

# Impacts of Mergers and Acquisitions on Supply Chains of Sri Lanka

**Praneeth Dissanayaka**

University of Moratuwa, Sri Lanka

**Pradeepa Jayaratne**

University of Moratuwa, Sri Lanka

## 1. Introduction

Supply chain is the flow of goods and services, funds and information from raw material to the end customer. Hence supply chain can be taken as the neural system of a company. This component will integrate a group of processes to plan, source, make, deliver, and return products. Supply chain structure and integration are vital for better performance. The increased competition and authority of single players has given the supporting background for M&A. The enhanced information technology(IT) and information systems (IS)platforms have also given the luxury of fast access to information which are essential to making the decision to merge and/or acquire. Supply chains of most companies have hidden synergies attached to them so when taking an M&A decision or M&A implementation it is quite vital to have a separate method to secure synergies attached to supply chains. Considering the fact that most M&As have the tendency to fail rather than succeed, it is useful to unearth the links pertaining to the supply chain in M&A situations to get the maximum benefits of M&A.

Collaboration in supply chains is vital to obtain competitive advantages in the perspective of supply chains. Firms attempt to promote moderate relationships through supply chain collaboration, collaborative advantage and firm performance. [1]. As an extreme end of collaboration, M&A have become an important aspect of global business and a major method for companies to grow and diversify into different businesses. With regard to supply chain, M&A have a huge impact on profit maximization. Some companies try to strengthen their supply chains via M&A. M&A can happen differently on supply chains, including horizontal, vertical and conglomerate M&As [2]. Vertical and horizontal integration are main ways in which companies going for M&A simply to strengthen their supply chain to gain more control. Acquiring a supplier or distributor is the main way in which control is gained in upstream or downstream supply chain. Horizontal M&As involve direct competitors in the market while vertical M&As represent the integration of firms in different operational or functional levels, in different stages, within the same industry. Conglomerate M&As are where firms do not operate in the same sector at all [2].

Supply chain integration influences the changes of alliances between firms and supply chain networks [3]. Specific attention has given to the impact on leaving or entering a supply chain or splitting or joining supply chains with regard to supply chain networks. Growth through acquisition reveals that companies can proceed without synergetic strategy to achieve profits when doing M&A's [4].

In the context of Sri Lanka, the M&A is rather unexplored area and M&As along supply chains or between supply chains are not researched well in the Sri Lankan context. This research aims to fill the gap between the knowledge about impacts of M&As of supply chains of Sri Lanka and the impacts of M&As. This will enable Sri Lankan employers, employees, investors to look deeply in to supply chain to understand the impacts of M&As. Hence, to fill the gap, this study tries to identify the issues related to M&A in logistics operations in Sri Lanka and aims to study the factors effect on executing M&A in supply chains. Basically, this research tries to study the following objectives using both primary and secondary data.

- a) Determination of importance of managing supply chain in M&A situation in Sri Lanka
- b) General synergies obtained for supply chain through M&As in Sri Lanka
- c) Evaluation of critical factors of supply chain in M&As in Sri Lanka

## **2. Research Methodology**

A literature review has been used as the secondary data collection method to develop the research questionnaire in the primary data collection method. This data will provide the global scenario in M&A situations hence these can be used to develop the questionnaire to accomplish the three main research objectives. Primary data were collected through an online survey. All together 44 responses were received and 40 were used for analysis.

## **3. Data Analysis**

### **3.1. Sample Profile**

Larger portion of the respondents are from executive level (77.5%) whereas the balance is from middle management and operational management levels. Out of the 40 responses the largest portion came from the apparel industry, closely followed by fast moving consumer goods (FMCG) and service sectors. Twenty-three respondents could be categorised into manufacturing-related industries and 17 into service-related industries. More than 50% were somewhat familiar with M&As, while 47.5% of the respondents were only slightly or not at all familiar with M&As. Most respondents identified supply chain and logistics as the most challenging area in M&A, followed by finance, and sales and marketing.

### 3.2. Important factors relating to supply chain in M&A situation

It can be seen that greater control over distributor and greater control over supplier are substantially loaded on component 1 where it can be labelled as greater control in logistics operations. Factors such as new product development and product improvement are substantially loaded on component 2 which can be classified as product development. Profit improvement substantially loaded on component 3 which can be labelled profit improvement.

	Component		
	1	2	3
Importance_of_Greater_control_over_Distributor_in_M_and_A	.981		
Importance_of_Greater_control_over_Suppliers_in_M_and_A	.978		
Importance_of_New_Product_Development_in_M_and_A		.917	
Importance_of_Product_Improvement_in_M_and_A		.880	
Importance_of_Profit_improvement_in_M_and_A			.983

Extraction Method: Principal Component Analysis.  
 Rotation Method: Varimax with Kaiser Normalization.<sup>a</sup>  
 a. Rotation converged in 4 iterations.

**Figure 3.4: Rotated Component Matrix<sup>a</sup>  
 (Important Factors related to Supply Chain in M&A)**

### 3.3. Expected benefits from M&A's to supply chains

With the use of a Varimax rotation of 50 iterations the following solution has been obtained.

	Component	
	1	2
Has_M_and_A_resulted_in_Better_Control_and_relationship_wit_Suppliers	.918	
Has_M_and_A_resulted_in_Better_Control_and_relationship_wit_Distribtr	.915	
Has_M_and_A_resulted_in_Enhanced_Geographical_Coverage		.737
Has_M_and_A_resulted_in_Profit_improvement		.717

Extraction Method: Principal Component Analysis.  
 Rotation Method: Varimax with Kaiser Normalization.<sup>a</sup>  
 a. Rotation converged in 2 iterations.

**Figure 3.5: Rotated Component Matrix<sup>a</sup>  
 (Expected Benefits from M&A)**

It can be seen that better control over suppliers and distributors are substantially loaded on component 1 while enhancing geographical coverage and profit improvement substantially loaded on component 2. These two components can be identified as (1) better control and relationship with suppliers and (2) distributors and profit improvements via accessing new markets respectively.

### 3.4. Restrictive factors when integrating supply chains

It can be seen that financial capacity and the lack of technology and resources are substantially loaded on component 1 while integrating functional areas and long-time

implementation are substantially loaded on component 2. Top management commitment and employees' resistance have also substantially loaded on component 3. According to factor analysis these three components were identified as the most restrictive factors on implementing M&As and they are labelled as lack of technology and financial resources; timely integration and implementation, and management and employer respectively.

	Component		
	1	2	3
Financial_capacity_is_a_restrictive_factor	.900		
Lack_of_technology_and_resources_is_a_restrictive_factor	.834		
Integrating_Functional_Areas_is_a_restrictive_factor		.829	
Long_Time_for_implementation_is_a_restrictive_factor		.815	
Top_management_commitment_is_a_restrictive_factor			.827
Employees_Resistance_is_a_restrictive_factor			.638

Extraction Method: Principal Component Analysis.  
 Rotation Method: Varimax with Kaiser Normalization.<sup>a</sup>  
 a. Rotation converged in 4 iterations.

**Figure 6.3: Rotated Component Matrix<sup>a</sup>**  
**(Restrictive on integrating with Supply Chain in M&A)**

### 3.5. Supportive Factors

It can be seen that IT, government support, flexibility, resources and willingness are substantially loaded on component 1 while knowledge and expertise, infrastructure and finance are substantially loaded on component 2. The component 1 can be named as mindset of employers and supporting external functions. The component 2 can be named as employers' experience and resources. As illustrated in the above table, factors related to flexibility, external support as well as expertise and resources are identified as the factors most supportive of implementing M&As.

	Component	
	1	2
SL_employers_hav_IT_to_manag_SC_in_M_and_A	.841	
SL_employers_hav_Governemnt_support_to_manag_SC_in_M_and_A	.826	
SL_employers_hav_flexibilty_to_manag_SC_in_M_and_A	.797	
SL_employers_hav_Resources_to_manag_SC_in_M_and_A	.791	
SL_employers_hav_Willingnss_to_change_to_manag_SC_in_M_and_A	.748	
SL_employers_hav_Infrastructure_to_manag_SC_in_M_and_A		.854
SL_employers_hav_Knowldg_nd_expertise_to_manag_SC_in_M_and_A		.811
SL_employers_hav_finance_to_manag_SC_in_M_and_A		.737

Extraction Method: Principal Component Analysis.  
 Rotation Method: Varimax with Kaiser Normalization.<sup>a</sup>  
 a. Rotation converged in 3 iterations.

**Figure 3.7: Rotated Component Matrix<sup>a</sup>**  
**(Supportive Factors M&A)**

#### 4. Conclusion

According to the analysis, it is evident that greater control in logistics, product development and profit improvement are the most important factors relating to supply chain. However, there are restrictive factors such as lack of technology and financial resources, timely integration and implementation and top management's commitment to controlling employee resistance as barriers for M&A.

As identified in the factor analysis, mindset of employers and supporting external functions along with their experience and resources are the key strengths of Sri Lankan employers when maintaining supply chains in M&A situations.

Overall management appears to lack experience in participating in M&As; probably due to limited hands-on experience. Most professionals see supply chain management as the most challenging area in managing M&As. They believe supply chain functions should be moderately independent after the M&A situation and a majority are positive towards actively contributing to an M&A situation to manage supply chains if they will be given more knowledge and responsibilities.

Employers should be willing to get the active participation of employees, to mitigate resistance to change, to avoid drop in performance after M&A. Apart from financials they should identify their supply chain network with the relationships attached to it. Managing human capital will be the biggest concern in supply chains of M&As in Sri Lanka.

Finally, it can be concluded that relationships and networks in supply chains are the most crucial factors in managing supply chains of Sri Lanka in merger or acquisition situations, while concluding that Sri Lanka needs more advanced technologies to back available resources to improve profitability and market share.

#### 5. References

- [1] Cao, M., & Zhang, Q. (2011). Supply chain collaboration Impact on collaborative advantage and firm performance.pdf. *Journal of Operations Management*, 29, 163–180.
- [2] Häkkinen, L., Norrman, A., Hilmola, O.-P., & Ojala, L. (2004). Logistics Integration in Horizontal Mergers and Acquisitions. *The International Journal of Logistics Management*, 15(1), 27–42.
- [3] Hertz, S. (2001). Dynamics of Alliances in Highly Integrated Supply Chain Networks. *International Journal of Logistics: Research & Applications*, 4(2), 237–256.
- [4] Anslinger, P. L., & Copeland, T. E. (1996). Growth through Acquisitions: A Fresh Look. *Harvard Business Review*, 74(February), 126–135.