

Content available at: <https://www.ipinnovative.com/open-access-journals>

IP Journal of Nutrition, Metabolism and Health Science

Journal homepage: <https://www.jnmhs.com/>

## Review Article

# Impact of Covid-19 and digitalisation on management practices during mergers and acquisition

Puneeth Hosur Basavaraju<sup>1</sup>, R. K. Tailor<sup>2,\*</sup>

<sup>1</sup>School of Business and Commerce, Manipal University Jaipur, Rajasthan, India

<sup>2</sup>Dept. of Business Administration, Manipal University Jaipur, Rajasthan, India



### ARTICLE INFO

#### Article history:

Received 02-12-2022

Accepted 16-12-2022

Available online 20-12-2022

#### Keywords:

Covid-19

TSA

Coronavirus

### ABSTRACT

The Covid-19 has had a significant impact on the business community. Some firms may be hurt more than others, but everyone needs to mitigate this risk. During the pandemic, we had no choice other than to work virtually. As mergers and acquisitions are crucial and strictly confidential, effective sustainable management practices are required. To avoid missing out on possibilities, today's M&A activity requires decision-makers to make proper choices confidently and quickly. This necessitates clarity and a thorough grasp of the transaction, both of which are becoming increasingly difficult to obtain as the deal-making environment becomes more complex. In the present paper, the author, on the basis of extant literature, has spoken about the effects of Covid-19 and digitalisation on management practice during mergers and acquisitions. Both positive and negative impacts are shared. He opines that during the current era of rapid digitalisation, companies need to adapt to changes and sustainable management practices should be extensively used to be prepared for future uncertainties.

This is an Open Access (OA) journal, and articles are distributed under the terms of the [Creative Commons Attribution-NonCommercial-ShareAlike 4.0 License](https://creativecommons.org/licenses/by-nc-sa/4.0/), which allows others to remix, tweak, and build upon the work non-commercially, as long as appropriate credit is given and the new creations are licensed under the identical terms.

For reprints contact: [reprint@ipinnovative.com](mailto:reprint@ipinnovative.com)

## 1. Introduction

The outbreak of infections was first noticed in December 2019 in Wuhan, China. The World Health Organization (WHO) has been closely monitoring and assessing the global risks, and on January 30, 2020, it declared Covid-19 a Public Health Emergency of International Concern. The virus began spreading at an extraordinary rate in many countries around the world, prompting WHO to declare it a pandemic on March 11, 2020. The Novel Coronavirus illness outbreak is a serious threat to the entire world, affecting millions of people. It is not only harmful to human health, but also had a negative on the global business world. Causing havoc to the entire economic system and disrupting trade as well as commerce (Dr. Debdas and Ananya, 2020).

As an article on BDO said that If there were any concerns about the importance of digital transformation for corporate survival, the coronavirus has put them to rest. The vast majority of contacts with customers and staff must take place virtually in a contactless world. With rare exceptions, digital operations are the only method to stay in business through forced shutdowns and activity restrictions. If you don't go digital, you'll be left in the dark (BDO, 2020).

## 2. Impact of Covid-19 on Management Practices During Mergers and Acquisitions

Every company wants to grow, develop, and improve its performance. From the last four decades, mergers and acquisitions (henceforth M&A) strategies have played this role for businesses (Bellou, 2007). The M&A market slowed globally, but trading volumes never went to zero. The pandemic was a surprise that put the company's adaptability

\* Corresponding author.

E-mail address: [drktailor@gmail.com](mailto:drktailor@gmail.com) (R. K. Tailor).

to a connected world to the test.<sup>1-6</sup>

Like other recessions, the pandemic's first year saw some businesses gain from a weakened economy while forcing others to go into survival mode or shut down. However, several businesses with sound financial standing saw the COVID 19 catastrophe as a chance to diversify their portfolio through mergers and acquisitions, looking to the future. In the meantime, some businesses are compelled to sell a portion of their enterprise to shed their excess weight. Regardless of corporate strategy, CFOs faced significant challenges in accurately estimating cash flow and undertaking evaluations due to the unpredictable nature of pandemics (Chokri and Melanie, 2021). A number of businesses have chosen M&A as a response to their health crisis in order to timely update their skills and resources and prevent unpredictable environmental changes that would make their current business plans obsolete (Joseph, Zaheer, Geoffrey, 2021).

Pandemic has examined the "essence" of the company, the manner in which it provides goods and services, and its place in the value chain in order to test the viability of a company in a changing competitive climate. As a result, the virus highlights flaws in corporate architecture, empowering businesses to reimagine their strategic trajectories and solve the present disconnect between corporate value offerings and the changing needs of the business environment. It presents a chance to make changes (Seetharaman, 2020). Business executives are compelled to examine the strategic viability of M&A and the capacity of M&A to promote inorganic growth and profitability in a slowing economy due to the unanticipated limits of the epidemic. Businesses were obliged to adopt new business strategies overnight in order to adjust to the new social distance measurements. Companies were given insight into their existing areas of weakness and the gaps they need to fill to meet future business conditions as a result of this circumstance (Chokri and Melanie, 2021).

In a fully virtualized environment, The M & A process (from planning through closure and consolidation) had to change to accommodate the needs of buyers and sellers given the uncertain economic outlook. The below points are related to management practices affected due to covid-19 (dividing the entire M&A process into 4 broad categories).

1. Research - Business relied primarily on conventional physical experience before the COVID 19 epidemic. Specifically, face-to-face meetings, business conferences, and coffee dates to create a trading pipeline and complete transactions (Deckert, 2021). One of the biggest challenges of virtual interaction is how much more difficult it is to pick up on social cues and discuss subjects that were easier in a live setting. Additionally, the virtual economy has increased the demand for digitising important contracts, including non-disclosure and disclosure agreements (Richard D,

David, Richard V, 2020).

2. Valuation - The main feature of a pandemic is its unpredictability. Due to this crucial characteristic, major agents additionally reacted in ways that weren't always accounted for by the mathematics that was previously employed for evaluation. Since historical finances did not adequately reflect short- to medium-term outlooks, forecasting cash flow has thus been analysts' biggest challenge since the pandemic's start (Chokri and Melanie, 2021). Revenues and expenses from stress tests were also important to better define short-term, medium-term, and long-term performance (Patel, 2020).
3. Due Diligence - The pandemic has revealed the flaws in the company's effectiveness in dealing with supply chain shortcomings, technical readiness, and external shocks. With all these vulnerabilities exposed, acquirers are more thorough at all stages of mergers and acquisitions to better understand the short-term and long-term impacts of a pandemic on viability and resilience (Crowell, 2020). The pandemic poses a unique challenge to the accurate cultural due diligence of the target enterprise. To successfully integrate the target company with the purchasing company, this is a crucial stage. The logistics of comprehending the organisational dynamics and culture of the target company are problematic in all virtual work settings. Aspects that are reviewed through site visits, staff reviews, and direct encounters in a typical setting (Siebecker, Michael and Iris, 2020).
4. Financing – Purchases made stock for stock were favoured. By concentrating on relative valuations rather than attempting to reach an agreement on a purchase price, stock purchases enable acquirers to advance the trading process (Dutta, Saadi, Zhu, 2013). In addition, stock purchases have allowed buyers to save cash reserves for rainy days amid continued economic uncertainty. Still, stock purchases increase the tax deductions of the acquirer, as opposed to the increased tax obligations of cash purchases (Manfredi, Gibson, 2020).

### 3. Impact of Digitalisation on Management Practices During Mergers and Acquisitions

Most individuals would agree that businesses in every industry have begun a digital transition that would have taken about ten years without the COVID 19 pandemic (Chokri and Melanie, 2021).

According to McKinsey's research, several businesses began the industrialization of 4.0 before the pandemic; some of them implemented some new technology features in part, while others continued to put other pressing issues ahead of technology. The epidemic highlights the value of cybersecurity and technology resilience in partially or

entirely remote enterprises. The industry will eventually converge on the technology sector (McKinsey, 2021).<sup>7–9</sup>

If a company does not have access to a merger or acquisition in the short term, profits will decline rapidly. Digital is the only tool we can offer within the accelerated time frame of today's fast business pace. The long-term Transitional Service Agreements (TSA) between the buyer and seller is expected to be a relic within three years due to digital technology. TSA ensures buyer business continuity, but delays synergies and increases operating costs-because TSA has up to 10% markup and premiums increase over time-limit buyer flexibility and increase reliance on sellers (Accenture, 2021).<sup>10–18</sup>

When companies look for other organizations in search of digital capabilities, the second level of digital trading puzzles becomes apparent. Digital savvy is not enough to acquire or integrate. Next, the enterprise needs to distribute this digital know-how throughout the enterprise. Companies need to transform their M & A approach to successfully acquire digitally and help expand new business opportunities, digitize the value chain, or deliver digital products and services. Digital transactions vary from size, range and rating to playbooks and integrations. From enabling faster and more informed transactional processes to improving post-merger integration, technology can have a significant impact on successful M & A.<sup>19–21</sup> Corporate executives acknowledge this, 84% of companies agree in the report that the CIO should sit at the M & A table. Effective use of digital technology enables C-suite executives to transform M & A from art to science and improve their skills as an engine of innovation and business growth (Harvard Business Review, 2018).

#### 4. Conclusion

Mergers and acquisitions are notoriously tough in any environment and Covid-19 made it even tougher. Even the most skilled acquirers have had a hard time navigating acquisition during a pandemic. Executives need to adapt quickly to rapidly changing environmental factors. It's hard to make informed decisions when the whole world is experiencing a pandemic for the first time. Without a doubt, the prevailing Covid-19 situation has given rise to a number of issues during the M & A process. Digitalising every part of the M & A process gives rise to increased cyber-attacks. Keeping strong technical tools to execute deals is the most effective and efficient way of executing deals in a shorter time. Nevertheless, management practices have changed a lot during the digitalization era and the Covid-19 pandemic which resulted in both negative and positive results.

#### 5. Source of Funding

None.

#### 6. Conflict of Interest

None.

#### References

- Rakshit D, Paul A. Impact of COVID-19 on Sectors of Indian Economy and Business Survival Strategies. *Int J Eng Manag Res*. 2020;10(3):51–5.
- Covid-19 is accelerating the rise of the digital economy; 2020. Available from: <https://www.bdo.com/insights/advisory/covid-19-is-accelerating-the-rise-of-the-digital-economy#:~:text=Digital%20Content%20Consumption%20>.
- David S. Mergers and acquisitions: A review of phases, motives, and success factors. vol. 9. and others, editor; 2010. p. 1–24.
- Mergers Acquisitions M & A Process; 2020. Available from: <https://corporatefinanceinstitute.com/resources/valuation/mergers-acquisitions-ma-process/>.
- Bellou V. Psychological contract assessment after a major organizational change: The case of mergers and acquisitions. *Employee Relations*. 2007;29(1):68–88.
- Kooli C, Son ML. Impact of COVID-19 on Mergers, Acquisitions & Corporate Restructurings. *Businesses*. 2021;1(2):102–14.
- Joseph Z. COVID-19 and business failures: The paradoxes of experience, scale, and scope for theory and practice. *Eur Manag J*. 2021;39(2):179–84.
- Seetharaman P. Business models shifts: Impact of Covid-19. *Int J Inf Manag*. 2020;54:102173. doi:10.1016/j.ijinfomgt.2020.102173.
- Kooli C, Son ML. Impact of COVID-19 on Mergers, Acquisitions & Corporate Restructurings. *Businesses*. 2021;1(2):102–14.
- Despite global pandemic, M&A deals were still carried out; 2021. Available from: <https://rbj.net/2021/04/06/despite-global-pandemic-ma-deals-were-still-carried-out/>.
- Harroch RD, Lipkin DA, Smith RV. The Impact Of The Coronavirus Crisis On Mergers And Acquisitions; 2020. Available from: <https://www.forbes.com/sites/allbusiness/2020/04/17/impact-of-coronavirus-crisis-on-mergers-and-acquisitions/?sh=751ea5f7200a>.
- Kooli C, Son ML. Impact of COVID-19 on Mergers, Acquisitions & Corporate Restructurings. *Entropy*. 2021;10(1):6–14.
- Kooli C, Son ML. Impact of COVID-19 on Mergers, Acquisitions & Corporate Restructurings. *Businesses*. 2020;1:102–14. doi:10.3390/businesses1020008.
- Brett M. Mergers and Acquisitions during the COVID-19 Pandemic; 2020. Available from: <https://www.thetaxadviser.com/issues/2020/aug/mergers-acquisitions-covid-19-pandemic.html>.
- Michael R, Siebecker I. Cultural Due Diligence and M&A in the Wake of a Pandemic. *Ohio State Law J*. 2020;20(5):1–15.
- Dutta S, Saadi S, Zhu P. Does payment method matter in cross-border acquisitions? *Int Rev Econ Fin*. 2013;25:91–107. doi:10.1016/j.iref.2012.06.005.
- Manfredi RG. Stock-for-Stock Mergers during the Coronavirus (COVID-19) Crisis-A Potential Strategic Solution; 2020. Available from: <https://www.gibsondunn.com/stock-for-stock-mergers-during-the-coronavirus-COVID-19-crisis-a-potential-strategic-solution/>.
- Kooli C, Son ML. Impact of COVID-19 on Mergers, Acquisitions & Corporate Restructurings. *Businesses*. 2021;1(2):102–14.
- McKinsey. How COVID-19 Has Pushed Companies over the Technology Tipping Point-And Transformed Business Forever; 2021. Available from: <https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/how-covid-19-has-pushed-companies-over-the-technology-tipping-point-and-transformed-business-forever>.
- Digitizing Mergers & Acquisitions; 2021. Available from: <https://www.mdpi.com/2673-7116/1/2/8/htm%23B1-businesses-01-00008>.
- How Technology Is Changing M&A in the; 2018. Available from: <https://hbr.org/sponsored/2018/05/how-technology-is-changing-ma-in-the-u-s>.

**Author biography**

**Puneeth Hosur Basavaraju**, Student

**R. K. Tailor**, Associate Professor Senior Scale

**Cite this article:** Basavaraju PH, Tailor RK. Impact of Covid-19 and digitalisation on management practices during mergers and acquisition. *IP J Nutr Metab Health Sci* 2022;5(4):147-150.