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ORGANIZATIONAL PERFORMANCE MEASUREMENT FRAMEWORKS: THE CASE OF AN ACQUIRED TELECOMS COMPANY

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ABSTRACT: The general objective of this work was to contribute to the general body of knowledge and research work in the area of post-merger and acquisition organizational performance and performance improvement in the Telecommunications industry. Again, it was also aimed at coming out with conceptual and theoretical frameworks that could be helpful to mergers and acquisition researchers and Telecommunications global firms who acquire Telecommunications companies in Africa or emerging markets, to ensure continuous performance improvement in the short to long term. This work employed purely secondary data from mergers and acquisitions literature and author's personal experiences of mergers and acquisitions to come out with frameworks. Four theoretical frameworks were developed from the conceptual framework. Each of the theoretical frameworks can be used to determine post-merger and acquisition organizational performance from the perspective of the employee, the customer, and the non-customer. The theories behind the frameworks have also been discussed thoroughly. These frameworks can be employed by any researcher who would like to research into post-merger and acquisition organizational performance.

KEYWORDS: merger, acquisition, framework, performance, organizational.

1 BACKGROUND

Post-merger and acquisition organizational performance is key to the whole merger and acquisition process. Among the many motives for mergers and acquisitions, it is obvious that the performance of the acquired entity is one of the key considerations. Shareholders will only be happy when the acquired entity performs positively. There are a number of strategies that managers of acquired entities put in place to ensure good performance in the midst of the uncertainties associated with post-merger and acquisition organizational performance. The general objective of this work was to contribute to the general body of knowledge and research work in the area of post-merger and acquisition organizational performance and performance improvement in the Telecommunications industry. Again, it was also aimed at coming out with conceptual and theoretical frameworks that could be helpful to mergers and acquisition researchers and Telecommunications global firms who acquire Telecommunications companies in Africa or emerging markets, to ensure continuous performance improvement in the short to long term.

To achieve the general objectives, the research was aimed at addressing the following specific objective:

- To explore how employees, customers, and non-customers affect post- merger and acquisition organizational performance.

Under this specific objective, the following sub-objectives were derived:

- To explore the dependence of organizational performance on conflicts, apathy, and synergy resulting from post-merger and acquisition organizational dynamics.
- To employ Alderfer's modified approach of Maslow's hierarchy of needs system in organizations (see figure 3) to establish the factors that impact on employee performance, and for that matter organizational performance.
- To employ relationship marketing tactics (see figures 4 and 5) to explore how customers and non- customers impact on organizational performance.

1.1 REVIEW OF LITERATURE

Haspeslagh and Jemison [1] and Saxton and Dollinger [2] pointed out that post-merger/acquisition integration, which forms part of the dynamics, is key for the success of the deal. Pablo defined post- merger and acquisition integration as the implementation of changes in functional activities, organizational structures and cultures of the two organizations to expedite their consolidation into a functional whole [3]. This is not to be achieved so easily, taking into consideration the coming together of two separate and different entities. Koetter [4], Cartwright and Cooper[5], Child et al. [6], and Sally Riad [7] made it clear that despite the high hopes of successes driven by the motives, research has shown that only 50% of mergers and acquisitions succeed(or 50% fail). Gerds and Schewe [8] also maintain that the failure rate is higher than 60%, which were confirmed by Chang, Curtis, and Jenk [9], and Watkins and Copley [10] earlier. KPMG also did a research on M & A and found out that 75% to 83% of M & A fail (PR Newswire, 1999 as cited in Nguyen and Kleiner [11]). Research into companies involved in cross-border mergers and acquisitions, as in the case of global Telecommunications giants, points to failure rates of up to 70% with very few deals enhancing shareholder value (www.communicaid.com).

Research has been able to show that one of the key areas contributing to these failures is the employee factor in the dynamics. Many researchers [12, 13, 14] point out that about two-thirds (about 67%) of all mergers fail to achieve the desired results primarily because of the organizations' apathy to the employees' reactions and interests [15].

Cascio and Young [16] also revealed that Psychological responses of people are shown to have an impact on organizational performance and, they become more visible during situations of drastic change like Mergers and Acquisitions.

In a particular research work, when failure rates were analysed in more detail, the overwhelming majority of senior personnel highlighted culture and communication to be the two areas that prove to be the most challenging. This according to the research was substantiated by a survey of Fortune 500 Chief Finance Officers where 45% attributed Merger and Acquisition failure to "unexpected post-deal people problems". It continued to say that issues ranging from corporate governance to employee satisfaction become complex when different cultures are involved (www.communicaid.com).

In their research work on "successful mergers and acquisitions: beyond the financial issues", Lafforet and Wageman [17] also maintained that only the chief executive officer who can handle the finances and the people can do the whole job of leading a merger and create lasting value.

The uncertainties of Merger and Acquisition situations cause a series of psychological processes that result in manifest positive behaviours like commitment and loyalty, or negative behaviours like absenteeism, and sometimes, even acts of sabotage [18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29].

Employees form a part of any organization's common factors. Farnham and Horton [30] defined organizations as social constructs created by groups in society to achieve specific purposes by means of planned and co-ordinated activities.

These involve human resources to act in association with other inanimate resources in order to achieve the aims of the organization. In as much as employees cannot achieve anything without the inanimate resources, the same applies for the reverse. This implies the importance of the employee in achieving good performance, especially in a post-acquisition era cannot be said to be over emphasized. Unfortunately, as has been established earlier, employees' interests in post-acquisition era are not given the needed attention. Past researchers have dwelt on employee responses in post M & A era, but this work comes out with a framework that helps to explore the causes of the responses which ultimately affect organizational performance (See figures 2 and 3). It also intends to explore how customers and non-customers affect the performance of a Telco in a post-merger and acquisition era (See figures 4 and 5).

Nahavandi and Malekzadeh [31] pointed out that despite the popularity of mergers and acquisitions, the general consensus is that about 80% of M & A do not reach to their financial goals. Bruner (2002) also confirmed that about 70-80% of M & A do not create significant value above the annual cost of capital. In the Telecommunications sector, it has also been established that synergy and shareholder's market value creation are not necessarily associated with M & A [32]. As part of the contribution to knowledge and research work in this particular area, this work focuses on improving post-M & A organizational performance by first of all, looking at how conflict, apathy, and synergy which are resulting elements of organizational and strategic fits, affect employee performance and for that matter organizational performance. This stems from the employee point of view. Again on the employee side, this work intends to explore how growth needs, existence needs, and relatedness needs, stemming from Alderfer's modified approach of Maslow's hierarchy of needs system in organizations, affect employee and organizational performance (see figure 3).

On the part of customers and potential customers (non-customers) of acquired Telecom companies, this work intends to explore how relationship marketing tactics (see figures 4 and 5) impact on organizational performance.

2 Materials And Methods

This work employs purely secondary data from mergers and acquisitions literature and author's personal experiences of mergers and acquisitions to come out with conceptual and theoretical frameworks representative of a typically acquired telecommunications company that could serve as a basis for researchers in this particular area for further research as well as managers of telecommunications for informed decisions.

3 Results And Discussions

3.1 Conceptual and Theoretical frameworks

In a post- merger and acquisition era of a telecoms company, behaviors of employees of the Company clash with the behaviors of the acquiring company. The behaviors of the acquiring firm stem from the motives (entering new geographic markets, strengthening the core business, achieving economies of scale, and so on) for the acquisition [33] as against the relaxed posture of the acquired firm. The acquiring firm introduces a lot of strategies in its quest for success in the short to long term. Some of these strategies may be known to the acquired firm, others may be alien. This produces what in merger and acquisition literature, are known as strategic and organizational fits. Organizational problems do occur in post-mergers/acquisitions as a result of strategic and organizational fits.

Jemison and Sitkim [26, 27] defined Strategic fit as the degree to which the acquired firm complements the acquiring firm's strategy. Larsson and Finkelstein [34] also added the additional value creation aspect to it. Organizational fit is the compatibility of administrative practices, leadership styles, structures, and cultures between the acquiring and the acquired firm [26, 27]. Much research has gone into strategic fit more than organizational fit [35]. These fits are characterized by conflicts, apathy, and synergies. There are adaptations from both sides, which continuously affect behaviors again from both sides. Some employees are able to adapt quickly to new processes and strategies; they behave as if nothing has happened, and their behavior result in synergies, which are believed to affect performance positively. Others on the other hand are not able to cope with the changes, and so are involved in conflicts or become apathetic. From the traditional point of view of conflicts, conflicts do affect performance negatively, and hence must be avoided. This is the premise this framework stands on. The acquiring firm has a problem on its hands; that is to minimize conflict, apathy, and so on, in order to maximize performance.

Performance of a Telecoms company can be looked at from different angles, but this framework looks at it from two angles: the financial/market angle, and the service quality angle. Employees, customers, and even non-customers all have an input into the financial/market performance output at the end of the day. Employees' behavior (positive or negative), customers' satisfaction, trust, and loyalty, and non-customers influence on customers and vice versa can have impact on financial organizational performance. Again, customers and employees impact directly on service quality performance. Employees' behavior and actions can impact positively or negatively on service quality performance. Customers on the other hand are the direct recipients of the service quality performance of the firm.

Customers make their own decisions over time (whether to remain loyal or not) depending on their satisfaction level of the services of the firm. For the customers and non-customers, the theories they operate with are the consumer behavior and perception theories.

The causal factors leading to organizational conflict, apathy, and synergy must be well understood and identified by the acquiring firm; the most significant ones must be known and more attention given to them. This is the focus of the framework. Figures 2, 3, 4, and 5 are the theoretical frameworks for the work. Figure 2 outlines eight of these causal factors leading to conflicts, apathy, and synergy in a typically acquired Telecommunications company.

Figure 3 employs Alderfer's modified approach of Maslow's hierarchy of needs system in organizations to establish the factors that impact on employee performance, and for that matter organizational performance. Figure 4 talks about how the customer can affect performance of acquired Telecoms Company. The acquiring company can leverage on this knowledge to satisfy its customers in the long term, as well as improve upon its performance. Figure 5 on the other hand points to the impact the general public (non-customers) make on organizational performance. Even though they are not customers, they can indirectly affect the company's performance by influencing the customers. They are also potential customers who can be turned into customers if they are influenced by the customers, or by the activities (promotional activities, and so on) of the firm. They can therefore be a source of information for the acquiring team, to direct their strategies. Good performance in the short to medium term for the Investor will be a mirage if these conflicts and apathy resulting from the causal factors are not checked or treated with utmost importance in a post-acquisition era.

As stated earlier, this thesis work intends to develop an approach to serve as a guide for acquiring firms who would like to acquire Telecom companies, especially in Africa, using the conclusions from the frameworks in figures 2 to 5 among other things.

If conflicts and apathy are not addressed in the short term period, good performance for the acquiring company becomes difficult and simply unattainable. This leads to non-performance and either the investor leaves by selling its stake to another investor as the contract may determine in the case of acquisition. If the arrangement is just a management contract, the strategic investor may be asked to go by the Government abrogating the contract.

Conceptually, from figure 1, the flow is seen from the pre-acquisition era where the decision to go for a buyer or an investor is borne out of motives from the position of the acquired company. On the side of the acquirer too, the decision to acquire is borne out of motives for the acquisition. In the case of an acquisition, the motives of the acquirer far override that of the acquired since the company becomes a subsidiary of the acquiring company. Once the deal is sealed, these motives must be turned into good outcomes. Operationally, the company must strive for good performance in the short to medium term before it is labelled as a non-performing entity. To achieve this, many investors try a number of approaches (Activity based and Resource based). Activity based approach dwells so much on detailed processes and practices which constitute the day-to-day activities of organizational life and which relate to strategic outcomes as a means to push for good performance. The resource based approach dwells on capital injection, state of the art equipment, new technologies, human resources, and so on to push for good performance. Contemporary companies are incredibly complex entities; they are very difficult to manage and to change when you need to improve their performance. To do that, one has to comprehend as much as possible what is going on inside them.

Unfortunately, there is no single point of view (and probably cannot be) that captures organizational life and behavior in all its complexity. However, there should be a view that captures at least the most important elements, and neither the Activity-based View (ABV) nor the Resource-based view (RBV) has that virtue. Each perspective has its own merits; each also has its limitations. Activities cannot be fully separated from the resources required for their execution, except for highly abstract dependency and interaction considerations.

Without resources, activities obviously cannot be performed, and the way they are performed is shaped by resources. On the other hand, some resources can happily exist independently of their being used, but without use, they are worthless. Even valuable and rare resources can be underutilized or applied improperly, leading to their deterioration and waste. Therefore, it looks like the truth lies in between, as it always does. A careful look reveals that each of the two views addresses conceptually only a part of the most crucial business performance success factors. In real life, however, leaders do something better or different, because they have something others do not have. What they do is enabled by what they have. Some say both views are complementary or that each one can be extended to include some concepts of its competition [36]. Nevertheless, we posit that it is better to integrate them partially to form a Process-Based View (PBV) as their intersection, or common ground.

Central to all these approaches is the complex employee who is affected positively or negatively. The focus of this framework is neither on the above approaches, but on how the employee affects performance after being affected by these approaches.

From the above discussion, the problem this research work intended to resolve was simply to develop frameworks to be used by researchers and acquiring companies or investors, to help curb the seemingly poor financial performance and failures that have bedeviled M & As over the years. It focusses more on both the organizational and strategic fits.

A research gap which this work seeks to fill, is the linkage of organizational and strategic fits to conflict, apathy, and synergy, and the determination of the most significant causal factors that produce conflict, apathy, and synergy which in tend affect performance negatively or positively.

The conceptual and Theoretical frameworks are shown below:

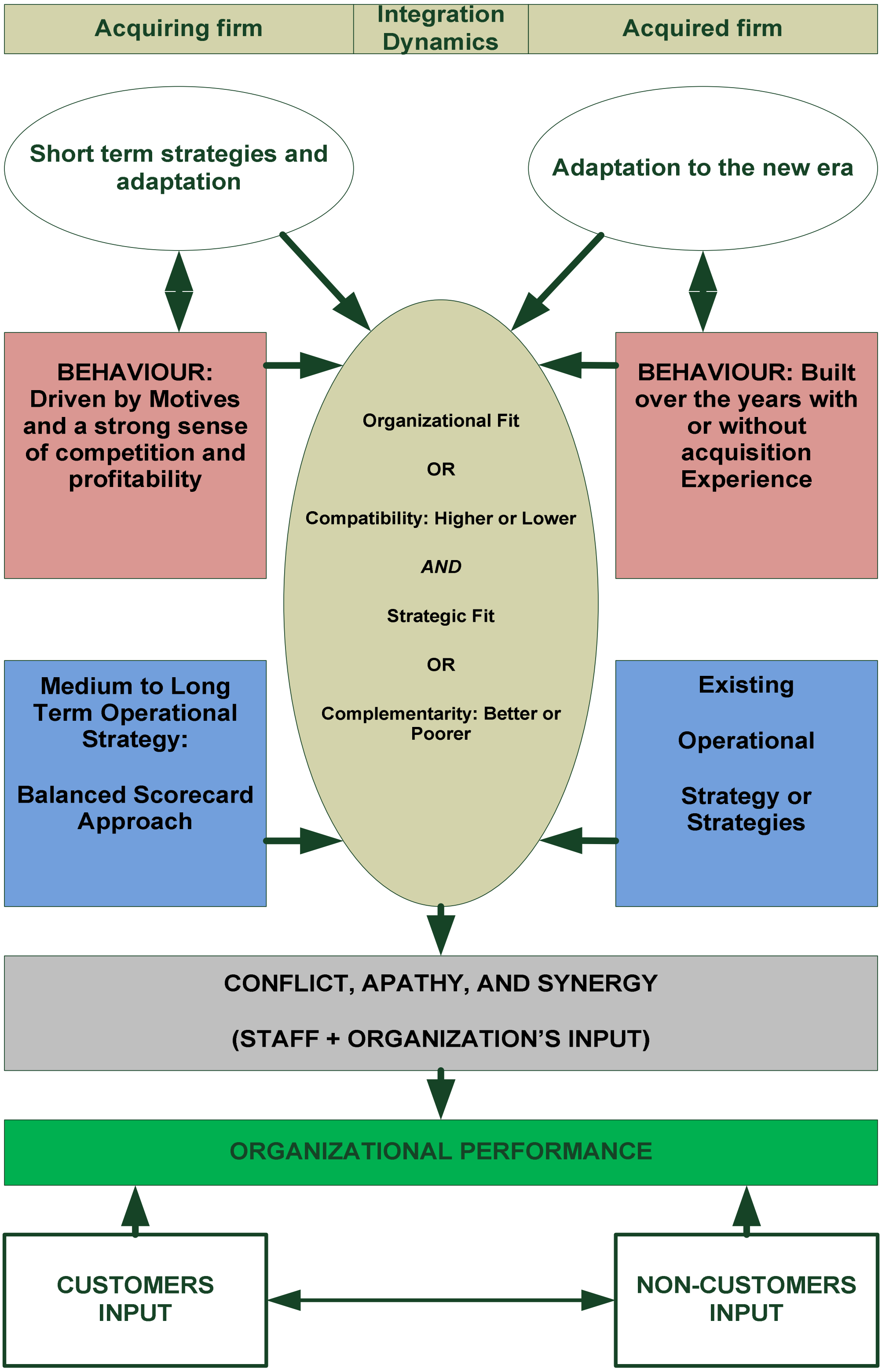

Fig. 1. Conceptual Framework

Source: *Author (Godfred Yaw Koi-Akrofi)*

3.2 Notes to Fig. 1

The coming together of the acquiring team and the acquired team begins the integration dynamics. Strategies are introduced by the acquiring team based on the motives for the acquisition. These motives to a large extent determine the behavioral patterns of the acquiring team. Some of the strategies introduced by the acquiring team may be familiar to the acquired team; others may not. The acquired team may not be all that aggressive compared to the acquiring team. The clash of these different behaviors result in strategic and organizational fits. There will be different levels of compatibility and complementarity in relation to strategies and behaviors. These produce conflicts, apathy, and synergies at the end of the day. Once employee performance is affected by these, organizational performance (financial/market and service quality) is also affected positively or negatively. This explains how the employee affects post-merger and acquisition performance.

From the organization itself, a number of strategies (Activity-based, Resource-based, Process-based, and so on) can be employed to ensure good performance, but this framework considers a balanced scorecard approach. A balanced scorecard approach ensures continuous performance monitoring and improvement, which aligns business activities to the vision and strategy (medium to long term) of the organization, improve internal and external communications, and monitor organization performance against strategic goals.

The impact of customers and non-customers on the organization's performance is also considered. Customers are always at the receiving end of the services of the company. If they are satisfied with the organization's services, they stay and become loyal, and the organization benefits in terms of revenues, and so on. On the contrary, if they are not satisfied, they switch to other operators, and the organization loses. Non-customers indirectly also affect performance. They can influence customers to leave a particular operator or vice versa. They are also potential customers. It all depends on how they perceive the organization. Their trust must be won, and that means a lot to the organization.

The focus of this framework therefore, is to explore how these performance stakeholders (the employee, the customer, the non-customer, and the organization itself) affect post-merger and acquisition performance, which ultimately will help improve post-merger and acquisition performance of the Telecoms industry.

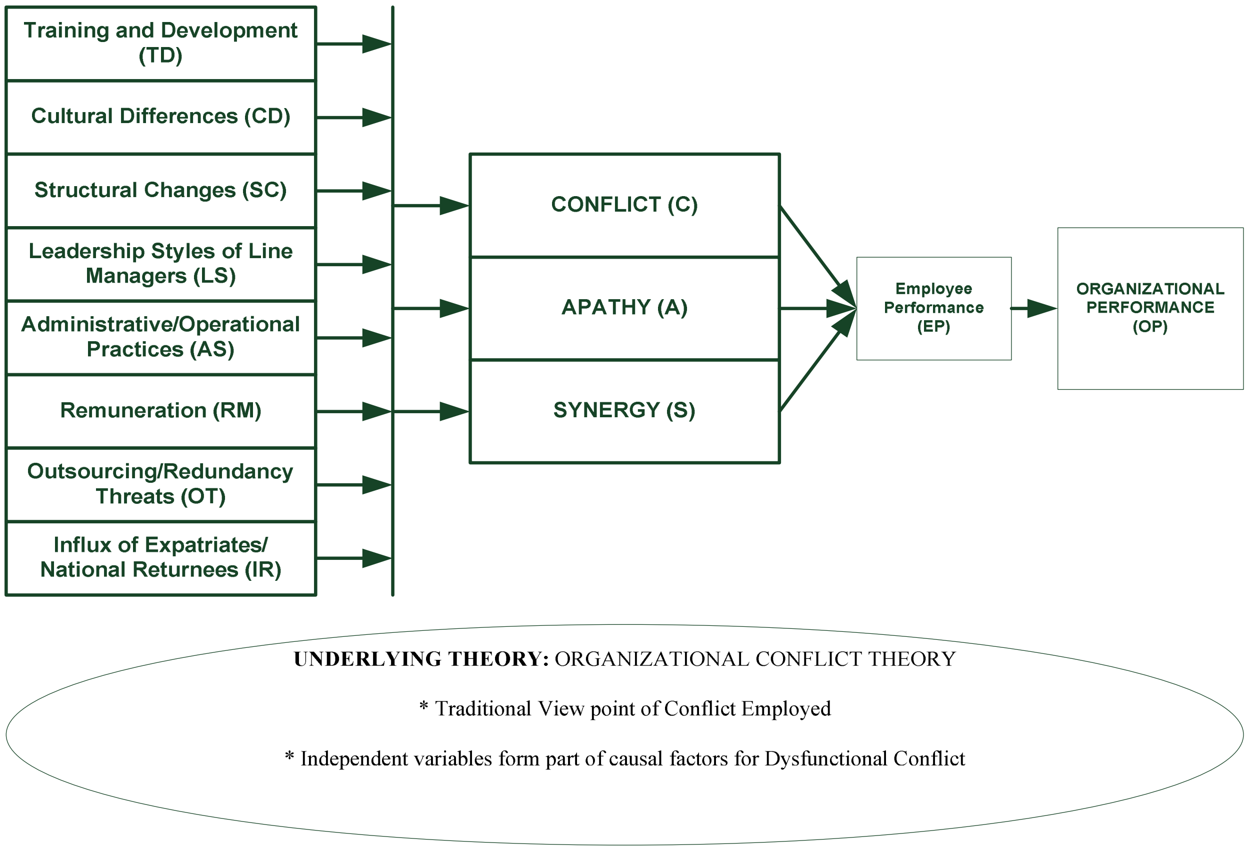

Fig. 2. Theoretical Framework 1-Employees' contribution to Post-merger and acquisition Organizational performance 1

Source: *Author (Godfred Yaw Koi-Akrofi)*

3.3 NOTE TO FIG. 2

This Theoretical framework looks at the causal factors of conflict, apathy, and synergy firstly, and then the causal factors of employee performance, and for that matter, organizational performance. In the diagram, eight causal factors of conflict, apathy, and synergy have been identified. These causal factors were chosen based on the definitions of organizational and strategic fits as given by Jemison and Sitkin [26, 27]. The underlying theory is the organizational conflict theory. The traditional viewpoint of conflict is employed, where the independent variables form part of the causal factors for dysfunctional conflict.

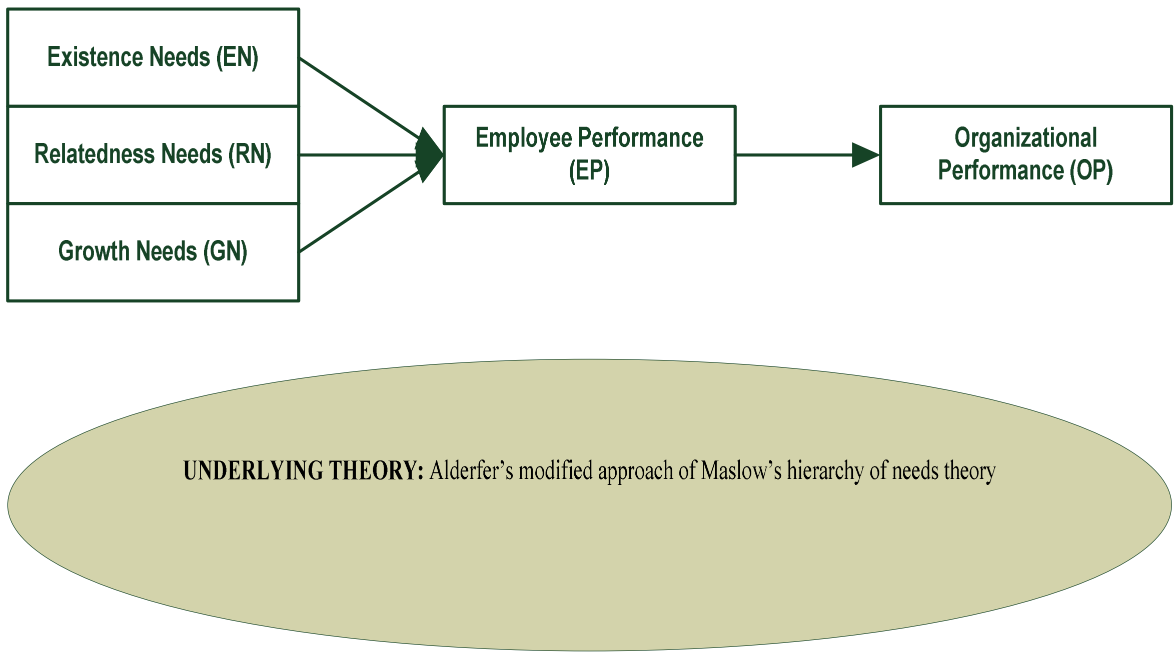

Fig. 3. Theoretical Framework 2-Employees' contribution to Post-merger and acquisition Organizational performance 2

Source: *Author (Godfred Yaw Koi-Akrofi)*

3.4 NOTE TO FIG. 3

This theoretical framework looks at the employee from the things that motivate him or her to enhance his or her performance, and for that matter, organizational performance. The three independent variables were taken from Alderfer's modified approach of Maslow's hierarchy of needs.

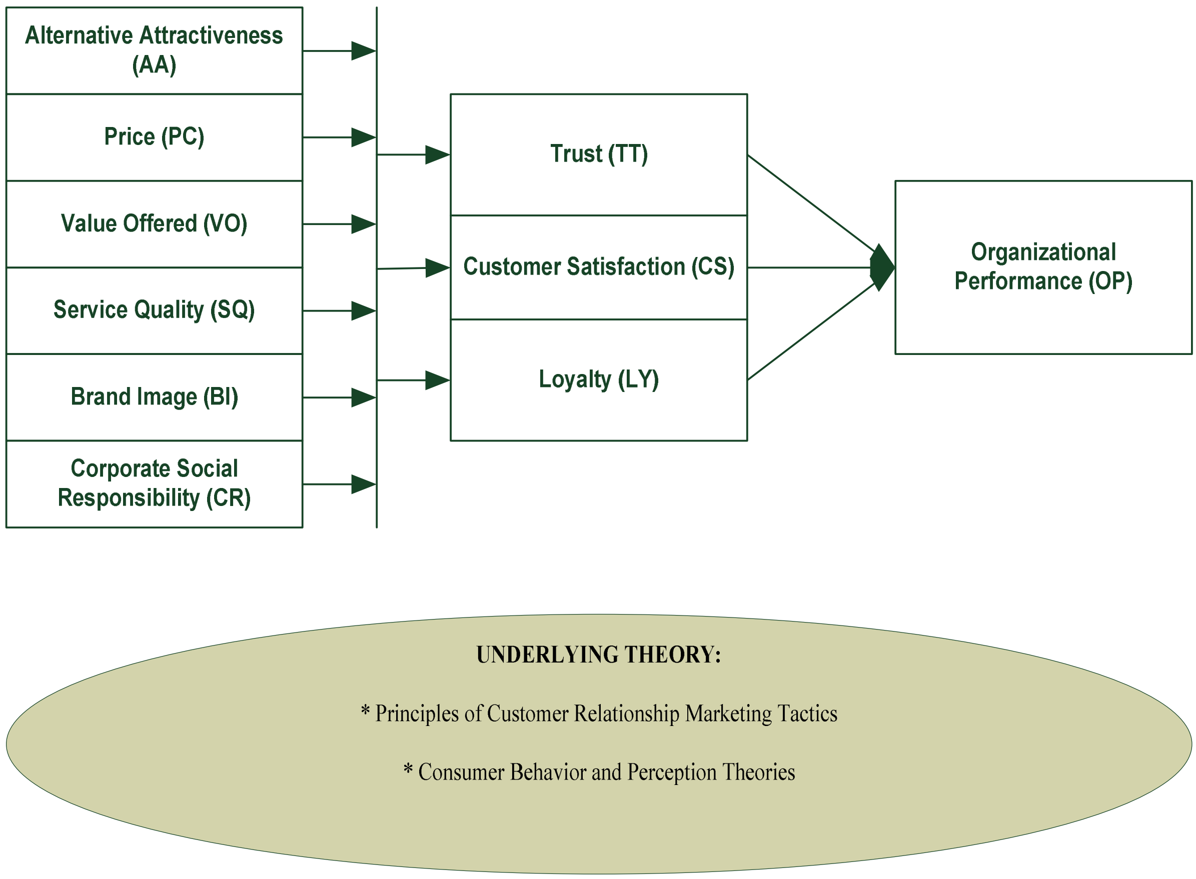

Fig. 4. Theoretical Framework 3-Customers' contribution to Post-merger and acquisition Organizational performance

Source: *Author (Godfred Yaw Koi-Akrofi)*

3.5 NOTE TO FIG. 4

This theoretical framework looks at how the customer affects organizational performance. Customer Relationship Marketing tactics typical of a service industry [37, 38], of which the Telecom industry is one, is employed for this analysis. The underlying theories are embedded in the consumer and perception theories.

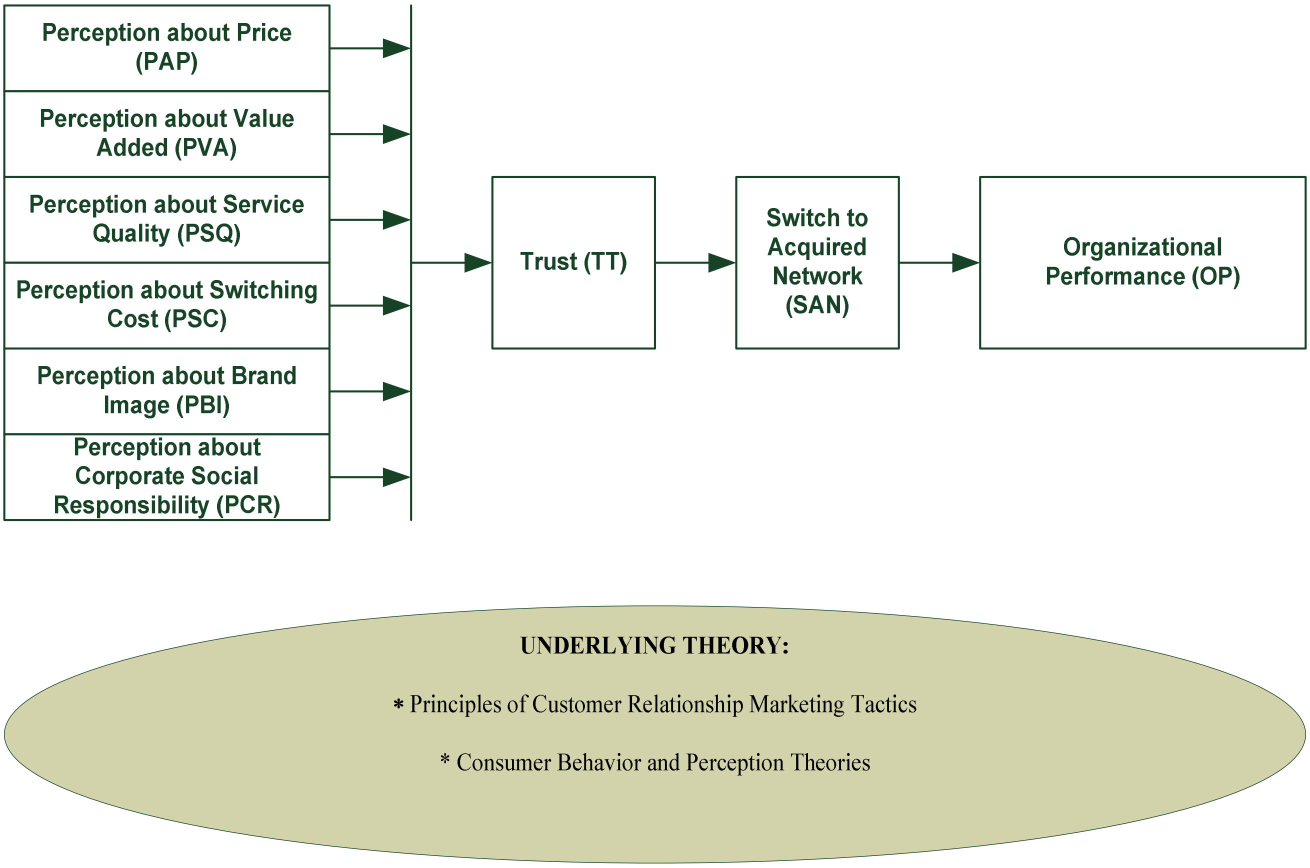

Fig. 5. Theoretical Framework 4-Non-Customers' contribution to Post-merger and acquisition Organizational performance

Source: Author (Godfred Yaw Koi-Akrofi)

3.6 NOTE TO FIG. 5

This theoretical framework looks at how the non-customer affects organizational performance. The non-customer can only dwell on perception to make choices, since he or she has no experience with the organization. Perceptions can lead to trust or otherwise, and this can inform a number of choices which can ultimately affect organizational performance positively or negatively. Again, customer relationship marketing tactics are employed, and the underlying theories are embedded in the consumer behavior and perception theories.

3.7 THEORIES OF MERGERS AND ACQUISITIONS

There are a number of theories of mergers and acquisitions. While some of the theories discussed below are directly related with the theoretical frameworks employed in this study, others are general theories of mergers and acquisitions which are mostly related with the motives for M & As. Some of these theories are discussed below:

3.7.1 THEORIES RELATED WITH THE THEORETICAL FRAMEWORKS OF THE STUDY

ORGANIZATIONAL CONFLICT THEORY

People don't stop being people at work. Conflict unfortunately is inevitable. But organizational conflict theory says there are several varieties of conflicts within an organization--inter-personal being only one type. Departments have conflicts with one another, senior managements have power struggles and organizations even have conflict with other organizations. But there isn't consensus on what it all means. Some theorists say conflict must be resolved; others say that it drives success. In relation to the topic above, the position taken is the traditional point of view of conflicts. This says that conflicts in organizations are not good, and must be avoided.

MOTIVATION THEORIES (CONTENT AND PROCESS THEORIES)

For the content theories, the emphasis is on what motivates individuals in an organization. The process theories look at the actual process of motivation. These theories are very relevant to the topic above as the main factor in the performance of an organization is the employee. The behavior of the employee impacts so much on organizational performance, and these behaviors stem from a number of factors that motivate or otherwise.

CONTINGENCY THEORY

There are many forms of contingency theory. In a general sense, contingency theories are a class of behavioral theory that contend that there is no one best way of organizing / leading and that an organizational / leadership style that is effective in some situations may not be successful in others [39]. In other words: The optimal organization / leadership style is contingent upon various internal and external constraints. Four important ideas of Contingency Theory are:

- There is no universal or one best way to manage
- The design of an organization and its subsystems must 'fit' with the environment
- Effective organizations not only have a proper 'fit' with the environment but also between its subsystems
- The needs of an organization are better satisfied when it is properly designed and the management style is appropriate both to the tasks undertaken and the nature of the work group.

There are also contingency theories that relate to decision making [40].

According to these models, the effectiveness of a decision procedure depends upon a number of aspects of the situation: the importance of the decision quality and acceptance; the amount of relevant information possessed by the leader and subordinates; the likelihood that subordinates will accept an autocratic decision or cooperate in trying to make a good decision if allowed to participate; the amount of disagreement among subordinates with respect to their preferred alternatives. In relation to this study, the final model that will be developed will take into consideration the Telecom industry with its peculiar organizational settings, as well as the case for Africa and emerging markets.

THEORY X OF ORGANIZATIONAL BEHAVIOR

Theory X assumes that employees are immature towards their job roles and may require micro-management from their managers. This theory is a close subset of directive leadership which is also characterized by motivating the employees with incentives for the good work that has been done. Managers adopting the Theory X for Organizational Behavior almost invariably end up blaming someone without trying to find out more about the fault or the mistake that happened. This can be a leadership style or the organization‘s style of management. It has its advantages and disadvantages, and the employee is always at the receiving end. It either affects the employee positively or negatively and hence affects organizational performance positively or negatively [41] (Douglas, M., 1960).

THEORY Y OF ORGANIZATIONAL BEHAVIOR:

Theory Y advocates associative leadership for the employees. It assumes that employees are self-motivated and will do their jobs with greater care and responsibility. Managers adopting Theory Y will ensure that employees derive satisfaction in the jobs that they are doing which further results in developing a good creative workforce within the organization [41] (Douglas, M., 1960).

THEORY Z OF ORGANIZATIONAL BEHAVIOR

Theory Z focused on increasing employee loyalty to the company by providing a job for life with a strong focus on the well-being of the employee, both on and off the job. According to Ouchi [42], Theory Z management tends to promote stable employment, high productivity, and high employee morale and satisfaction.

CONSUMER BEHAVIOR AND PERCEPTION THEORIES

Consumer behavior is the study of when, why, how, and where people do or do not buy a product. It blends elements from psychology, sociology, social anthropology and economics. It attempts to understand the buyer decision making process, both individually and in groups. It studies characteristics of individual consumers such as demographics and behavioral variables in an attempt to understand people's wants. It also tries to assess influences on the consumer from groups such as family, friends, reference groups, and society in general. Customer behavior study is based on consumer buying behavior, with the customer playing the three distinct roles of user, payer and buyer.

Relationship marketing is an influential asset for customer behavior analysis as it has a keen interest in the re-discovery of the true meaning of marketing through the re-affirmation of the importance of the customer or buyer. A greater importance is also placed on consumer retention, customer relationship management, personalization, customization and one-to-one marketing. Social functions can be categorized into social choice and welfare functions. In relation to this study, the customer and even non-customers have the sole prerogative to choose or not to choose when it comes to operators. This affects performance greatly, as when an operator gets more customers, revenues are sure to go up and vice versa, all things being equal.

PRINCIPLES OF CUSTOMER RELATIONSHIP TACTICS

Relationship marketing focuses on creating new and mutual value between you and your customers on a long-term basis. Relationship Marketing was first defined as a form of marketing developed from direct response marketing campaigns which emphasizes customer retention and satisfaction, rather than a dominant focus on sales transactions.

As a practice, Relationship Marketing differs from other forms of marketing in that it recognizes the long term value of customer relationships and extends communication beyond intrusive advertising and sales promotional messages. With the growth of the internet and mobile platforms, Relationship Marketing has continued to evolve and move forward as technology opens more collaborative and social communication channels. This includes tools for managing relationships with customers that go beyond simple demographic and customer service data.

Relationship Marketing extends to include Inbound Marketing efforts, (a combination of search optimization and Strategic Content), Public Relations, Social Media and Application Development. Relationship Marketing is a broadly recognized, widely-implemented strategy for managing and nurturing a company‘s interactions with clients and sales prospects. It also involves using technology to organize, synchronize business processes, (principally sales and marketing activities), and most importantly, automate those marketing and communication activities on concrete marketing sequences that could run in autopilot, (also known as marketing sequences). The overall goals are to find, attract and win new clients, nurture and retain those the company already has, entice former clients back into the fold, and reduce the costs of marketing and client service.

According to Morgan and Hunt [43], relationship marketing was defined as all the marketing activities that are designed to establishing, developing, and maintaining successful relational relationship with customers. Hougaard and Bjerre [44] also defined relationship marketing as —company behavior with the purpose of establishing, maintaining and developing competitive and profitable customer relationship to the benefit of both parties. Hougaard and Bjerre [44] argued that marketing management must pay attention to three different objectives in terms of:

- “The management of the initiation of customer relationships”;
- “The maintenance and enhancement of existing relationships”;
- “The handling of relationship termination”.

Wulf et al. [45] suggested that different levels of relationship duration would result in different levels of consumption experience, producing different results, satisfaction and loyalty with different relationship marketing tactics. Compared with traditional marketing, relationship marketing is more concerned about building customer relationships in order to achieve long-term mutual benefits for all parties involved in the exchanges. Relationship marketing essentially means developing customers as partners, where the approach is different from traditional transaction [46].

There have been various ways for marketers to implement relationship marketing tactics, which are expected to have impact on customer retention and loyalty. Bansal, Taylor, and James [37] suggested that relationship marketing tactics can be executed through service quality, price perception, value offered, alternative attractiveness, and so on. Tseng [47] discussed that tactics as direct mail, tangible rewards, interpersonal communication, preferential treatment and membership could enhance long-term relationship and increase relationship satisfaction, trust and commitment. Peng and Wang [38] also examined the application of relationship tactics in service quality, reputation (brand), price perception, value offers. Based on the early theories, certain relationship marketing tactics which are considered of importance in service industry, such as service quality, price perception, value offers, alternative attractiveness, and brand image, will be the focus in relation to this study.

3.7.2 THEORIES RELATED WITH THE MOTIVES OF M & A

DIFFERENTIAL EFFICIENCY THEORY

According to the differential efficiency theory of mergers, if the management of firm A is more efficient than the management of firm B and if after firm A acquires firm B, the efficiency of firm B is brought up to the level of firm A, then this increase in efficiency is attributed to the merger. According to this theory, some firms operate below their potential and consequently have low efficiency. Such firms are likely to be acquired by other, more efficient firms in the same industry. This is because, firms with greater efficiency would be able to identify firms with good potential operating at lower efficiency. They would also have the managerial ability to improve the latter‘s performance. However, a difficulty would arise when the acquiring firm overestimates its impact on improving the performance of the acquired firm. This may result in the acquirer paying too much for the acquired firm. Alternatively, the acquirer may not be able to improve the acquired firm‘s performance up to the level of the acquisition value given to it.

The managerial synergy hypothesis is an extension of the differential efficiency theory. It states that a firm, whose management team has greater competency than is required by the current tasks in the firm, may seek to employ the surplus resources by acquiring and improving the efficiency of a firm, which is less efficient due to lack of adequate managerial resources. Thus, the merger will create a synergy, since the surplus managerial resources of the acquirer combine with the non-managerial organizational capital of the firm. When these surplus resources are indivisible and cannot be released, a merger enables them to be optimally utilized. Even if the firm has no opportunity to expand within its industry, it can diversify and enter into new areas.

However, since it does not possess the relevant skills related to that business, it will attempt to gain a “toehold entry” by acquiring a firm in that industry, which has organizational capital along with inadequate managerial capabilities.

TAX SAVING THEORY

Advocates of this theory contend that a merger results in tax savings for the new firm due primarily to the tax rate differential between dividend and capital gain and the tendency of large companies to increase their capital out of retained earnings. Mergers not only reduce taxes but operating costs as well.

INEFFICIENT MANAGEMENT THEORY

This theory closely resembles the differential efficiency theory but is strictly concerned with management efficiency and performance unlike the former which is broader in scope. In essence, it suggests that inefficiently managed companies will be vulnerable to takeover by more efficiently managed entities.

MANAGERIAL ASPIRATIONS THEORY

Advocates of this theory contend that managerial aspirations for success often drive mergers.

UNDERVALUATION THEORY

This means that the company is generally undervalued by the market and the release of information to the buyer that the company is undervalued might prompt the buyer to pay a higher price for the company.

AFTER-MERGER MARKET VALUE THEORY

Advocates of this theory argue that the market value of the combined companies could be greater than the sum of the pre-merger market values of the two companies.

According to supporters of this theory a merger would allow companies to take advantage of economies of scale and their positive impact on the economy and society although economists believe that economies of scale do not normally equate to an increase in market value.

Remarkable among those who point to the failure of this theory is Karl Marx who stated that accumulation reduces the rate of profit and concentrates capital and that increasing capital results in concentration which ultimately reduces the level of profit.

MARKET CONTROL THEORY

This theory postulates that a merger increases the size and reputation of a firm and enables it to control and influence the market and even influence economic decisions and policies. Large conglomerates can and often do influence political decisions and have considerable political leverage in the US for example to lobby policymakers on domestic and foreign policy.

STRATEGIC PLANNING THEORY

Proponents of this theory view mergers as the product of ambitious strategic plans to introduce significant structural changes into the strategies of merging firms such as the ability to compete effectively in foreign markets.

THE FIRE SALE THEORY

Krugman [48], Aguiar and Gopinath [49], and Acharya, Shin, and Yorulmazer [50] put forward the fire sale theory of foreign direct investment in which foreign investors acquire entities in countries facing bad shocks such as financial crises in order to take advantage of the liquidity constrained targets. The fire sale theory has received broad empirical support. For example, Aguiar and Gopinath [49] document an increase in foreign acquisitions during the East Asian financial crisis. Desai, Foley, and Forbes [51] discover that multinationals increase their investment in foreign affiliates when the host countries are facing currency crises.

THE MISVALUATION THEORY

Shleifer and Vishny [52] and Rhodes-Kropf and Viswanathan (2004) put forward a theory in which mergers are driven by stock market misvaluations. In their papers, targets accept the overpriced stock of the acquirers because they have a short time horizon or because they overestimate the synergies from the mergers. Rhodes-Kropf, Robinson, and Viswanathan [53] find that merger waves in the U.S. coincide with high M/B ratios and argue in support of the misvaluation theory: when the market valuation is high, there are more M&As because acquirers will try to sell their overpriced stocks to targets. In the international context, Baker, Foley, and Wurgler [54] use the U.S. foreign direct investment (FDI) data to show that FDI flow is large when the source country stock market valuation is high. The authors attribute this finding to the misvaluation theory.

OPERATING SYNERGY THEORY

Advocates of this theory argue on the lines of complementarities of capabilities between the two entities involved in the merger. For example, one firm may be strong in Research and Development, and weak in Marketing, and the other firm, vice versa. By their coming together, the resulting entity benefits from Operating Synergy.

FINANCIAL SYNERGY THEORY

Here the synergy is not about management complementarities but in the availability of investment opportunities and internal cash flow. Financial synergies are performance advantages gained by controlling financial resources across businesses of firms. There exist four types of financial synergies, which are: Reduction of corporate risk, Establishment of internal capital market, Tax advantages, and financial economies of scale [55]. Financial synergy occurs as a result of the lower costs of internal financing versus external financing. A combination of firms with different cash flow positions and investment opportunities may produce a financial synergy effect and achieve lower cost of capital. The financial synergy theory also states that when the cash flow rate of the acquirer is greater than that of the acquired firm, capital is relocated to the acquired firm and its investment opportunities improve. (Retrieved on 21/04/2018 at https://www.slideshare.net/Rojagowda/theories-merger).

PURE DIVERSIFICATION THEORY

Pure diversification is the result of merger which is proven to be an exclusive method to gain new skills in various fields and be benefited (Retrieved on 21/04/2018 at https://www.24x7assignmenthelp.com/operating-synergy-and-pure-diversification-theory-of-mergers-assignment-help/). The main focus of this theory is for preservation of organizational and reputational capital, financial and tax advantage. It is also undertaken to shift from the acquiring company core product line or market into those that have higher growth prospect (Retrieved on 21/04/2018 at https://www.slideshare.net/Rojagowda/theories-merger).

Signaling Theory

The announcement of mergers negotiation or a tender offer may convey information or signals to market participants that future cash flows are likely to increase (Retrieved on 21/04/2018 at https://www.slideshare.net/Rojagowda/theories-merger).

Agency Theory

Agency problems may result from a conflict of interest between managers and shareholders or between shareholders and debt holders. A number of organization and market mechanisms serve to discipline self-serving managers, and takeovers are viewed as the discipline of last resort.

Hubris Theory

This theory implies that managers look for acquisition of firms for their own potential motives and that the economic gains are not the only motivation for the acquisitions (Retrieved on 21/04/2018 at https://www.slideshare.net/Rojagowda/theories-merger).

Jensen's Free Cash Flow Theory

Jensen's free cash flow hypothesis says that takeovers take place because of the conflicts between managers and shareholders over the payout of free cash flows. The hypothesis posits that free cash flows (that is, in excess of investment needs) should be paid out to shareholders, reducing the power of management and subjecting managers to the scrutiny of the public capital markets more frequently. Debts for stock exchange offers are viewed as a means of bonding the mangers.

4 Conclusion And Recommendation

Four theoretical frameworks were developed from the conceptual framework. Each of the theoretical frameworks can be used to determine post-merger and acquisition organizational performance from the perspective of the employee, the customer, and the non-customer. The theories behind the frameworks as well as some general mergers and acquisition theories have also been discussed thoroughly. These general mergers and acquisition theories depict to a large extent the motives behind any merger or acquisition, and for that matter, play a major role in the post-acquisition dynamics. The frameworks can be employed by any researcher who would like to research into post-merger and acquisition organizational performance.

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