A PERCEPTIONAL STUDY ON IMPLICATIONS OF MERGERS IN INDIAN PHARMACEUTICAL INDUSTRY

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Abstract

In today's globalised economy, Mergers and Acquisitions are being increasingly used the world over, for improving competitiveness of companies through gaining greater market share, broadening the portfolio to reduce business risks, for entering new markets & geographies, and capitalizing on economies of scale. This paper explores the perception of the existing employees of pharma companies which were taken over by another giant pharma company, during the pre and post merger period. There is a myth that the mergers pose as an extreme form of change and often perceived as threat to individuals by heightening their feeling of vulnerability, insecurity and a breach in psychological contract. This study aimed at testing the myth and finding the realty. There are many problems in M&A transactions like mismatch in productivity, expiring patents, technology issues, loss of customer confidence, etc, but the greatest issue is concerning people.

Keywords: Perception, Consolidation, Hubris

Introduction

Mergers and Acquisitions (M&A) have long been a popular element of corporate strategy and represent an important alternative for strategic expansion through external growth. Merger is a combination of two or more firms in which only one firm would survive and the other would cease to exist. Mergers and acquisitions are the most popular means of corporate restructuring. Mergers have played an important role in the inorganic growth of a number of major corporate the world over. Economic liberalization in India during the 1990s brought out significant structural change and transformation, especially within the business society. M&A is slowly emerging as one of the most effective long-term business strategy of corporate India. Business enterprises today have realized the need to grow and expand in businesses that they understand well to face the growing competition. Mergers have been taken up as a restructuring exercise to sell off non-core business and to consolidate their stronger presence in their core areas of business interest.

The Pharma industry is an important area in which mergers and acquisitions do make enormous financial gains. Pharma companies - both Indian and Foreign - are evincing more interest on M&A to survive inspite of challenges imposed on them. Increasing their operational efficiency by lowering their costs is the only way to sustain at this dynamic climate. The Indian Pharmaceutical Industry currently tops the chart amongst India's science-based industries with wide ranging capabilities in the complex field of drug manufacture and technology. It ranks third, amongst all the world countries, in terms of technology, quality and the vast range of medicines that are manufactured. It has expanded drastically in the last two decades. The Pharmaceutical and Chemical Industry in India is an extremely fragmented market with severe price competition and government price control. India's pharmaceutical market grew at 15.5 percent on an average during 2012. The Indian Pharmaceutical industry is expected to grow at a rate of 9.9% till 2015. The Indian Pharma market is expected to Moreover, the increasing population and increasing high income group in the country will make India a lucrative destination for selling pharma products and clinical trials for global giants.

The Indian Pharmaceutical Industry, particularly, has been the front runner in the specialties involving complex drugs manufacture, development and technology. With the advantage of being a highly organized sector, the pharmaceutical

Employees Perception of Merger Context

Mergers pose a complex environment for the creation and management of a modified psychological contract or employment relationships between employees and firms, thereby affecting the element of trust. Mergers force employees to examine and often change their understanding of the organization. To the employees, mergers pose an extreme form of change and are often perceived as threatening to individuals, heightening vulnerability and loss of security. In spite of this growing concern, even today very limited attention is being given to management of perception of the employees within the merger context, particularly the cognitions, feelings and interpretations of those who remain with the firm. Perceptions are based not only on the fairness and treatment, but also on irrational feelings and sentiments. This is a significant phenomenon as organizations expect cooperation of employees, for the continuing viability of the firm, particularly in India, where so much social identity and esteem is attached to the work organization.

This paper explores the perception of the existing employees of a merged company to identify the context of the formation and maintenance of perceptual image about the effect of mergers at a rich micro-level through a pre and post merger period. In this paper, touch US $74 billion by 2020.

companies in India are growing at the rate of $4-$5 billion, registering further growth of 8-9% annually. More than 20,000 registered units are distributed across the country and reports says that 250 leading Indian Pharmaceutical Companies control 70% of the market share with stark price competition and government price regulations. India stood in top 5 countries in the year 2010 with 48 transactions, total value of 4.9 USD millions. USA stood in first, next is Germany and countries like China, Brazil ranked after India. the researcher begins by conceptualizing the emerging employment relationship issues and its effect on mutuality perceptions of trust and justice within a merger context. The mean scores are calculated for ascertaining pre and post merger efficacy. In order to know whether the opinion of the respondents about pre and post merger status is independent of their socio-economic characteristics or not, the mean perception scores are compared across categories by socio-economic characteristics and the significance of the difference in mean values are checked using t-test.

Literature Review

Numerous studies have been conducted to answer a fundamental question: Why do mergers take place? The existing literatures as well as empirical work on motives of mergers do not offer a conclusive explanation for why mergers occur. This section discusses the relevant literature about the motives for mergers. Berkovitch and Narayanan (1993)[1], have identified synergy, hubris and agency as three major motives of takeovers. They have tested three hypotheses related to these motives using a sample of 330 tender offers of US firms during the period 1963 -1988. They have observed that the synergy is the primary motive associated with positive wealth additions for acquirers while a zero wealth effect is driven by hubris. Agency is the major reason for value reducing acquisitions.

The managerialistic hypothesis suggests that managers acquire firms for their own personal motives than the economic gains to the acquiring firm. Managers undertake acquisitions to maximize their own benefits at the expense of the shareholders of the Firm – Marris (1954)[5]. The Hubris Hypothesis proposes that acquiring firm's managers make mistakes in evaluating target firms, but undertake acquisitions projecting that their valuations are appropriate. Roll (1986)[10], have stated that this hubris causes them to overpay for the acquisition of the target. These deals have no synergy gains as they are motivated by managers' mistakes.

Mukherjee, kiymaz amd Baker (2004)[8], conducted a survey of US firms during 1990-2001 to study the motive for mergers and acquisitions. Their empirical evidence shows that primary motivation for mergers and acquisitions is to achieve operating synergies.

Ramakrishnan (2008)[9], examined a sample of 87 domestic mergers of Indian companies during the period 1996-2001 to study the long-term performance of merged companies. The study indicates that operating synergy is the primary motive of the mergers in India.

Seth, Song and Pettit (2000)[11], investigated 100 acquisitions of US firms by foreign firms during 1981-1990 to explain the motive for cross-border acquisitions. Their findings lent support to the synergy hypothesis as the main motive. The study also revealed that hubris also played an important role in these deals.

Eun, Kolodnu, and Scheraga (1996)[2], have investigated the synergy hypothesis for cross border acquisitions of US firms during 1979-1990. The study has concluded that cross-border acquisitions are synergy creating activities.

Mueller and Sirrower (2003)[7], tested four hypotheses: the synergy hypothesis, the hubris hypothesis the market/corporate-control hypothesis and the managerial discretion hypothesis to investigate the motives of merger. They have tested the hypotheses for 168 mergers between large US companies during the period 1978-1990. They found significant evidence for the managerial discretion and hubris hypotheses and non-significant support for the market/corporate-control hypothesis as a motive for merger. Synergy hypothesis as a motive for merger has been rejected in this study. However, a number of empirical studies found significant evidence for synergy as a merger motive.

Wasserstein (1998)[15], has identified five major causes of mergers. He states that the process of merger is driven by the forces of technological change, regulatory and political reforms, fluctuations in financial markets, the role of leadership and the tension between scale and focus.

Kumar and Rajib (2007)[4], have examined a sample of 227 acquirers and 215 target companies during the period 1993-2004. They have observed capital structure characteristics as a main motive for the merger for both acquirer and target companies in India. They reveal that firms with tighter liquidity positions are more likely to become targets.

Goold and Campbell (1998)[6], have pointed out that shared know-how, pooled negotiated power, coordinated strategies, vertical integration, shared tangible resources and combined business creation bring synergy for the merged entity.

Solvin and Sushka (1997)[14], examined the motives of parent-subsidiary mergers by using a sample of 105 US publicly traders firms during 1970-1993. They concluded that parent-subsidiary mergers facilitate corporate restructuring to reallocate the resources to higher valued uses.

Objective of the Study: To analyze the employees' perception about the implications of mergers in Pharmaceutical industry in India.

A brief statistical abstract of M&A which took place in the recent period in the Indian pharma industry is presented in the following Table-1.

TABLE 1: Recent M&A Transactions of Indian Pharma

SL. No.	Year	Acquirer		Target Company
		Company	Country	
1.	August 2006	Mylan Inc.	U.S	Matrix Laboratories
2.	June 2008	Daiichi Sankyo Co Ltd.	Japan	Ranbaxy Laboratories
3.	August 2008	Fresenius kabi AG	Germany	Dabur Pharma
4.	June 2009	Pfizer	U.S	Vetnex Animal Health Limited
5.	June 2009	Vetoquinol SA	France	Wockhardt (Animal Care Subsidary)
6.	July 2009	Abbott Laboratories	U.S	Wockhardt (Nutrition Business)
7.	July 2009	Sanofi Aventis	France	Shantha Biotech
8.	December 2009	Hospira	U.S	Orchid Chemicals
9.	March 2010	Reckitt Benckiser Group PLC	U.K	Paras Pharmaceuticals
10.	May 2010	Abbott Laboratories	U.S	Piramal Healthcare

Source: CMIE DATABASE

Methodology of the Study:

A comprehensive survey was undertaken among the employees of the pharma companies that have gone for M&A during the post-reform period on the effectiveness of M&A, and employees' perception about the Pharma Companies performance.

Data Collection

The primary data collection was done among the employees of the selected Pharma companies by adopting cluster sampling technique. A comprehensive questionnaire was created with two sections. The first section consists of the job & demographic details and the second consists of 10 statements measuring the perception of employees. 5-point Likert type scale was adopted for these individual statements and notified as '1'for "strongly disagree" and '5' for "strongly agree". The questionnaire was then distributed to 200 employees, who have been working with 10 merged pharma companies during pre and post merger period in India. The collected data was subsequently entered in the SPSS for data analysis and interpretation.

Demographic Profile of Respondents

To elicit the views of the employees about the attitudinal changes in post merger period an in-depth survey has been conducted among pharma employees.

Table-2 clearly states that the respondents aged above 40 years comprise 31% of the sample, while 35% are in the range of 31-40 years. The Male groups comprise 70% while remaining 30% are female employees.

Table 2: Profile of the Respondents

Profile	Number of respondents	Percent
Age		
Up to 30	68	34
31-40	70	35
Above 40	62	31
Gender		
Male	140	70
Female	60	30
Designation		
Executives	100	50
Plant Managers	100	50
Marital Status		
Married	138	64
Unmarried	72	36
Education		
Below Degree	34	17
Degree	108	54
Above Degree	58	29
Experience		
Up to 5 Years	74	37
6-15 years	82	41
Above 15 years	44	22
Monthly Income		
Upto Rs.15000	78	39
Rs.15000 to 50000	88	44
Above Rs.50000	34	17
Family Type		
Joint	110	55
Nuclear	90	45
Total Sample	**200**	**100**

Source: Primary Data

In order to find out whether obtained mean scores are in respective ranges, the calculated mean opinion scores are in the "disagree", "agree" or "neutral" range, the calculated mean opinion scores are compared with 3, the value for neutral level, which is considered as hypothetical mean, Z test is used. The Significant and negative Z value reveals the "disagree" attitude and significant positive Z value indicates the "agree" attitude of the entire respondents in the sample. From insignificant Z value, it can be understood that the respondents are neither agree or disagree with the statement. In the comparative analysis, the mean scores below 2.50 indicates that the number of respondents with "disagree" and "strongly disagree" opinion is more. Similarly, the mean scores above 3.50 shows that there are more cases with "agree" opinion. The score above 2.50 and below 3.50 shows the dominance of "neutral" opinion cases.

Attitude of Pharma Employees in Post-Merger Situation

In the following Table 3, it is observed that the Z values for all statements are positive, in turn indicating that there has been an agreement among respondents about various aspects of "after merging activities".

- ✓ The mean value is as high as 3.80 ("I look towards my professional future at the company in a positive way") and
- ✓ Low of 3.22 ("Present salary structure at the merged company is good").

So, it is deduced that the employees have expressed that' they

- ➢ Perceive the professional future at the company in a positive way after merging activities,
- ➢ Feel welcome &
- ➢ Respected by my new colleagues

TABLE 3: Attitude of Pharma Employees in Post-Merger Situation

Sl. No.	Statements	Mean	Z value	Pharma	T value
1	I feel adequately involved in changes to my work environment	3.69 (0.96)	7.18 **	3.65 (1.05)	-0.90
2	My supervisor provides me with the necessary orientation concerning the merging process	3.51 (1.12)	4.54 **	3.61 (1.14)	1.70
3	I experience frustration and stress from my attempts to adapt to the culture in the merged company	3.27 (1.09)	2.48 **	3.32 (1.12)	0.82
4	There are things in my new work environment that I find surprising	3.42 (1.06)	3.98 **	3.47 (1.04)	0.89
5	I feel nervous when meeting individuals from the merged company	3.27 (1.17)	2.31 **	3.35 (1.06)	1.41
6	I have a clear understanding of my role within the new company	3.46 (1.09)	4.23 **	3.34 (1.15)	-2.15
7	I feel welcome and respected by my new colleagues	3.74 (0.93)	7.97 **	3.71 (1.00)	-0.65
8	My suggestions/feedback are always received by my supervisors	3.48 (1.23)	3.89 **	3.46 (1.33)	-0.38
9	I look towards my professional future at the company in a positive way	3.80 (0.93)	8.58 **	3.84 (0.98)	0.74
10	Present Salary Structure at the merged company is good	3.42 (1.18)	2.01 **	3.24 (1.13)	0.36*

** Significant at 1% level. Figures in brackets are standard deviation

Employees' Feelings about Merger

Table-4 highlights the attitude of the pharma employees before merging activities are analyzed by averaging the scores of all 5 statements.

TABLE 4: How Employees Feel About Merger

SL. NO	Statements	Mean	Z value	Pharma	T value
1	I was nervous about my future when I heard about the merger	3.61 (0.99)	6.14 **	3.77 (0.93)	3.32
2	The communication from top management about the merger plans was assuring	3.64 (0.88)	7.26 **	3.72 (0.86)	1.81
3	I feel sufficiently informed about the process of the merger	3.51 (0.87)	5.86 **	3.54 (0.89)	0.76
4	I understand the objectives behind the merger	3.52 (0.98)	5.31 **	3.48 (1.04)	-0.77
5	I believe that the merger is the right way for the pharma to become market leader in India.	3.53 (0.92)	5.79 **	3.52 (0.95)	-0.23

** Significant at 1% level. Figures in brackets are standard deviation

From the table 4, it is observed that the mean scores are above 3.50 for all statements, and all scores are significantly different from "neutral" level. That is, Most of the employees in have agreed that "they are nervous about their future when they heard about the merger". It also shows the mean opinion level as well as t-test results comparing the mean opinion of Pharma employees pertaining to various aspects of before merging activities. Further, the table reveals that attitude of employees towards "communication from top management about the merger plans".

Discussion:

This study Led to the following findings.

- The job & demographic characteristics and the level of attitude of pharma employees towards "before merging activities" and "after merging activities" are independent.
- A significant finding that reinstated other researches in the merger context was that of the reaction pattern of the pharma employees. These employees experienced nervousness about their future when they heard about the merger before merging activities. However, communication efforts directed by top management were somewhat reassuring to them.
- Employees expect the management to be open and promptly communicate the organizational change. It is therefore concluded that employees of merger companies are quite skeptical about the management decision to merge initially and they are not prepared for 'surprises and shocks' all of a sudden.
- Employees are increasingly aware of the potential opportunities that arise out of mergers and a significant proportion of them feel it is important to undertake merger to gain cutting edge among competitors.

- The pharma employees "after merging activities" have felt adequately involved in changes to their work environment, respected by their new colleagues and looked towards their professional future at the pharma company in a positive way.
- Employees have also agreed that their supervisor provided them with the necessary orientation concerning the merging process "after merging activities".

Conclusion:

- This perception study offers insights into the importance of management of employees during the merger process.
- Sustaining the interests and positive perceptions among employees require synergy between how it was done and what was done at an individual level in a merged context; particularly justice perception elements such as showing respect for staff, providing information and keeping promises are crucial.
- An effective and open communication strategy is found to improve some of the existing concerns of mistrust during the process.
- Further research is required to establish the contribution of psychological well-being of employees, quality of supervisory relationships and the antics of new management in determining the perceptions during and after the mergers. One significant limitation of the study is that, it failed to appreciate the importance of others experience as a factor for influencing positive perceptions.
- Further, this study can also be extended to other industrial sectors to examine the generalization of this finding, that there is no doubt that the best way to get ahead is to expand ownership boundaries through mergers and acquisitions. M&A comes in all shapes and sizes, and investors need to consider the complex issues involved in M&A.

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