

# Cultural Integration in Mergers & Acquisitions – A Brief note on Acquisition of Mind tree by Larsen & Toubro and Emerging Horizons

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## Article Info

Volume 82

Page Number: 13223 - 13229

Publication Issue:

January-February 2020

## Abstract

Mergers and Acquisitions (M& A) have become quite common since the 'Nineties in India. M& A creates a paradigm shift for the Acquirer while initiating the takeover or the acquisition over the target company. Acquisitions can be friendly as well as hostile. A friendly acquisition is identified when controlling group of the target company sells its shares to another group wilfully. A hostile takeover is the acquisition of one company (called the target company) by another (called the acquirer) that is accomplished by going directly to the company's shareholders or fighting to replace management to get the acquisition approved. There have been very few instances of hostile takeovers in the Indian corporate history.

In this case study, it is proposed to examine the recent acquisition of Mindtree (MT), an IT maverick by Larsen & Toubro (L&T), an engineering & infrastructure giant. The case study begins with profiles of the respective companies L&T and MT. In the second part the acquisition of MT by L& T is unfolded in a story form. Third part discusses the aspects of the cultural fit in the integration of the two companies L&T & MT. Our study concludes with the emerging horizons of the cultural integration and survival of the two corporate to prepare a plan for a 'strategy supportive culture'.

## Article History

Article Received: 18 May 2019

Revised: 14 July 2019

Accepted: 22 December 2019

Publication: 24 February 2020

**Keywords;** Hostile Merger, Cultural integration, Trigger point, Acquirer, Open Offer

## I. INTRODUCTION

Mergers and Acquisitions (M& A) are common and create a paradigm shift for the Acquirer while initiating the takeover or the acquisition over the target company. Acquisitions can be friendly as well as hostile. A friendly acquisition is identified when controlling group of the target company sells its shares to another group wilfully. A hostile takeover is the acquisition of one company (called the target company) by another (called the acquirer) that is accomplished by going directly to the company's shareholders or fighting to replace management to get the acquisition approved.

Recently in October 2018, L&T commenced a hostile merger with a decision to buy 20.4 per cent

stake of V G Siddhartha, a Coffee baron and a major shareholder in MT. This move was looked upon as a 'hostile takeover' over MT by, L&T a reputed engineering & infrastructure conglomerate. Our study explores the aspects of cultural integration in such a merger as L& T, an engineering & infrastructure giant involved in acquisition of Mindtree, IT maverick enterprise.

### I. The Case Study: Larsen & Toubro (L& T) the Acquirer

L & T was founded in 1946 as a partnership firm founded by two Danish engineers Henning Holck Larsen with Soren Kristian Toubro in Mumbai. Over the years, L& T has grown to become a leader in technology, engineering, construction,

manufacturing and financial services with global operations. L&T operates in vital sectors - Hydrocarbon, Infrastructure, Power, Process Industries and Defence - for customers in over 30 countries across the world. Salient features of its profile can be summarised as below:

1. With its strong brand name and market leadership position, L&T has established a competitive advantage status in India.
2. It also operates 30 countries across the Globe with high technical expertise. L&T has set up an engineering and project management centre in Middle East countries to undertake oil and gas related projects as well as engineering and consultancy services.
3. Diversified revenues providing resilience - the L&T's revenues have been distributed among its varied business divisions such as engineering and construction, electrical and electronics, machinery and industrial products, financial services, IT and others. This enables L&T to mitigate its business risk as well as fluctuations in a single offering have lesser impact on diversified offerings and provide resilience to its competition and growth.
4. Its diverse skilled workforce is spread over 1.14 lakh employees.

#### **Mindtree Ltd. (Target Company)**

MT is a digital transformation and Technology service oriented company that delivers its services from ideation to execution. It was founded in the year 1999 and with its headquarters in New York and Bangalore. A Growth path of MT is given in Annexure I, II (a) and II (b).

Salient features of its profile can be summarised as given below:

1. It provides services in E-commerce, mobile applications, cloud computing, digital transformation, data analytics, EAI and ERP and testing. It has more than 340 enterprise clients and 43 offices in 17 countries. MT delivers digital

transformation and technology services from ideation to execution, enabling Global 2000 clients to outperform the competition. "Born digital," MT adopts an agile, collaborative approach to creating customized solutions across the digital value chain. MT's deep expertise in infrastructure and applications management turns IT into a strategic asset.

2. MT is assessed to Capability Maturity Model Integration (CMMI) DEV 1.3 Level 5 - the highest maturity level for all strategic projects being executed from Bangalore and Chennai. The assessment was carried out by an independent transition partner from CMMI Institute, QAI.

3. MT has diverse workforce representing 65 nationalities working from various offices across the globe. While MT has varied skills in IT expertise, its finance, Sales & support services are limited and sparse. MT has a total of 20,000 employees of which 31% were women (January 2019). Its workforce consists of employees representing 65 nationalities working from various offices across the globe. Out of its total workforce, 93% are software professionals and remaining 7% work for support and sales. Out of its total workforce, 93% are software professionals and remaining 7% work for support and sales. MT has an informal work culture.

#### **II. THE ACQUISITION STORY OF MT BY L&T**

Prior to acquiring MT, L&T had made aggressive move in 2009 to acquire the scam hit Satyam Computer Services and purchased shares in the secondary market. The acquisition would have given L&T InfoTech the scale it had aspired but Tech Mahindra snatched in a nail biting bid. In 2016 A .M. Naik had said "We lost Satyam because we were too eager to buy it .I regret losing Satyam but life has to go on. But that was not the end of company's IT aspirations under strategic business plan ' Lakshya 2021' , IT business was identified as one of the major growth businesses and was given the mandate of exploring acquisitions. That was the

priority was apparent when a part of his succession plan, S. N. Subramanian was given the responsibility of this business and he spent months in the US & Europe ahead his appointment for top job. MT reported close to \$850 million in revenue in FY 2017-18 still away from the one billion mark, it had aimed for 2012. MT's growth and profit margins have been under pressure in recent period and but the performance in December quarter 2017-18 with over \$250 million in revenue & has put it back on track to reach the target of \$1 billion.

The hostile takeover bid began with L& T the infrastructure giant acquired a 20.32 per cent stake of V. G. Siddhartha, the top shareholder in Mindtree at Rs 980 per share on March 18, 2018. After completing stake buying from Cafe Coffee Day founder Siddhartha, L&T bought 2.29 per cent stake in Mindtree for Rs 368.4 Crore on May 8, 2019. One day later, it bought an additional 1 per cent of MT's shares, along with another 2.01 per cent shares through bulk deal, taking its total holding in the MT to 25.93 per cent, which will ensure it a board seat in the firm and the power to propose or block special resolutions. Facing promoter opposition in its bid to buy Mindtree, L&T defended its acquisition saying it is "not a corporate raider" but a professionally run entrepreneurial company seeking to work with another like minded entity to realise bigger aspirations in technology services. "It should not be seen as a hostile take over," L&T Chief Executive Officer and Managing Director S N Subramanian "We did not go looking for Mindtree, Its largest shareholder, V G Siddhartha, approached us with deal after he tried engaging with the founders regarding his exit. Being a founder investor, he was emotional about to whom he would sell the stake, "he said. "He (Siddhartha) wanted to sell his shares to a company that has values similar to Mindtree," said Subramanian adding that "L&T is the best home for MT in the country; L&T provides MT a cover from any other hostile takeover. Cafe Coffee Day founder Siddhartha sold his entire 20.32% stake in Mind to L&T for Rs.3,269 crore Monday,

March 18, 2019. L&T has placed orders with brokers to pick up another 15% from the open market, followed by an open offer for an additional 31%. If successful, L&T will have a 66.32% stake in MT for nearly Rs.11, 000 crore, or \$1.6 billion. L&T Chief SN Subramanian said there was no intention to merge the Bengaluru head quartered MT with its technology services business. "We would provide board oversight, customer connections, network and balance sheet, which MT can leverage while bidding for large contracts." SN Subramanian said. If combined, the conglomerate's IT services business (L&T InfoTech and L&T Technology Services) and MT could move up to the sixth slot in terms of revenues totalling \$3 billion among Indian software services companies, from the eighth position".

L& T's open offer was initiated with intent to buy 31 per cent stake in Bengaluru based MT this required approval of Securities and Exchanges Board of India (SEBI). L&T touched the trigger point to start an open offer on May 10, 2019 after it increased its stake in mid-sized software firm MT to 25.93 per cent. However, L&T missed a deadline to issue its letter of offer to MT shareholders, which meant a delay the open offer plan. L & T made a public announcement for the acquisition of 31 per cent shares of MT from the market, with Axis Capital and Citi Global managing the open offer. L& T priced the offer at Rs 980 per share, which was scheduled to start on May 14, 2019 and close on May 27, 2019. Meanwhile, MT's Independent Directors Committee (IDC) that was set up to provide their reasoned recommendation on the unsolicited offer by L&T on May 10, 2019 and invited the suggestions from the stakeholders. IDC headed by the lead independent director Apurva Purohit provided their reasoned recommendation in respect of the unsolicited offer by L&T for the consideration of the shareholders. The committee was expected to give a decision on the L&T open offer, which was set to start on May 14, 2019. According to corporate governance

experts, L&T could go ahead with an open offer plan without SEBI's nod on or before May 13, 2019 in view of the restrictions placed by SEBI as market regulator. In subsequent deals, L&T further acquired over 4.5 lakh shares increasing its holding to 26.93 % by investing another Rs.316 Crore raising its stake by 2% higher and further 75,593 shares of MT. L&T had plans to raise its stake in MT to 66.32 per cent by spending as much as Rs 10,800 crore, through an open offer for 31 per cent and an open market acquisition of 15 per cent.

L&T has "acquired control" of the company with a 60.06 per cent stake and has been categorised as promoter with Nalanda India Fund and Nalanda India Equity Fund, which held 10.60 per cent stake in MT, sold about 8.90 per cent stake by tendering shares in the open offer. L&T made payments to shareholders who tendered their shares successfully in the open offer, which closed on June 28, 2019 and filed their control as "acquired control" of the Mindtree with a 60.06 per cent stake and has been categorised as promoter pursuant to SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 [last amended on September 11, 2018] MT's former top executives - Chief Executive Officer RostowRamanan, Chairman KrishnakumarNatarajan and Vice Chairman Parthasarathy NS – had earlier quit this month after L&T's takeover of the mid-tier IT company. SubrotoBagchi, one of the key founding members of Mindtree, also chose to retire from the board of the company with effect from 17 July, 2019. DebasishChatterjee who had earlier worked with Cognizant Technology Services Ltd joined MT as Chief Executive Officer with independent charge of the organization from August 1, 2019. Chatterjee had joined Cognizant in 1996 and has held several key management positions, including Executive Vice President and President, global delivery.

### III. CULTURAL INTEGRATION IN MERGERS & ACQUISITIONS – CASE DISCUSSION ON L& T'S ACQUISITION OF MT

1. While Top Conglomerates Tata Sons, Wipro and Mahindra own the IT businesses TCS Wipro & Tech Mahindra, L& T an engineering & infrastructure giant now owns MT in a hostile takeover bid. It was a rude awakening for the company's founders, notably Natarajan and SubrotoBagchi. V. G. Siddhartha had signalled his intent more than a year ago, he had stepped down from MT's Board. This is significant in Indian IT.
2. In that spread, L&T will own the sixth-largest Indian IT business. Three of the top five technology services firms belong to companies with exposure to diverse non-IT businesses. In contrast, HCL Technologies and Infosys are the only companies whose raison d'etre is IT services. This is something the MT founders completely missed—for a whole year! Control prefaces that old Peter Drucker phrase: 'culture eats strategy for breakfast'. As engineering conglomerate, it's about the fitment between two culturally diverse companies. The success of any merger or acquisition (M&A deal) depends on a diverse range of synergies and cultural fitment is especially true of people-led businesses such as IT outsourcing and State of Art IT projects.
3. MT has an informal culture with many of its employees call members of the founding team, led by Chief Executive Officer RostowRamanan, by their first names. In contrast, L&T, India's largest engineering and construction company's culture is based on command-and-control and top-down management. Managing people aspects and cultural integration is critical in any acquisition. It is common in acquisitions to meet the key leaders of the acquisition candidate to get an understanding of the leadership depth, critical resources and strategies of talent retention.
4. MT has a high exposure to discretionary spending. Project cycles have relatively short

durations, requiring intense touch with clients to back-fill completed projects and win new ones for overall growth. MT's largest clients include Microsoft Corp., Southwest Airlines Co., Marriott Hotels Ltd, and Procter and Gamble Co. Much of the work is consultation-led and involves offering solutions in technology areas like data analytics and cloud computing. Hence, people continuity and talent retention becomes even more important in the organization like MT.

5. R P Goenka Group, CK Birla Group and ITC Ltd have put in several years to scale up their IT businesses—Zensar Ltd, Birlasoft Ltd and ITC InfoTech, respectively—although all of them were set up back in the 1990s. Tech Mahindra Ltd, which started in 1986, acquired Satyam Computers in 2009, to become a \$2.5 billion company. A decade later, Tech Mahindra's annual revenue is still less than \$5 billion, underscoring its struggles. In comparison, alone. Other Companies in the hi-tech space accounted for a fourth of MT's revenue in the December quarter 2018. L&T InfoTech gets about a fourth of its total business from four clients comprising three banks—Citibank Inc., Barclays Inc. and Nordea AB and oil giant Chevron Corp. L&T Infotech also counts General Electric Co., the embattled conglomerate, as one of its larger customers. Nearly a third of business is handled by its engineers who roll out business software such as SAP and Oracle. The ten largest clients accounted for 44% of total business at MT.

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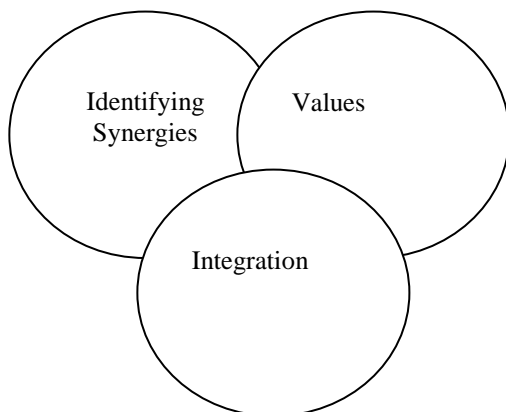
7. The hall marks of MT's operation styles have been Client expectations and fulfilment by its highly skilled technical expertise over a period of two decades. Its decision making style is often deeply ingrained in its highly competitive state of art IT projects. While L& T has grown over the years since 1946 to become a conglomerate involving a rich variety of engineering, construction, manufacturing, financial services and IT enterprises. As such, the leaders of integrating companies would find themselves thrust into a situation where they have to take decisions quickly without affecting the organizational culture of the two companies. While taking such decisions, areas requiring integration and distinctive identities have to be nurtured and built into an 'adopt & go' culture. "Adopt & go" emphasizes action and embraces the new decision making approach as per the merger path required by the integration teams in the two companies.

8. Build the employee brand with a view toward how it will be understood by the employees of two companies. L& T has a strong employee brand and skills built over the years. MT has grown quick in a relatively shorter duration gaining value and expertise in IT with increase in revenue and profits. In such a context of integration and growth for both companies, employee loyalty in terms of career opportunities and rewards has to be instilled in the identity of employees of respective companies. An employee brand has to be built around "adding balance to the life and sustainability of integration".

9. An organizational culture with rich sense of shared values, shared beliefs has to be built into a

shared organizational model of growth of business and profits. One Critical assumption underlying this approach ‘new behaviours ‘would be achieved with employee and organizational goals and value systems. Culture under such context must be to focus in efforts to integrate the two companies L&T, MT in their respective spheres with a goal to achieve value creation. Strategic issues in Mergers & Acquisition is outlined in the diagram below :

### Strategies Issues in Mergers & Acquisitions



10. Many companies are confident about generating cost savings before the merger. But they are unaware of the practical difficulties involved in realising them. As MT has grown with high exposure to discretionary spending and maverick style, and L&T has grown with command and control and top-down management style, core competencies and best practices of the acquiring and acquired companies.

11. Put people with culture change, knowledge and experience on the teams that define the key interfaces in the new organizational model: The organizational model defines how a merged entity will go to market and how it will integrate its back office functions. Where there are business critical integration points (for example, sales force integration, independent R&D division and within a short time available for integration, it is important to focus on the flow of work, how objects or information are passed from group to group or whether information is shared effectively. The interfaces have to be designed, improved, or fixed so

that they help create business value. If employees start to act in ways that lead to achieving desired goals, that can create trust and mutual respect among employees who have not worked together before. Underlying cultural beliefs should then tend to coalesce around effective and enjoyable shared behaviours.

12. Data Analytics can be put to effective learning in the Merger process as MT grows with L&T. Critical attributes of M&A success such as Talent Management External Focus and Internal Discipline can be monitored with “Organizational Health Index “ as detailed in McKinsey’s .

### Emerging Horizons

- As the two merged companies grow to be one single company, certain issues of cultural conflict and clash arise. The term “cultural clash” has been coined to describe what happens when two companies’ philosophies, styles, values and habits are in conflict. That may, in fact, be the most dangerous factor when two companies decide to combine. In this context the failed merger of Daimler-Chrysler is a classic example.
- The success of a number of critical internal initiatives and strategies are dependent on Shared services, cross-selling, reengineering, customer single source all require that different parts of the company (and often suppliers) come together and perform as a single enterprise. The same kinds of cultural clashes found between merging companies often happen as they try to work together on broad cross-organisational issues and opportunities as it is likely to happen in L&T and MT.
- Another critical lesson for the two merging companies is to understand that the ‘merged culture’ to be resilient. The resilience of culture is supported by culture being implicit. It is difficult for people to recognize

their own culture and how it exerts an influence on them. The staying power of culture is that it feels right to people; new cultural values that are imposed on people seldom replace their underlying values and beliefs in the long run.

- Organizational Culture must be a focus in efforts to integrate companies, because when left to itself culture will often undermine value creation. Efforts to address culture should be based on the recognition that culture is both powerful and implicit, that employees are unlikely to change their cultural beliefs in response to exhortations to adopt new cultural values, and that culture can be rigorously linked to behaviours that affect business values. We believe the focus on business value, rather than or “soft stuff” is essential to positioning culture in a way that business leaders will agree to support it. By tying culture to value – creation and to identifying and changing specific behaviours when necessary, culture can become an effective tool for achieving post – merger integration objectives.

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