the changing economic conditions. This period also saw a series of mergers in the telecommunications industry. This fourth wave was ended with the many financial institutions reforming, anti-takeover laws and the gulf war (Faulkner, et al., 2012). The 1990s saw the largest magnitude of merger and acquisition activities. 90% of the largest merger and acquisitions took place in this period (Gaughan, 2011). These were mainly financed by equity rather than debt and were mostly friendly rather than hostile. Only less than 5% of the takeovers were hostile. Most of these mergers and acquisitions were mainly in the banking and telecommunication sectors (McCarthy, 2013).

3.3 The performance of Mergers

The performance and effectiveness of acquisitions and mergers depends on various factors. Myles (2006) in an article on paradox of synergy analyzed the effects of mergers and acquisition. The article discusses the existence of a contagion effects. The contagion effects of a merger and acquisition as a very crucial pointer that should be assessed in order to identify whether a merger or an acquisition is effective. Even if a merger or acquisition is effectively planned and executed, the contagion effect can destroy the overall productivity or value of a merger across the merged entity. This indicates that some levels of destruction are inevitable during mergers, that is, there is a value that will definitely be lost as a result of mergers. Due to these effects and the fact that there will inevitably be a destruction effect, the benchmark is important to when a business is assessing the strategies for forming a merger or when it is planning to acquire for managers to establish another firm.

Another key aspect that should be taken into consideration before making an acquisition or merger or before evaluating the effectiveness of a merger or acquisition is the fact that the contagion and capacity effects increase with the variance of the merging firms' independent profits streams. This is the main reasons why the value of destruction of a merger varies from one firm to the other. For instance, mergers and acquisition between firms in industries that are not fully grown leads to higher levels of destruction mostly due to the higher levels of uncertainties that can be associated with the firms in such industries. This is in spite of whether the mergers and acquisitions plan were well formulated and implemented. In addition, there exists a need to assess well performing mergers before concluding on the overall success of mergers. This is because the effects of the merger by the firms may have been overshadowed or may have been equaled by the performance of the firms individually had they not merged in the first place. Myles (2006) points out that in such cases, attributing positive outcomes to such a strategy may lead to misinformed learning and as a result lead to future decisions on mergers and acquisitions being misinformed and wrong.

The existence of the capacity effect provides the explanations for the reasons take too long to realize the fruits of and the advantages of mergers and acquisitions. The delay in taking advantage is as a result of the merging firms being closer to their capacity constraints and therefore the firms have to expand their organization before they can each benefit from the new environment as merged entities. As has been shown above, the measurement of the performance of mergers is complex. There are a number of benchmarks that the mergers have to be measured against in order to prove that they were the better option. It is important to note that most mergers are seen as successful at face value but a firm may have lost more value by merging and may have as a result have been better off had it not pursued acquisitions or mergers in the first place.

3.4 Effects of Mergers and Acquisitions

Many companies target acquisition for growth in terms of market share and there appears to be a significant trade off in terms of innovation. In many cases acquisitions serve as a substitute for innovation and managers spend much of their time on negotiations, risk orientations, leverage and diversification. This affects the in judgment vis-à-vis innovation and R&D and results in reduced growth in the following years. In a merger more emphasis is given to innovation which deals with current product development as innovation regarding unrelated product development may require investment of substantial resources. This may hamper managerial commitment and resource allocation which puts further squeeze on the R&D process. Researchers measure the innovation commitment with respect to R&D intensity and findings definitely point out to the fact that firms with related product line have reduced R&D spending and commitment. (Hitt, et al., 1990).

According to Myles Shaver of the University of Minnesota, the acquisitions and mergers outcomes depends on the two effects, the contagion effect and the capacity effect. In any mergers and acquisition scenario the positive effects is reflected over both the companies and the same can be said of the negative effects. Any realizations in terms of profits, brand value etc, can spill over to both the businesses and magnify their effects. In opening a conduit between the two businesses, the existing entity has to face a capacity constraint which would result from the increasing demand and meeting of customer needs. It is important for managers to address and evaluate the production, operational and marketing capacity of the firms and analyze whether it can meet the increased capacities without any negative spills on the market. A capacity constraint means an opportunity lost due to the lack of realization of the positive outcomes, (Shaver, 2006).

It has been noted that acquisitions have dampened innovation within the organization as the company reduced R&D spending; they cut personnel within the similar departments in a bid to merge them. This has affected the innovative capabilities of American firms and made them less competitive in the global environment. Acquisition serves as substitution for innovation as it increases leverage and diversification within the market. The executive’s time is spent on negotiations and planning with less time spent on managerial commitment towards innovation. Firms should search for projects that complement the R&D projects and have complementing but non-identical product line which would enhance core competencies. This would lead to more focus on innovation and development rather than simply focusing on reaching economies of scale and grabbing market share, (Micheal A Hitt, 1991).

In international acquisitions and markets project managers need to be managing projects dealing with different cultures and sentiments. The discipline of the project management process is to move the organization to a single body of knowledge and this is affected by the differences in requirements and practices. So it may be useful to ascertain the similarities and dissimilarities in practices and organizational structure before venturing in to acquisition or merger of different entities. Each organization has different performance parameters and it is important to ascertain those before setting out to modulate the organizational structure reflecting those criteria. It may be useful to assuage and quell the rumours circulating about the negative aspects concerning the merger. Each organization favours different objectives like the internet and technology organizations perceive technological objectives for M&A's whereas construction looks for a larger market share. The banking industry which has similar product lines, move in with vertical integration and look for efficiencies and larger market share. Japanese managers look for cost efficiencies more than others in the market. It is important for the project managers to perceive and analyze all these factors before moving in with the mergers, (C Gray, 1990).

People are the most important part of any merger story and in all such cases there is a need to adapt to a varied organization. The people reconstitute their group identities and cultural outlook to renegotiate with the surroundings. Different people react differently to changing situations. In her seminal research study Langley et al (2012) found that there are four patterns of identify namely, mavericks or fighters who are more proactive towards the changes and try to manipulate the changes. Mavericks put out their own distinctiveness in to the fore and are a dominant group to being in more control over the other groups. While mavericks are innovators fighters need to be introduced to the struggle and initiated to adapt changes. One the other side of the scale are the adapters and victims who passively accept the changes. Adapters even though do not initiate changes are more adaptive to other changes and also are open towards suggestions. But victims withdraw themselves and perceive the loss of status and autonomy would definitely want to leave. For a manager victimhood is dangerous and should not be allowed to seep within the crowd, (Langley, 2012).

During mergers and acquisitions different companies follow different objectives. In vertical mergers the focus is on managing all critical dependencies where as in a horizontal merger one tend to expand along the product liners and attain economies of scale and scope. This facilitates entering new businesses which would stimulate innovation. In a concentric merger the company expands along the product lines but utilizes its financial capabilities to some extent to bring in new products and develop alternate competencies. In the case of a conglomerate merger the companies use its financial clout to enter in to new businesses. These exclusively target expansion and growth to take out competition and rule the market. (Walters, 1990)

Merger investigation is a major antitrust policy practiced by the US federal government to avoid firms from practicing non-competitive methods. The maintaining of a competitive mission has been enforced by the investigative agencies while investigating recent waves of mergers in the US. Consumers gain from the competition and innovation is fostered through increased competitiveness in the environment and many firms involve themselves in R&D to gain from innovative practices. With mergers and acquisitions such an edge is lost as the company captures a large customer base and is able to dictate to the market. In many cases the supply and demand is squeezed to keep the market on a leash which does not augur good for the economy of the company. To facilitate innovation and discourage monopolistic practices the companies need to be mindful of the antitrust laws before embarking on a merger, (Katz, 2007).

Mergers and acquisitions bring in abiding changes in terms of strategy, human resources and cultural perspectives. Researchers need to focus on the cultural perspectives before understanding how it needs to be bridged for better functioning of the organizations. Mergers and Acquisitions are engaged in to create synergies and achieve rationalization. But many companies fail to see the ego and power clashes, cultural incompatibility and conflicts of interest which accompany the merger. Culture has become a broad umbrella encompassing beliefs, norms, values, cognitions, emotions, practices, rules or routines, often without clear specifications. It is important to dig deeper in to the cultural issues before making broad changes which do not reflect the problems. Connectivity needs to be established between the cultures so that the people can find common ground before the merger, (Vaara, 2005).

Researchers have shown that firms which develop a mutual investment in employment relationship through organizational learning and communication are able to navigate the tricky waters of change. A combination of functional flexibility and ambidextrous learning which is supplemented by training is as effective employment model for the company. This helps in fostering creativity and also builds and cohesive model within the organization, (Valle, 2011).

Even though successful organizations are dynamic and go through continuous change, challenging economic factors force it to make tough decisions like undertaking Mergers and Acquisitions. M&A can be very taxing times for employees and such brutal changes may face resistance from employees. Uncertainty and role conflict may result in high turnover which may be detrimental for the company. Such transformational periods can be navigated by the process of employee engagement. Employee engagement represents ideas such as focus, motivation and passion for the task at hand and helps the employee to remain focused and say good things about the organization. They feel aligned to the mission and vision of the organization and actively pursue opportunities to improve the work environment.

A connection with the leaders and co-workers are the principle factors which determine engagement and this is possible through involvement in decision making and understanding the career path present in the organization. When the company provides a two-way dialogue process, listens to concerns and provides encouragement and development the sense of engagement is heightened. It has been proved that regardless of the change a heightened focus on career development and training along with communication helps to maintain a spirit of focus and innovation within the organization. A visible senior leadership along with communication about the status of the work would help in better acceptance of change, (Hewitt, 2013). Many mergers have reflected unimpressive returns over a period of time and have posted reduction in innovation and leadership within the economic sphere. A disappointing long term results are due to the fact that the key executives and engineers are primarily concerned with harmonization and contentious negotiations issues with respect to the merger that innovation and product development suffers. By concentrating on cost synergies and stream lining many companies get distracted and this impedes innovation. It is important for organizations to investigate the "micro-merger" problems of integrating diverse technologies, and focus on the long-term implications. Spin off's to create business units wherein individual products lines are carefully managed would help in consolidating market position and also foster innovation, (Berggren, 2001).

3.5 M&A as a Substitute for Innovation

In the last decade M&A has been driven by sector maturity. Looking at the acquisitions in the last decade the majority of them has been in the technology sector. This had lead to the development and emergence of the ''ecosystems'' defined as platforms on which many different organizations build their products and grant services. This platform was developed by leaders in the technology and data sector by adding up new technologies to their existing platforms through the hunt of small start-ups that show a glimpse of innovational promise, acquiring them to develop the next technological breakthrough and get it into market faster than the competition. This has allowed small start-ups to shift the risk of R&D to large organizations; that are better suited to manage the risk and increase synergies across these ecosystems. Highlighting why it's difficult to measure the success of M&A's in the technological sector due to complexity of attributing the value upfront, as it will be realized over a period of time.

M&A in technology & data lead sectors has allowed certain organizations to stay profitable by the unveiling of their new products, improvement of existing ones using their ecosystems that they have built on technologies from their acquired organization. Apple as an organization would be a perfect example as they have a major new product announcement every year, where consumers are educated about the new products and investors can judge organizations future profitability. Apple's purchase of NeXT, which was the foundation of their now popular operation systems MAC OSX another would be the popular social media giant Facebook, that continuously upgrade its platform via acquisition of talent, individuals who started up organizations that are focused around innovation and new ideas in communication and sharing, thus leading to their most recent acquisition Instagram to enhance the services they provide to their 1.11 Billion users (The Associated Press May 1, 2013).

It has been historically challenging to establish a link between innovation and M&A as much of the research has been qualitative and in the form of case studies. As acquisitions facilitate expansion of products to new markets efficiently leading to cost reduction and in return allowing organizations to actualize profits and further modify these products based on consumer's feedback, allowing them in return to remain dynamic, which indirectly showcases that M&A has facilitated innovation, which is against the cost reduction principle associated with M&A which is seen as a value destroyer in certain cases. This success can be attributed to the strategic fit as the acquired company's business was related to the acquirers which has been also argued by researchers (King et al., 2004; Seth, 1990), however there has been some underperforming M&A with the existence of a strategic fit shedding light on further attributes that could hinder success of an M&A that could have trend into an innovation cementing the fact that some attributes that allow for value creation such as leverage, strategic fit could be a double edge sword and destroy them if not deployed correctly, as shown in Figure 3. For example, Cisco in 2009 acquired Pure Digital for its flip video camera technology for $ 600 Million, soon after acquisition there was a major shift in camera markets as mobile phones have started incorporating them to their software programs. Leading to Cisco discontinuing all flip video cameras in 2011 as the technology became uncompetitive and obsolete. This failure could have been avoided if both organizations shared knowledge around sector trends and direction as the main value driver for this M&A was based around knowledge transfer that wasn't actualized (Ahuja and Katila, 2001).

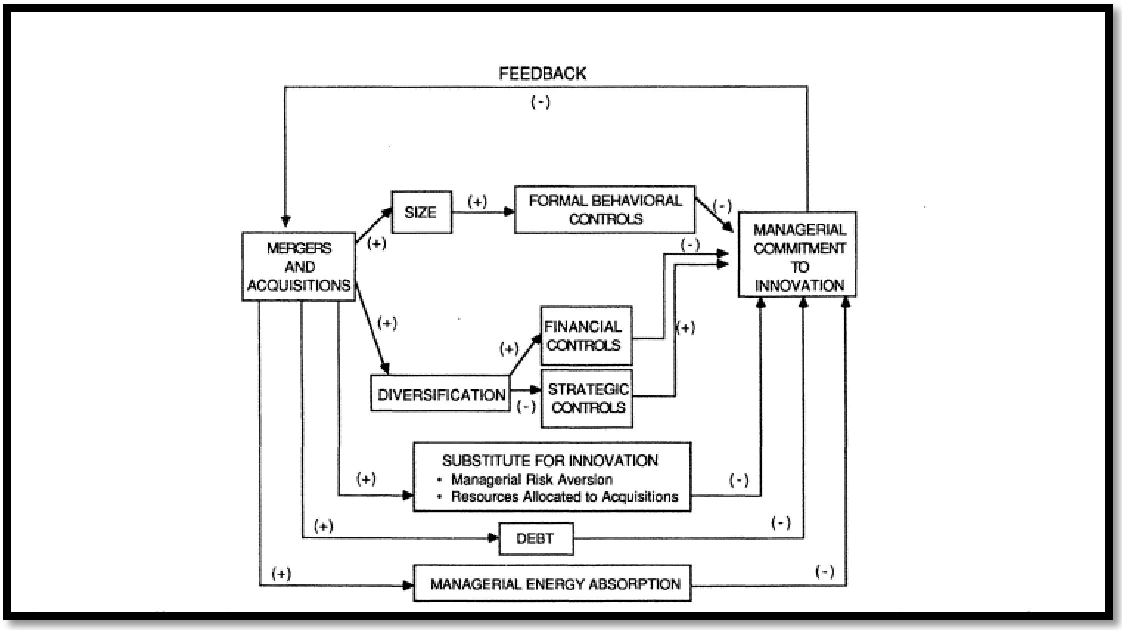

Figure 3-1: Effects of mergers and acquisitions on manager's commitment to innovation (Hitt, Hoskisson and Ireland, 1990, p. 30)

Chapter 4

Research Design and Methodology

4.1 Introduction

The research seeks to verify a defined set of variables and uses quantitative techniques to test the variables. The research focuses on two companies in the technology and data sector namely XYZ and ABC which has combined to form a resultant entity DRC which is part of the conglomerate called AIMI. The study focuses on the two tiers of employees namely,

- Executive leadership team
- Managers and executives in each organization

The study will focus on the effects of M&A has on executive leadership team's commitment towards internal R&D.

4.2 Sample Size:

A sample size of 100 with 50 executives, 50 managerial and non- managerial respondents were chosen from the merged organization DRC, this was disrupted to all employees, M&A consultant and change agents who were retired employees.

4.3 Questionnaire:

The questionnaires consisted of three parts:

- Part one address different attributes around the length of recruitment, departmental focus, responsibility and rank to capture the effects across the different ranks.
- The second part two addressed the value drivers of M&A vs. Innovation and employee's awareness of these value drivers and effect M&A had on their commitment to innovation.
- The third part address knowledge sharing and their perception of M&A facilitating innovation via knowledge sharing.

4.4 Data Collection:

Primary data was collected through a quantitative analysis of the questionnaire where a anonymous questionnaire was administered to the respondents. Each question was calibrated and analyzed to check the firm's commitment levels to innovation and the impact of merger and acquisition on the growth of the organization.

The secondary data was collected through a comprehensive literature review where in peer reviewed journals, books and other sources were studied and critiques to develop a cohesive understanding about the process.

Chapter 5

Data Analysis and Results

5.1 Introduction

For this research the details of the respondents were collected through the human resource department of organization DRC. The human resource department sent an electronic version of the research questions and employees where broken down into two categories:

- Executive leadership team – They are exposed to the conglomerate AIMI's global strategy and are aware of the M&A pipeline.
- Managers and executives in each organization – They were directly impacted by the integration process and were working towards harmonizing the newly formed entity DRC.

How long have you been working at your present organization	
0-5 years	45
6-5 years	40
11-15 years	15
16-20 years	0
21- 25 years	0

Table 5-1

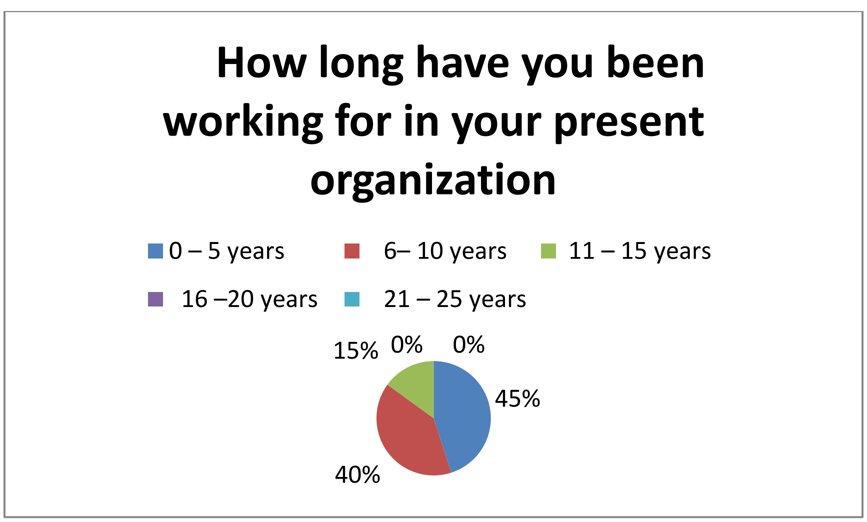

Figure 5-1

Majority of the respondents were new employees with less than 5 years of experience within the organization. This represents the majority of the managers and executive level employees; who are working towards integrating organization DRC, thus this will absorb lot of time are new employees who might have a lower competency level across the other business. The majority was present during the merger process and was active participants. Almost 15% of the respondents among them senior managers were the longer serving employees.

What is your current position at the organization?	
Non- Managerial	30
Managerial	37
Executive Leadership	23
Other, specify	10

Table 5-2

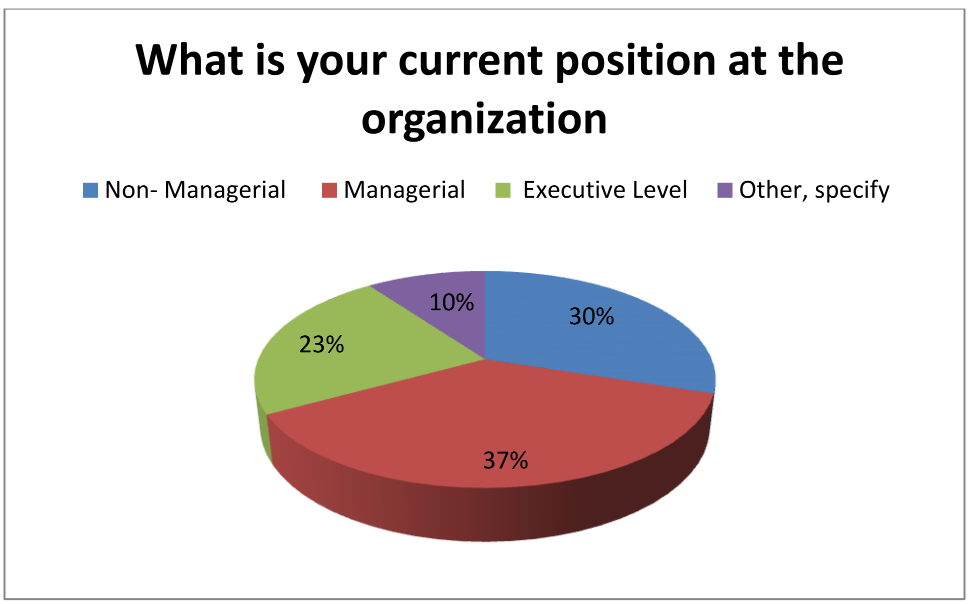

Figure 5-2

About 37% of the respondents were managers and were in the middle and executive level positions. 23% were executives in key decision making bodies like strategic management groups, Human

Resource and other key areas. Based on the empirical research the more focus on M&A and integration process the more this process will absorb the employee's time and lower the focus on innovation.

What growth strategies do you think your organization is adopting?	
Investing in Innovation	12
Minority investments	1
Joint ventures	4
Full acquisitions	65
Strategic alliances	40
All the above	3

Table 5-3

Figure 5-3

Most of the respondents agreed that the company was following the full blown acquisition routes to increase its market position to rival competitors. In certain overseas market AIMI entered into strategic alliances and joint ventures to gain a global foot print. A small number felt that AIMI was investing in innovation and product building in the international or domestic markets. This clearly demonstrated that the middle level employees are not aware of the strategy at a global as on the contrary the certain members of the leadership team members have opted for all the above, demonstrating their exposure to the global strategy of conglomerate AIMI.

To the best of your knowledge, what are your organizations strategic priorities?	
Become Global industry leader	12
Become preferred employer	6
Enhance customer experience	14
All the above	68

Table 5-4

Figure 5-4

Organization DRC was concentrating on becoming a global industry leader through consolidation and rationalization of its product lines. It was noted that only 16% thought about improving the customer experience as a long term strategy.

What factors contributed to occurrence of M&A?	
Market entry strategy	10
Consolidation	72
Enhance distinctive capabilities systems	8
New industry sector	10

Table 5-5

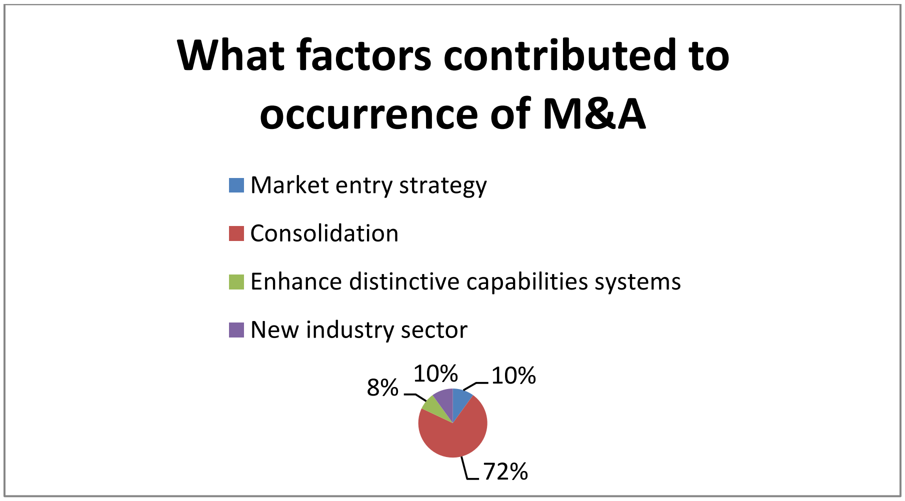

Figure 5-5

Organization DRC entered in to the M&A to consolidate and create new synergies. It was mainly aimed in reducing competitor power and to capture a larger market share. In the overseas market this was deemed a good strategy as the merger allowed for the creation of large asset base and financial resources to capture the market and monopolize the competitors. It might be interesting to note that the Organization DRC has not ventured in to a new sector or a product line and most of the merger was vertical. This sheds light on the importance of ensuring synergies are not destroyed due to absorption of manager's & executive's time leading to a capacity and competency issues, thus the organization must invest in training programs to up-skill their staff who are not familiar with new processes post- merger.

What are the value drivers for M&A in your organization	
Efficiencies through economies of scale	76
Expansion into adjacent products and markets	14
Reinvention of business model	5
Reinvention of Industry	5

Table 5-6

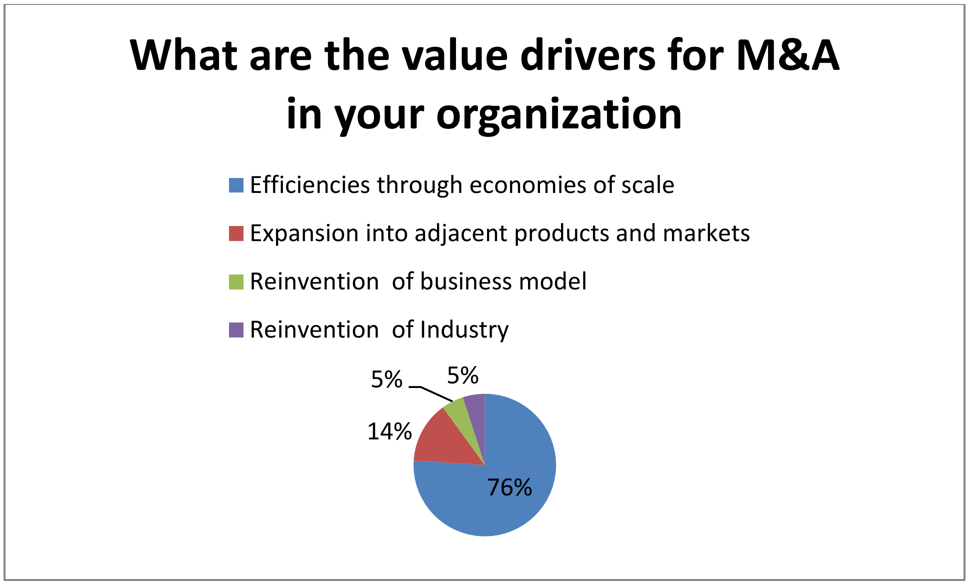

Figure 5-6

Organization DRC was mostly concentrating on achieving economies of scale to capture a larger market share and rationalization of the cost. It also concentrated on expansion to the overseas markets and also incorporated the product lines and complementary products of the new entity. But many respondents feel that the resulting entity never achieved a reinventing of the business policy and carried on with an amalgamation of old polices which resulted in confusion. It would be more amenable if the merged entity would reinvent their product lines, focused on long term projects and reinvent their industry outlook from consolidation to achieving more customer satisfaction.

Does your organization allocate funds or time for employees to innovate	
Yes	10
No	90

Table 5-7

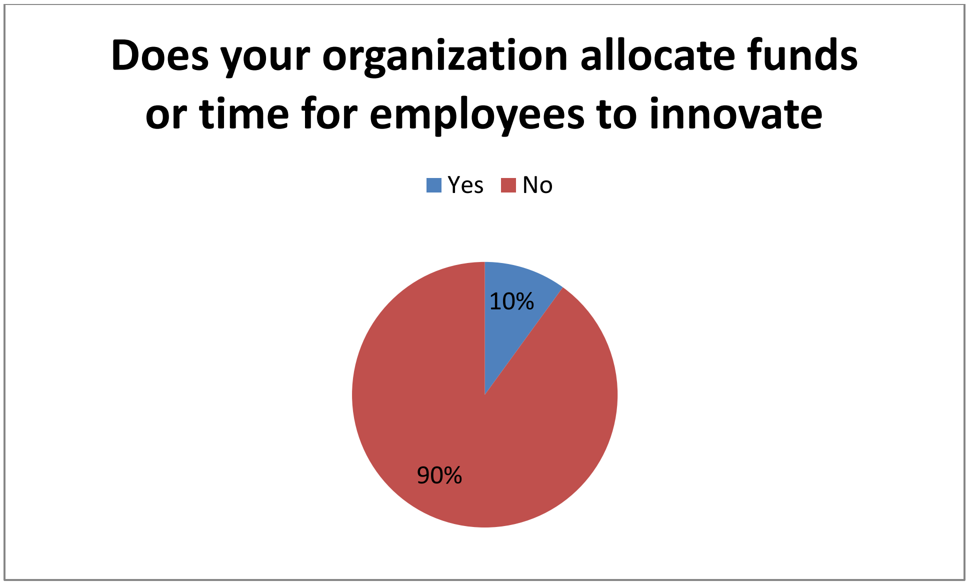

Figure 5-7

Majority of the respondents felt that organization did not allocate the time and funds needed for innovation. Most of the fund allocation was for consolidation and streamlining of the processes and this majorly hampered creativity and idea generation within the company.

Do you consider innovation important to the firm after merger or acquisition	
Yes	34
No	66

Table 5-8

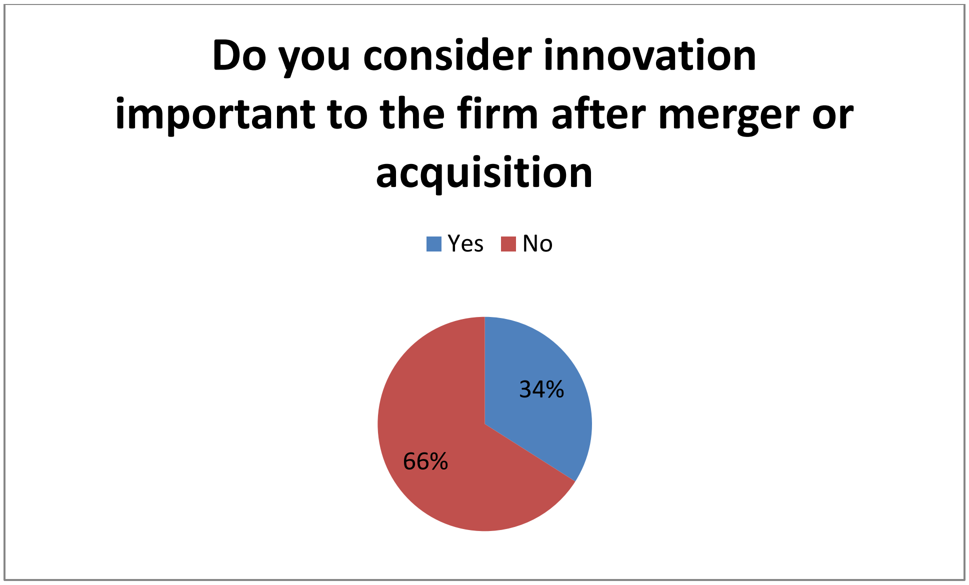

Figure 5-8

Majority of the respondents felt that the company should focus on innovation and product development along with creation of synergies and economies of scale. This was in the interest of the long term profitability of the firm.

What kind of risks associated with innovation does your firm face?	
Sector maturity	35
Cash Flow and Financial management	67
Skill sets and resource	47
Keeping up with the market	56

Table 5-9

Figure 5-9

The merger has resulted in an entity which has a large asset base and market capitalization value. Organization DRC concentrated on consolidation and cost rationalization synergies and did not focus on infusing creativity in the organization. It is important for the company to allocate distinct financial resources to focus on R&D and also required to re-train to bring in new skill sets and resources. The organization is losing out on keeping up with the new trends if it is concentrating on reaching out to the larger customer base with existing product lines alone. The sector maturity also may result in killing existing trends and reduce financial leverage to advance new skills.

What challenges do you face in enforcing internal innovation after the acquisition	
Managerial energy absorption	73
Diversification leading to financial controls	45
Formal behavioural controls	56
Size of organization	68
Skill set and attitude	36
Managerial risk aversion	75

Table 5-10

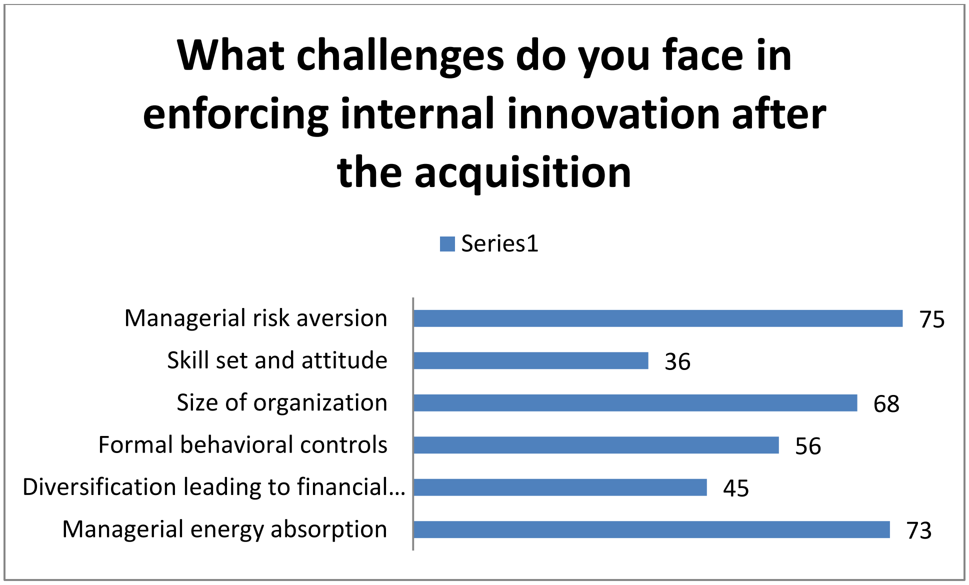

Figure 5-10

After the merger most of the managerial time and acumen was spent on focusing on streamlining processes and negotiation of new terms. The resultant large organization had new challenges which required acquiring of a new skill set and controls to enable set practices. This re-drafting of the rules absorbed much managerial time and focus on innovation shifted. The organizational complacency seeped in as the larger organization commanded a large customer base and abilities of competitors to dislodge the current organization was very low. With complacency came managerial risk aversion which wanted an existing status quo.

Impact on your commitment to internal innovation?	
High Impact	76
Medium	13
neutral	7
low impact	3
No impact	1

Table 5-11

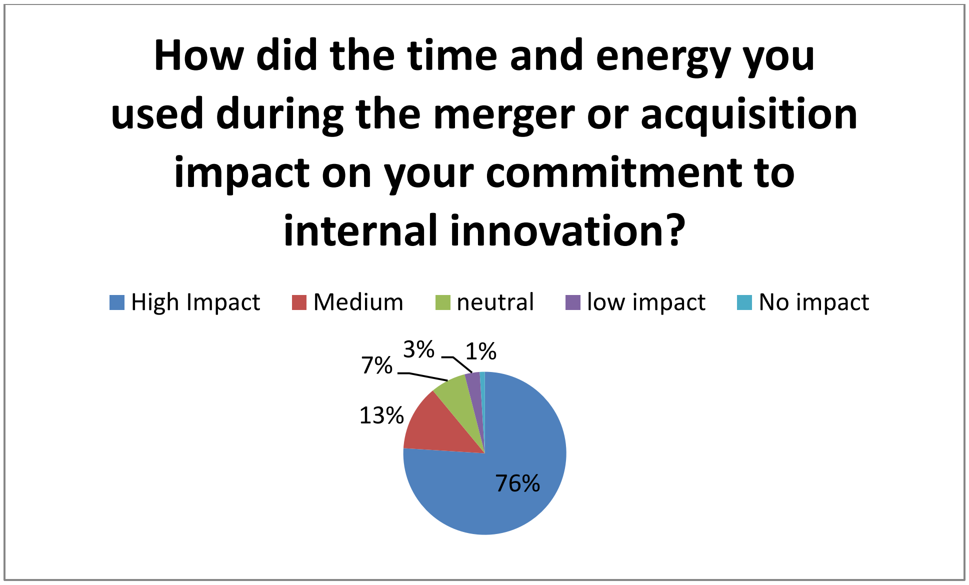

Figure 5-11

Most of the respondents from the managerial and executive segment felt that the managerial time was absorbed to solve the merger process and focused on consolidation and restricting. The merger negotiations also took most of the executive leadership team's time. The resources and the focus on innovation has shifted drastically with a high impact on the product development and idea generation process.

How much resource do you set aside for innovation in your organization	
None	0
0-1%	65
0-5%	30
5-10%	5
10-20%	0

Table 5-12

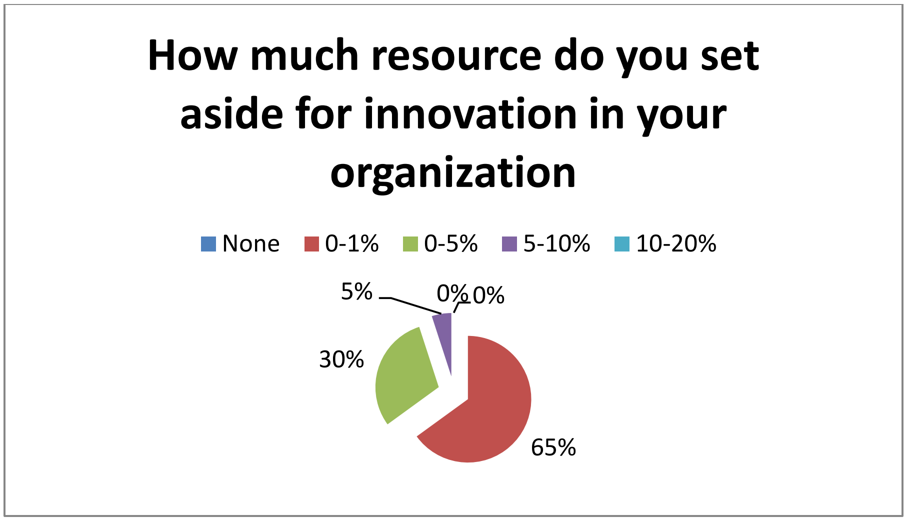

Figure 5-12

The company set aside less than 1% of their financial allocation for research and development and also product development.

Do you believe that collaboration and knowledge sharing leads to innovation	
Yes	89
No	11

Table 5-13

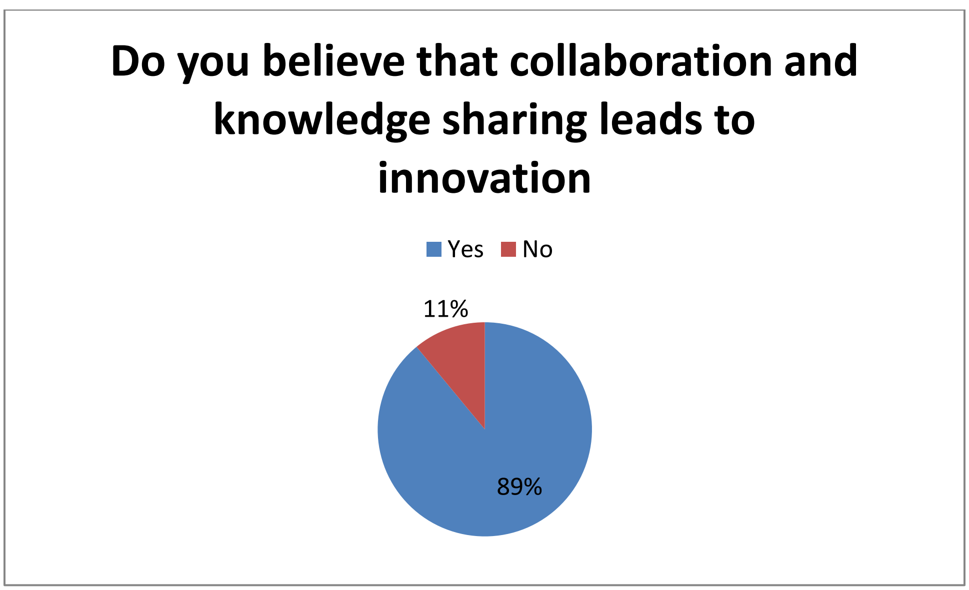

Figure 5-13

A majority of the respondents feel that collaboration and knowledge sharing between inter-organizational teams enabled innovation. Most of them felt positive about the merger and welcomed the new diversity and ideas which would facilitate innovation.

Which one of the knowledge sharing tools does your organization use?	
Use social tools	56
Use Enterprise social tools	47
Use enterprise content collaboration tools	45
Shares industry insights through sponsoring conferences	13
Develops and shares white papers	35
All of the above	14

Table 5-14

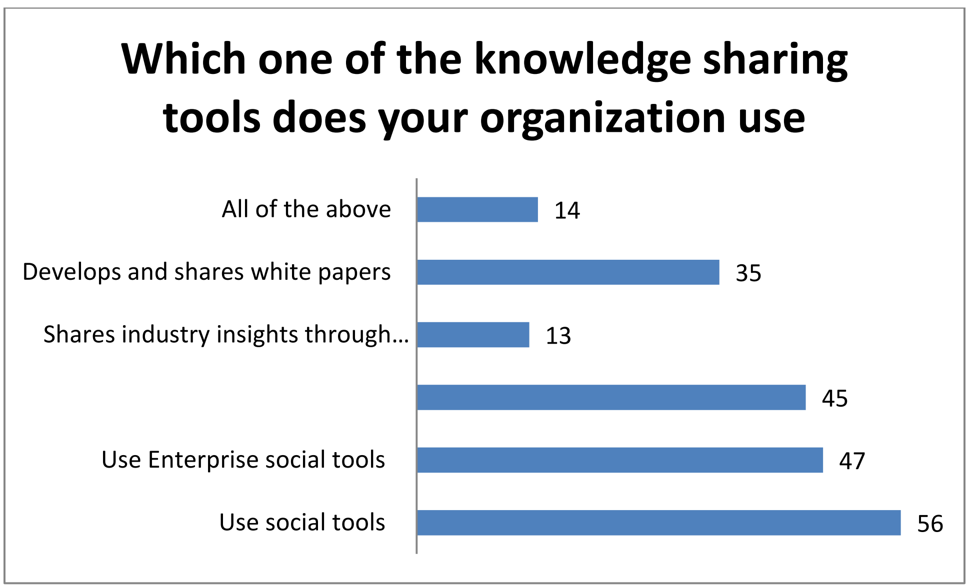

Figure 5-14

Organization DRC used social marketing tools and platforms like FaceBook to communicate with customers and also employees. The ERP software also facilitated information dissemination and also used their internal mail process to communicate. White papers and memos were also used commonly to communicate information. A formal knowledge sharing platform has not been implemented to capture tacit and explicit knowledge.

What do you believe is the main advantage of "Mergers & acquisitions"?	
Efficiencies through economies of scale	86
Geographical expansion and access to new markets	82
Expand product portfolio	47
Access to patent rights	68
Social Capital	49
Expansion of Knowledge pool	32

Table 5-15

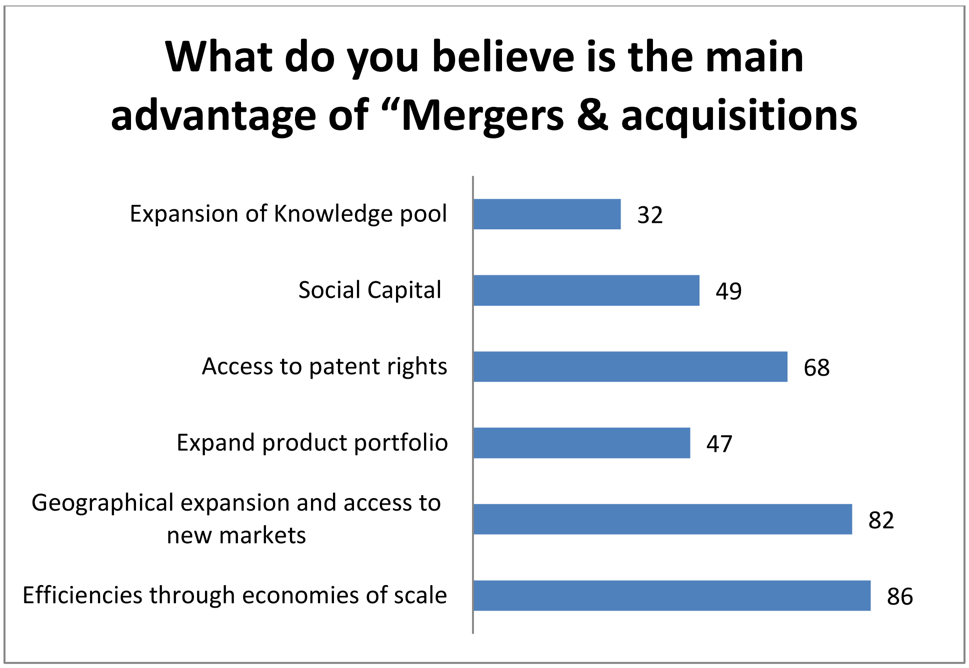

Figure 5-15

Majority of the respondents in DRC welcomed the merger and felt that the achievement of the economies of scale enabled and equipped them to increase its customer base and financial resources. It helped in reaching out to new markets and gains a large social capital in terms of talent. Many acknowledged that an expanded product portfolio and access to patent rights helped it to diversify in to various other sectors and extend its reach. Most of them did not mention about customer satisfaction as the focus was on achieving cost rationalization and revenues. There is a need to acknowledge that a larger organization would have financial resources to focus on new product development to garner better relationships with its customers.

Chapter 6

Discussion

The merger of organizations XYZ and ABC allowed for creation and enhancement of new the organization DRC. Allowing it to attain a large market capitalization and asset base in the industry, nevertheless it's important to understand that even the best planned M&A's can at time destroy value through the same attributes that were supposed to drive value in the first place for the organization, in this case organization DRC. The larger entity was able to reach out to a larger customer base and capture a bigger market share so as to edge out competition. Mergers and acquisitions are the firm's competitive strategy and is pursued actively to consolidate and create new synergies. But innovation is also part of the competitive strategy. Studies have pointed out that in an economy where there is intense competition the firms resort to innovative practices to edge out competition. Many assume that competition may increase in the future and invest much on research and development which shows the willingness to commit towards innovation.

Understanding that and from the research it was evident that this M&A had created a capacity issue as the merger process absorbed executive leadership's time, the degree of absorption will vary depending on whether the merged organizations where within the same sector and shared the same processes for their core business, because in cases where the difference is vast it ends in destroying value over the longer term. Reason being the capacity is linked to performance, thus we need to measure as the profits are actualized, was it less than what the individual entities would have yielded regardless of the uplift from the cost cutting and various leverage initiatives that aim at capitalizing on both organization's strengths. It has been seen that firms which depend on joint ventures, licensing, mergers and acquisitions and other alliances try to get new methods and products through copy cat actions. They are not leaders in the industry and their willingness to commit and challenge change is very limited. This is very evident in the research as managers tend to be risk averse.

There is a need to look closer into issues of company capacity as this doesn't allow for the organization to take advantage of the new favorable business environment. Combined with the size constraint, this could lead to the determent of the organization's competitive advantage. Thus transforming DRC to an organization where M&A is always centered on efforts to buy innovation, where the acquirers always wait for somebody else to innovate, build and then absorb the same whist maintaining the status quo and steering away from disruptive change. The larger the organization the lesser the flexibility along with the rigid organizational structures which focus on greater market reach, but not involve risk taking. Making risk aversion very much imprinted on the system which affects idea generation, innovation and at later stage is weaved into the organizations culture of how they do things. There is a fear of failure in larger companies as they tend to avoid risky, costly projects that could result in disruptive innovation. In the case of a merger the larger organization is ready to pay the mark up and absorb the other smaller ones rather than take up the risks on themselves. Thus highlighting the fact that capacity effect can provide insight as to why in some M&A's although the targeted organization, market condition, industry synergies where all pointing toward a successful M&A the end product destroyed value due to risk aversion and capacity issue.

In addition to all the positive synergies of M&A to ensure it's a success organizations like DRC would need to formulate strategies that allow for innovation through M&A to combat the capacity and risk aversion constraints. The value drivers for M&A, whether it was efficiencies or economies of scale, managers will need to remain vigilant of the level of exposure they will attain for such merger referred to here as the contingent effect e.g. a law suit against one of them could affect the cash flow of the combined entity leaving them worse off. It's worth pointing out that in synergy -based M&A the risk factor decreases as you are aware of the associated risk (e.g. Chatterjee, Lubatkin & O'Neill, 1987). Focusing on assessing an organization's stock sensitivity to market events, as the combined entities share resources they become more exposed to negative outcomes on either side.

There is also the culture factor, where a successful acquisition is a blending of two different cultures even if it is within the national ambit. It is important for the organizations to engage in a give and take and create synergies where in the products do not overlap each other but create complementary product experiences. The acquired company must feel that they have access to the resources which can be used to develop and enhance their creations. A larger organization can of course provide a larger market and therefore the M&A should focus on providing existing products better share and also on developing new markets and products to enhance customer satisfaction. Many companies undertake an M&A as a means of talent acquisition and the happiness and satisfaction of talent must be considered on an ongoing basis. The new employees need to be engaged properly without feeling out of depth in a large organization where bureaucracy and layers of structures affect their productivity. A change is always disruptive and brings in its wake a fair share of stress and anxiety. It is important to maintain open communication channels and continuously engage with ones employees about the reality of the situation. A very visible senior management is essential while undertaking the change management process. Losing social capital due to overlapping of cultural incompatibilities would be very draining for an organization's innovative capability. If the acquired organizational team is not offered similar or larger opportunities to enhance their own ideas there is a possibility that turnover would be very high, (Wharton, 2006).

Most of the employees find that managerial energy absorption of the merger process is a major drain on innovation. Most of the engineers and managers are focused on creating synergies and cost rationalizations that they do not focus on idea generation. For managers the merger process and the power struggle ensuing with the process takes much of their time. The other planning and operations personnel are more concentrated on streamlining of the processes and operations that time, money and resources are spend exclusively for the above said purpose. This involves undermining the R&D and reduces spending for innovations which would be detrimental for the company. In the technology and data lead sector where vertical integration of all product line happens, the company becomes large and captures a large customer base. The R&D spending and personnel are reduced as the company is focused only on product expansion, not development. Market expansion and monopolistic practices do not augur well for companies who are continuously reinventing the wheel. Innovation helps them to research the market and stay close to the pulse of the customer and mergers and acquisitions tend to take away that commitment, (Willoughby, 2013).

An organization is in full control prior to starting the M&A, thus from the outside it's very important for them to avoid synergy traps, an example would be removing duplicate functions and assuming this will allow for greater leverage, this will only be true if these functions were identical and didn't expose the functional department manager to new processes where his competency level will create further strain and might have cost implications. Every M&A should have a clear strategy in mind and should look in to the long term prospects before undertaking the venture. Autopsies of failed mergers point out to a single most important factor, which are lack of common goal and the vision of the organization. The leadership needs to explain their need for the merger or talent acquisition so that the newcomers are not treated as a disruptive force. Innovation helps to combine the existing abilities with new ideas to create new products and processes which would benefit the company in the long run. The larger financial clout can be effectively used to counter the competitive rivals and at the same time create synergies which would be operational in the market, (Wharton, 2006).

An M&A would fail if it fails to deliver positive shareholder value. M&A is always about corporate downsizing without any added value. As a part of the globalization effort many organizations in the technology and data led sector rely on M&A to improve the competitiveness of the firm. But it fails to achieve the fact that an organization success is directly dependent on creation not status quo. A desire to change with cultural management would renew and strengthen the bonds in the company and help foster innovation. It is not only important to increase company reach, stability and shareholder value, it is important to continually encourage creativity in employees to satisfy the customer and also develop new products and services (Langley, 2012). The technological sector has not reached its maturity yet and there is still a need to explore new avenues to increase business and capture the markets. It needs to reach out to all ranges of customers with appropriate products and services. Moreover the competition is increasing with data led organizations entering the new geographies and providing similar products and services. Most of these products can be copied and non patentable commodities which makes gaining a competitive edge redundant. Innovative new platforms like ecosystems, social media platforms are booming along with specialized data harnessing companies as data is considered the new oil. For large organizations the real value driver would be if they were able to expand their market into other geographies that otherwise would have remained inaccessible unless it provides such services on innovative technological platforms.

It is important for large data led organization to capitalize on its assets and market capitalization capabilities to reach out to more customers and create synergies where existing products can be periodically changed to foster innovation (Willoughby, 2013). When using M&A as a substitute to innovation, evidence suggests that even if the organization allocates for R&D the budget will eventually be cut to finance M&A and some cases the debts associated with them. This can leave the organization open to risk specially if R&D funds were being used to finance royalties or patent rights that if used as a foundation for new innovations without adherence to agreed policies could land them in a lawsuit with hefty fines that will limits the organizations flexibility to respond to favorable market conditions example Apple v. Samsung patents law suit case (source: *Online Wall Street Journal*). Another factor that will effect innovation would be the size of the combined entity as the size of the ADR increases this will lead to the creation of formal behavioral controls, as these procedures are implemented it will create a level of bureaucratic controls which will most likely effect employee’s commitment levels to innovate projects that as they go through endless budget, committee sign–offs and spend approvals, leading some of these employees with the time constrains to forgo these project.

Another value driver for M&A is diversification especially if the combined entities have similar core businesses thus the new entity will be harnessing the strengths of both. Theory suggests that this will lead to further innovation as the core business activities will be well understood by executive leadership team allowing for more commitment to innovation through development of new products on their ecosystems built from various M&A attempts this is supported by Lubatkin's (1988) argument that M&A between related organizations creates value. This in summary will lead to a creation of a self enforced, innovation by M&A. As the managers become more risk averse as shown through the research results. Managers will become more focused around long-term projects with strategic controls related to the original core business. Thus any project or targeted organization for M&A deviating from the strategy will be rejected even if it yields financial benefits in the short–term to ensure they attain growth adhering to their long-term strategy.

Chapter 7

Conclusions and Recommendations

7.1 Conclusions

Mergers and acquisitions are the competitive tactics of a company to gain competitive edge in the market. But it has been found that even though it encourages market capture, increase stability and shareholder value it has a negative effect on innovation. In many large companies innovation seems to be lagging as it lacks the flexible organization structure and decision making capacity to challenge the status quo. In smaller organizations the fear of competition forces the company to lean towards creation which would help in giving a competitive edge which cannot be assailed. Mergers and acquisitions are more concentrated on creating economies of scale and cost synergies and looks the other way on risk taking. Risk aversion is the main hallmark of large companies which looks for smaller innovators to accumulate.

In this scenario the company needs to look in for mergers with entities who complement the product line and help in creating value to its structure. It should focus on its social capital and encourage employee engagement to create value. Involvement of senior management and use for technology would help in formulating the change management process which would focus on cultural change which focuses on risk taking and innovation. The fact that M&A offer immediate access to new markets to expand your current product offering to new markets has time and again proven to be attractive to executive leadership management and their managers. However, M&A and internal innovation both absorb time and resources indicating that organizations must emphasise one over the other - rarely both, but more recently there has been cases where M&A has been used as a substitute for innovation to address the capacity issue.

The implementation of behavioral controls to implement financial controls, to inhibit inefficient management causes managers to become less interested in championing R&D projects specially if these are long- term projects that don’t yield benefits and link back to the primary issue of time absorption, hence the need for incentives and executive leadership team’s commitment to champion some of these projects along with their managers to ensure internal commitment to R&D projects. Diversification can create value as it allows organizations to add complementing products to their core offer, but in some cases can destroy it specially if the management team overseeing the business couldn't manage the new diversified organization efficiently due to competency issues, thus it's important to invest in training your manager post merger to ensure they are fully aware of how these new added products complemented their existing products to ensure the organization didn't pay a premium for a business it couldn't manage leading to loss of a competitive advantage.

For an organization to remain competitive they must create a strategy and diversify their strategy to include M&A, alliances, joint ventures, minority investments as well as internal R&D that leads to innovation of new products. Well planned and targeted M&A can be used to enhance the internal R&D processes, especially when it's a smaller organization that have patent rights to complementing products, nevertheless must ensure that this organization is a cultural fit or manage the process to ensure the combined entities leverages both organizations core strengths.

Most importantly, an organization must remember to invest in human capital and create processes that allow for the transference of tacit knowledge amongst different stakeholders, by adopting various platforms that allow for enhanced communication or invest in a knowledge management system combined with organizational commitment to allow employees to utilize percentage of their working hours to pursue R&D projects of interest to them whilst collaborating with their colleagues.

7.2 Recommendations

First and foremost it is important to harness the human capital to create a space which values innovation. Reduced competition results in the company's market power which would result in stagnation and many employees feel that their innovative spirit is not harnessed enough. As the R&D budgets reduce the company becomes more averse to take on risky proposition which may be costly and waits for the next best innovation to be acquired. A merger saps the company's innovation process and thus compromising its ability to stand on its feet. A talented and motivated work force who contributes to the company's prosperity is the key to keep on innovation. This includes innovative products and processes along with patent generations and R&D spending.

The relationship with high value employee and the firm is always reciprocal and most of the employees feel vibrant working for a flexible company rather than bogged down by corporate bureaucracy. Flexible organization structure where in individual business units and teams have autonomy to take risks and decisions is essential for the innovative process moving on in a big organization. It works in tech companies and large organizations. Many companies undertake the corporate fission after a fusion where in the spin off separate products in to business units where in autonomy and flexibility facilitate communication, information dissemination and faster innovation. Being a venture capitalist where in smaller firms and individuals are provided with the financial resources to innovate is also becoming popular. Once the innovation is made it is given a chance to get access to the larger market through the investor company. Spinning off new identities and investing on a smaller venture are companies' means of preserving competition which would motivate teams to innovate and create in the industry.

Innovation is possible even after M&A if the focus is on changing an organization's focus to in house R&D and use technology to foster careful planning, cultural shift, change management, and a desire to win. Innovative companies do not fear competition but uses its human capital to increase value of its creations. Research indicates that innovation is a casualty in the case of all merger and acquisition policies. It is because in mergers the focus in on creation of synergies, economies of scale, cost rationalization and increasing reach stability and shareholder value. It does not involve any creation of products and services or any idea generation. In short, an M&A stand for corporate downsizing by promoting cost efficiencies, whereas innovation is application of new technologies to create potential winners.

Organization DRC should target smaller firms, because they tend to have flexible corporate structure and dynamism than enables them to manage innovation and harness creativity compared to a behemoth which is hampered by bureaucracy and stagnation. They should also set their M&A strategies to target firms that have an R&D policy and create products that compliment your core business. In some cases organizations much diversify their M&A strategies to include joint ventures or minority investments as this minimizes the risk factor, but provides access to new technologies that enhance your products. To overcome lower commitment from the key executives create incentives for employees to champion R&D projects and look for opportunities to stream line approval process to allow for greater employee involvement whilst ensure each project is championed by key executive to overcome bureaucracy. Mergers and acquisitions help in strengthening and renewing the company as the financial clout of the new entity is greatly improved. But in many cases after the merger the loss in one of the companies may offset he gain others. So a firm strategy must be in place before the merger and acquisition process. The merger should be undertaken between firms which results in each one of them bringing something to the table. The company must focus on all departments while undertaking the merger process and have a long term strategy in terms of innovation and increasing of share holder value.

To encourage innovation even after mergers & acquisition requires careful planning, cultural shift, change management, and a desire to win. Cultural incompatibility is one of the most important roadblocks in fostering innovation. This involves power struggles, ego hassles and overshadowing the success of one entity completely. Communication and information dissemination is the key factors which can used to avoid cultural incompetence. In many cases a innovation driven firm would be a great asset to a firm driven by marketing and sales but the poor cultural fit would hamper decision making process within the company. In many cases flexible organizations resent the bureaucracy and risk averse nature of big conglomerates. So a company must emphasize on its core values which is reflected in the vision statements before undertaking a merger.

It would be easier to rely on technology to bring in employees together to make new teams. It is important to look out for mavericks and adapters who would initiate changes and adapt changes rather than encourage fighters of the system. Every merger would bring in it retrenchment pain and it is in the best interest of the companies to immediately identify core employees and avoid brain drain. The organization should emphasize on collaboration and use technology for capturing explicit and tacit information to improve cohesion between the teams. It would be useful to search out firms which complement one’s own core competencies for the merger. Organizations must consider the effects the reduction of R&D budgets has in the organization on the long-term. As M&A have become a routine and a pillar of most competitive organizations nowadays, however preparing for them is not a routine as you are fully in control only before the process starts. Finally change is a big effort, but careful planning and motivation would help the companies to enable mergers to become a facilitating force rather than a debilitating effort.

7.3 Recommendations for Further Research

The future research may encompass the following points,

- The study which measures the R&D intensity before and after the restructuring is important. Many firms increase their R&D expenditure before the merger and drastically reduce the same after the merger. It increased diversification result in lower use of strategic control and decrease managerial levels of commitment to innovation.

- The future research can also specify the industrial differences and the different types of mergers and acquisitions affecting the diversification and R&D expenditure of a firm.
- The managerial motives and objectives which affect R&D and innovation should be explored in detail.

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Appendix

RESEACH CONSENT LETTER

Dear <>,

I am conducting a dissertation research study on Executive Leadership and Innovation through Mergers and Acquisitions including team commitment to internal innovation research and design (R&D). I'm a part- time postgraduate student at British University in Dubai working towards my MSC in project Management.

Disclaimer: Your participation in this survey is entirely voluntary and your responses will remain anonymous and non –attributable. The survey results will be used in aggregated and summarized form for the purpose of my dissertation.