MERGER MANAGEMENT[i]

Four days for a fax? That's precisely how long Ranjan Maitra had been waiting to receive a communication from General Tubes, confirming the appointment of Burnett & Stone (B&S) as its auditors. This was not the first time messages addressed to him had been diverted, so he knew exactly where to look. Maitra walked across to his partner, Feroze Dinshaw, and asked why his mail was being held up. Dinshaw's reply was terse: "I don't have to give you an explanation. Your mail will be sent to you after I have seen it." That was the last straw. Maitra returned a few minutes later with eight files, dropped them on Dinshaw's table and left, saying: "Take all the time you want, I quit."

Ever since Maitra's firm, Fraser Dow (Dow), had merged with B&S eight months ago, the atmosphere had become extremely tense. Each day brought new personal differences between him and Dinshaw. Erstwhile managers and staff of Dow were weighed down by the uncertainties and looked up to Maitra for assurance and support. Maitra, in turn, sought the counsel of his senior partner, Rohit Wadhwa. But all he received was the same old reassurance: "Give it sometime..." For Maitra, a 33-year old chartered accountant with a degree in business administration from London University, there were several pressing issues which needed to be addressed. But increasingly, it appeared unlikely to happen. "A merger involves people at all levels. Therefore, it also involves personalities, skills and cultures," says Maitra. "How these were to be amalgamated should have been agreed upon by both firms and discussed with all the managers and staff before the merger." It's not as though Wadhwa had not anticipated the turn of events. But the stakes were high with this merger, and all other considerations took second place. Fraser Dow had pulled out of one merger before; pulling out of another now would have ruined the company's reputation.

Dow used to be a member firm of Gillman Fraser International (GFI), an American firm with 18 branches and 65 offices worldwide. Gillman Fraser (India)—GF(I) —has six offices across the country, accounting for eight per cent of GFI's Asian billings. Business was growing rapidly thanks to the efforts of Maitra and his partners. Nineteen Ninety was a turbulent year in the international accounting environment. There was a spate of mergers among the Big Eight accounting firms, each jockeying for leadership. In a bid to crawl up a few rungs, Klien Whitters (KW), a large American firm, sought to merge with GFI early that year to form KW & Co. While on paper the alliance seemed unbeatable, neither company had reckoned on their subsidiaries revolting against the merger. For, both companies were a cluster of individual partnerships in various countries with distinct business trends and strategies. In India, GF(I) had built a reputation for itself in business advisory and management consultancy, apart from statutory audits, KW, on the other hand, had a much smaller practice in the country. It was notorious for poaching and undercutting. Moreover, senior partners of both companies were world apart in their workstyles, attitudes, and even personal interests. Hence, for GFI's Indian operations, the merger offered neither compatibility of businesses nor synergy of skills.

Naturally, when the local partners were told of GFI's plans of merging with KW, the initial reaction was one of shock and dismay. Explains Maitra: "None of us were consulted. Everything was decided in the US. A lot of us felt hurt and insulted. Each subsidiary had built a client base and a reputation in their respective country of operation. But that didn't seem to matter at headquarters. Those at the apex couldn't conceive that any of the subsidiaries would ever break away. "Which is precisely what happened." The British subsidiary was the first to withdraw and form another company. Others followed in quick succession, including the Indian firm. As Maitra points out: "In India, GF(I) was perceived as the senior practice, and KW as the junior one. Why did we have to adopt the KW name in the merged company and lose our identity, one which we had built over 18 years? In partnerships, the firm's name becomes the brand, its equity. We were not prepared to give it all up. In any case, the merger had nothing else to offer other than international size. For our clients in India, international size was irrelevant. What mattered was the proficiency of our business advisory services...Mind you, many of the clients in this segment were also our audit clients."

After it withdrew from the merger, GF(I) was rechristened Fraser Dow. But it was forced to pay a heavy price for its decision to go it alone. Several clients, particularly American subsidiaries or joint ventures, moved their business to KW consequent to the international realignment. As a result, Dow's domestic position slid considerably, resulting in perceived loss of status and business base. Wadhwa, Dow's managing partner, was deeply disturned. Loss of billings worth Rs. 2 crore strained his shareable profits. But more important was the sense of demoralisation that had set in amongst the staff and managers. Almost immediately, 15 of them put in their papers. Wadhwa knew something had to be done—and quickly. Fortunately, B&S— essentially an audit firm of international repute—approached him around the same time with a merger plan.

Wadhwa played his cards close to his chest, and Maitra received only a simple memo informing him of Dow's merger with B&S. He was again taken by surprise. The withdrawal from the last merger had brought him closer to Wadhwa; the two had drawn up elaborate plans to survive the crisis. Wadhwa's sudden secrecy upset him. And the news was received with mixed feelings by the rest of the staff. While some saw it as delivery from disaster, others weren't so sure. The immediate fallout was another clutch of resignations. Says Maitra: "There were less synergies and benefits in this alliance than in the earlier one with KW. Yet, Wadhwa decided to go along. What was worse, it was clear that under the terms of the merger, B&S would be the senior partners in the new firm." Those weren't Maitra's only fears. "B&S were more audit-based, with procedures and methods very different from ours. The accents varied. In India, our offices operated as separate profit centres, with distinct clients. Even as individuals, our personal agendas were different. I wanted growth, volumes, size, markets, and mobility. B&S was content with a small, steady practice. At 33, I was regarded as successful and had built a reputation in corporate circles. My counterpart in B&S, on the other hand, was hardly known."

Dow's culture manifested itself in the leadership styles of Maitra and his colleagues. Maitra believed that employee performance was a function of leadership, that qualified professionals desire responsibility and are motivated towards task achievement. The Dow partners were direction-setters; their managers were the ones who held the business line. On the other hand, B&S' culture was more role-oriented. The leader adopted a directorial style, structuring the work and seeking adherence from employees. Culture apart, there were other basic differences that set the two firms apart. For example, Dow gave its senior managers club memberships in order to help them interact regularly with clients. Following the merger, these memberships were withdrawn. At B&S, only partners were entitled to club memberships. By the end of the first week, memos were flying thick and fast announcing various changes in salaries, procedures, reporting relationships, and location. Maitra was barraged with questions and complaints from his colleagues and staff; virtually no work was done. Clients called incessantly wanting to know how the alignment would affect them and their assignments.

Maitra had no coherent answers for any of them. For, the fact of the matter was, he hadn't a clue himself. And this rankled. Wadhwa promptly flew off to the US, and avoided Maitra's calls. Finally, on his return, Maitra sent in a note, pleading: "Let us be part of the new design. Such a design must take cognisance of our client relationships, the procedures, and the teams that have been developed for the year. It is not fair to make unilateral changes without a meeting with our clients first."

While Wadhwa dithered, three medium-sized clients whose business advisory portfolio was held by Dow, terminated their contracts. The letters were politely-worded, but their contents sounded the alarm bells. Said one: "It is rather unfortunate that the team working on our systems study has been recast. With a new team leader coming in, our staff has lost significant time briefing the new incumbents. Even if most of the original team has been retained, we see an attempt to reinvent the wheel with the new leaders wanting to redefine our problem. There may be advantages in changing teams periodically, but doing so in the course of a study, we feel, is disruptive."

Maitra was deeply distressed. The loss of three clients was damaging to his morale, more so because he had won them in competitive pitches that relied heavily on Dow's client-servicing approach. Today, this USP had crumbled. More importantly, Maitra was no longer in a position to reassure his clients in the face of conflicting messages from B&S. It had become increasingly evident that B&S was calling the shots after the merger. Says Maitra: "If we really wanted to protect our managers' and clients' interests, there should have been a totally new structure. If Fraser Dow had to throw its rules and procedures away, then in all fairness, B&S should have done so too. Instead, their rules started over-riding ours. Therefore, we were the ones who had to adjust, compromise, change, and adapt. A merger is supposed to be a strategic alliance. It is supposed to combine resources, build on strengths and enhance returns. But this seemed more like a takeover." Even before Maitra and his people were able to adjust to the changed circumstances, it was announced that Dow's head office would be closed down, and operations shifted to the B&S headquarters 20 km away. That was the last straw for one of Dow's partners, Arun Kapur. He promptly resigned, despite Maitra's efforts to dissuade him.

It isn't difficult to understand why. In mergers—or alliances, such as the one between B&S and Dow—the aim is to capitalise on both firms' competencies. By neglecting to build these into the merger, B&S' culture dominated and Dow’s personality and position were diluted. With two sets of partners now coming together, responsibility was diffused, power relationships were not resolved, and this lead to a breakdown in the chain of command. Soon, B&S work methods and procedures began to operate and former Dow employees found themselves at a disadvantage. Everything was new and unintelligible to them. Naturally, the undercurrent of tension erupted in a few weeks, leading to a polarisation of staff and the rise of lobbies. Some Dow employees shifted loyalties in order to ensure identification, growth and acceptance. Others withdrew from conflicts, waiting for the storm to blow over. A few, not wishing to jeopardise their careers, remained neutral but experienced an acute sense of isolation.

Even as more Dow employees resigned, the leadership issue remained unresolved. While B&S procedure manuals found their way into every Dow office, Maitra and his colleagues waited for the new organisational chart. But they needn't have bothered. For, news came in the following week that Wadhwa was to move to New Jersey within two months, and Dinshaw would take over the Indian operations. With the arrival of Dinshaw, Maitra found himself stripped of all powers. "With Dinshaw coming in, the power equation had changed. In the new scheme of things, I was relegated to a junior partner. In such a situation, how could my staff and colleagues turn to me for advice? More frustratingly, how was I to advise my clients about how to go about their mergers, when our own was so unstructured?" says Maitra.

"Wadhwa also let us down by being so secretive. We were told about the merger only after decisions were taken. That didn't give us any time at all to prepare or even contribute towards the entire exercise. While my senior colleagues and I were battling with the growing tide of discontent, Wadhwa appeared to be anxious only in ensuring a successful merger. He did nothing to identify a change agent who could work to convert disgruntled members of the staff into productive contributors. Wadhwa himself could have played the part. If he had offered us some support' it would have reduced so much anxiety. Instead, when I telephoned him in America soon after the announcement, he refused to take my calls."

By the end of the second month, B&S had announced the closure of Dow's six offices and leases on the office space were retired. Seventy-five members of the staff were laid off in two batches, and several junior partners resigned. This set the tone for the future relationship with the erstwhile Fraser Dow team. Those that were left felt completely at sea. Understandable when you consider that these people had virtually nothing to tie them in with their new environment: not the people, the firm's name, not even their familiar offices. It was, indeed, as though they had joined a completely new organisation. As if that were not enough, they had to suffer the ignominy of clocking into work. Their job contents were changed. Senior managers were stripped of responsibility as resource pools were created. Maitra himself was deeply upset with the treatment meted out to him. His secretary, who had been with him for seven years, was moved to a common pool and he was given a B&S secretary.

Summing up his feelings and the reasons for resigning from the firm, Maitra says: "What I came to realise was that the stakeholders in the merger—the persons who wield power and are able to influence what should be done—were unlikely to heed my cries. This was clearly visible in Wadhwa's attitude. May be I should have attempted to conform to the B&S style of functioning to gain acceptance and recognition. May be I should have created informal networks so that my worth, potential, and contributions were known to people in the new firm. My greatest loss was communication. I was often the last to know about things even related to my own office. And Wadhwa's aloofness only isolated me further. The loss of information power proved very critical."

"The other area in which I floundered was in making deals. I believed that making deals was unethical. My personal beliefs did not permit me to promote my own goals at the expense of others. In short, I was afraid of being political. I believed that politics was negative and malevolent. I stuck to protocol and ethics too much. For instance, I continued to deal with Wadhwa, whereas I should have struck up a rapport with the senior partner of B&S. I needed to have consolidated power by working around people, withholding information and withdrawing from situations when necessary. This should have been top priority, as the old Dow networks were destroyed by the merger. I needed to market myself better and indulge in self-promotion. In retrospect, this is essential. Politics is nothing more than getting what you want done, preferably with the full approval of others. Today, I have come to terms with the fact that politics is not unethical. Rather, it is inevitable in the senior management echelons in any organisation."

Questions

1. Was the merger ill-conceived?
2. Could a different approach have ensured better acceptance by Dow's partners and employees?
3. How does a firm like Fraser Dow retain its identity in such a merger?
4. Could Maitra himself have handled the situation differently?

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[i] A Business Today Case adapted for class