

# Post Merger Challenges and Opportunities: A Case Study of Twitter

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## Abstract:

Every organisation wants to maximize its profit and wants to grow in all terms. Merger is one of the tools of expansion strategy for businesses. Merger and acquisition come under the category of major corporate action. Merger and acquisition (M&A) may be of different types and the deals may be friendly and sometimes hostile as well. The objective of the study is to throw light on the challenges and opportunities post merger and acquisition (M&A) deal. Descriptive research methodology has been adopted and a case study approach has been used in order to meet the objective of the study. The data is of secondary nature which has been collected from the official website of Twitter and also from some other sources. The selection of the case study is based on convenient sampling. The study successfully concludes that M&A deals bring many post event challenges for the organizations and the organizations also have many opportunities after the merger to work with full control over the assets and management and with full autonomy.

**Key words:** Corporate actions, Challenges, Expansion, Management, Merger and acquisition (M&A), Opportunities and Take-over.

## Introduction:

Merger and acquisition (M&A) come under the expansion strategy of corporate restructuring. Expansion of a firm through combining or joining with other firms or through the acquisition of other firms is said to be external expansion. A firm may also grow internally by expanding its area of operation. Merger and acquisition are sometimes used interchangeably but these are somehow different from each other. In merger, two or more companies combine in such a way that one company acquires the net assets of the other company or companies and the merged company lose its existence after merger. In acquisition, one company takes effective control over the assets and management of the other company/companies but no company is dissolved. Both or all the companies involved in acquisition remain in existence. It is also to be noted here that when the control over assets and management is through mutual agreement, it is known as acquisition but if taking control is hostile, it is known as take-over.

## Reasons for Merger and Acquisition (M&A):

There may be various reasons behind merger and acquisition and that may vary from company to company. Some of the important reasons may be as follows:

- Elimination of competition.
- Economies of scale.
- Operational economies.

- Tax implications.
- Growth.
- Better financial planning.
- Personal reasons etc.

**Disadvantages of Merger and Acquisition:**

Merger and acquisition (M&A) may have some disadvantages also. One of the disadvantages of M&A may be the elimination of healthy competition. The concentration of economic power is also one of the demerits of merger and acquisition. The disadvantages stated above may ultimately result in the deterioration in the performance of merged undertaking which affects the national economy adversely.

**Documents Required for M&A Deal:**

The documents required for the deal would depend on the structure, risk, negotiation, tax, legal requirements and other aspects of the deal. The required documents may vary from deal to deal but here are some documents mentioned which are very common in almost all such deals:

- Memorandum of Understanding (MoU)/ Letter of intent/ Term sheet.
- Share purchase agreement.
- Other documents related to deal.

**Review of Literature:**

**Deepak K. Datta (1991)** examined the organisational differences between acquiring and acquired firms and also their impact on post acquisition performance. The author concluded that he found that the differences in top management styles had a negative impact on post-acquisition performance. He also concluded that there was no such relationship between post-acquisition performance and the difference in reward and evaluation system.

**Alzira Salama, Wayne Holland, Gerald Vinten (2003)** concluded that the major challenge before the management after merger is managing the organisational culture of two previously discrete workforces but the study shows that the suitable integration strategies and their effective implementation can result in minimising the uncertainties at workplace and can also increase the willingness to cooperate and to be a part of new work culture.

**Torsten J. Gerpott and Fenna B. Neubauer (2017)** investigated post acquisition integration design subfields and the results of their study show that the investigation performs well and corporate culture, speed of integration and the degree of integration of business processes are significantly positive.

**Saleem Ahmad<sup>1</sup>, Dr. Sanjay Biyani<sup>2</sup> (2023)** concluded that due to merger and acquisition (M&A) deals there may be a situation of legal battle between the parties involved and they further concluded that there are noticeable impacts of M&A deals on the acquired and acquiring companies. The companies have opportunities of getting desired growth rate and value appreciation and also face many challenges like employee retention, difference in organisational culture etc.

**Research Methodology:**

Descriptive research methodology has been adopted for the study and a case study approach has been used to achieve the objective of the study. A case study of Twitter has been taken through convenient sampling procedure. The objective of the study is to throw light on the challenges faced by the organisation and also the opportunities that the organisation have after the event of merger and acquisition (M&A). Secondary data have been collected from the website of Twitter and also from some other sources which provide relevant data for the study.

**About the Target Company:**

Twitter Inc. was created in March 2006 by Jack Dorsey along with three of his mates namely Noah Glass, Biz Stone and Evan Williams. But now the billionaire Elon Reeve Musk owns the company after the acquisition of Twitter on 27<sup>th</sup> October 2022. Twitter is a social media platform which is headquartered at San Francisco, California, USA. It allows its users to post or to have an interaction through messages known as “Tweets”. Twitter got popularity at Southwest Interactive Conference during which the usage of Twitter increased surprisingly and the company went public in the month of November 2013. It is also to be noted here that after acquiring the company, Musk decided to go private and on 28<sup>th</sup> October 2022, Twitter got delisted from the New York Stock Exchange and now it is a private company. Many changes in the management and policies of Twitter have been made after Musk acquired the Twitter.

**About The Acquirer:**

Elon Musk is a famous business man and an investor. According to the Bloomberg Billionaires index and Forbes’ real time billionaires list, Musk is the second wealthiest person on the earth. On March 27, 2023, his net worth was estimated around \$192 billion. Elon Reeve Musk was born in Pretoria, South Africa on June 28, 1971. Later through his Canadian-born mother, he got the citizenship of Canada. He got his bachelor’s degree in Economics and Physics. Musk is the founder, CEO and the chief engineer of SpaceX. He is also the CEO and product architect of Tesla Inc. Musk is also the founder and CEO of X Corp. and X. AI. Elon Musk is the president of Musk Foundation. He is the founder of the Boring Company and also the co-founder of Neuralink, Open AI, Zip2 and X.com. After acquiring Twitter on 27<sup>th</sup> of October 2022, he is now the CEO of Twitter.

**Acquisition of Twitter:**

Elon Musk, the second wealthiest person of the present time on earth acquired the social media platform, Twitter on 27<sup>th</sup> October 2022. The journey of association of Musk with Twitter started as follows:

- Musk purchased the shares of Twitter for the first time on 31.01.2022 and he kept buying its shares steadily. This way on 14.03.2022, his stake in Twitter crossed 5% shareholding. In America, the Securities and Exchange Commission (SEC) says that if the shareholder’s stake is more than 5%, then it needs to be disclosed to SEC and the public also comes to know this. But unfortunately, Musk missed the deadline to inform the SEC by 10 days.
- Thereafter Musk started tweets regarding free speech whether Twitter should support it or not. On 03.04.2022, Musk shared his idea also with the then CEO of Twitter, Mr. Parag Agarwal and Musk clearly said that, “Either take the company private or I will start a rival social media platform”. Then the Twitter offered a seat to Musk in the board of the directors of the company but Musk refused the offer.

- On 11.04.2022, Musk declared that he wanted to make Twitter a private company. For this Twitter filed a case against him.
- On 14.04.2022, Musk officially made an announcement that he wanted to buy Twitter for \$43 Billion as he wanted to take full control over the social media platform.
- Finally after a legal battle of many months, on 27.10.2022, the deal was officially closed and Musk purchased Twitter for \$44 Billion and became the CEO of Twitter.

### Changes after Musk took over as CEO of Twitter:

- **Massive layoffs:** The first thing that Musk did after acquiring Twitter is the changes made to its personnel. Musk began it with firing the former CEO of Twitter, Parag Agarwal, CFO Ned Segal and also the legal affairs and policy chief Vijaya Gadde on 28.10.2022. Later on November 4, 2022, Musk-led Twitter fired around half of its employees who were informed through e-mail regarding the layoff on the previous day. This was the step because of which employees were dissatisfied and it was said that the company had violated many labour laws by not providing the advance notice for their dismissal.
- **Shift from public to private company:** On 28.10.2022, Twitter got delisted from New York Stock Exchange so now it is not a public company anymore. Twitter is now a private company.
- **\$8 charges for a checkmark:** Before the acquisition of Twitter, Blue checkmark to the twitter account was given by the company to show that the account got verified and it belonged to the person or the organisation. The checkmark was normally given to the celebrities and notable persons but Now the Musk-led Twitter has announced that the company will charge \$8 for giving blue checkmark to its users and anyone can avail himself this opportunity now just by paying the fee.
- **Restoring previously banned accounts:** Musk restored many such accounts which were previously banned like The Babylon Bee, Kathy Griffin, Trump and Jordan Peterson.
- **Relaxation in some policies:** Musk gave a relaxation in some policies of the platform related to hate speech and also removed the policies prohibiting COVID-19 misinformation which ultimately resulted in an increase in hate speech.

### Challenges before Twitter:

There are many challenges before Musk-led Twitter which are explained as under:

- **Safe and reliable platform:** After Musk acquired Twitter, a lot of changes have been made in policies of Twitter and many changes are still to be made as per Musk's announcement. The changes like charges for blue checkmark, talks about free speeches and banning the twitter account of several prominent journalists are some of the events which create a confusion in the minds of users whether it is a safe and reliable platform or not.
- **Financial pressure and cost cutting:** Many experts are saying that Musk has overpaid for the acquisition of Twitter and he is acquiring the company in the days of company's struggle. Now he has a financial pressure to recover the cost of the deal. For cost cutting he laid off roughly 50% of its employees which again created a problem before Musk.
- **Safe working environment for employees:** Musk-led Twitter laid off many employees just by giving information through mail on the previous day which shows the violation of labour laws and leaves behind a question where Twitter has safe working environment or not.

- **Increasing the number of users:** There is a big challenge before Twitter in terms of increasing the no. of users. At the time of acquisition, Twitter had only 217 million users but Musk says to achieve the target of 931 million users by 2028.
- **Improving the figure of revenue:** This is again a big challenge for Twitter. There was a massive drop in revenue after laying-off roughly 50% of workforce. Musk wants to take Twitter's revenue to \$26 Billion by 2028 whereas it was only \$5 Billion last year.
- **Facing the upstart competition:** One major rival, Face book-Parent Meta has also given signals that it is working on a service which sounds very much like Twitter. Since Musk's takeover, there is a growing list of such competitors.
- **Getting back the advertisers:** Because of the concerns about increasing hate speech, laying-off large number of employees and concern about the future of the platform, many advertisers have left the platform. It is a big challenge before Twitter to convince them and to get them back as these advertisers made around 90% of Twitter's revenue.

### Opportunities:

There are many opportunities for Elon Musk after the acquisition of Twitter and some of them of them are as follows:

- **Twitter 2.0:** Musk has a vision to make the company better than ever with more transparency, fewer bots, larger revenues, increased no. of users, more features like free speech etc.
- **Dream of a super app:** Musk wants to make Twitter an everything app which could be referred to as the super app which allows its users not only chat but they can also have the opportunity to make payments and also book the cab through the app. Because of the high barriers, there is no super app in the USA yet.
- **Long form text and content monetisation:** Twitter is all set to give its users the opportunity to create long form text and post. The idea will help the users or content creators in audience building and personal branding.
- **Open source algorithm:** Musk wants to go with open source algorithm for Twitter but there is a controversy on internet regarding the same whether there would be advantages or disadvantages of it for users.
- **Content moderation:** Musk initially made the promise that a content moderation council will be formed and it would work for handling free speech. Musk has been in favour of free speech since the beginning of the deal but some of the experts said that it might increase the hate speech. So at this point, Musk has the opportunity to prove his idea correct and feasible.

### Conclusion:

Through the study of Twitter acquisition case, it is clearly evident that since the beginning of the deal till finalisation, there has been a huge criticism and a long legal battle associated with the acquisition. Many experts claim that Musk has taken a wrong step of acquiring Twitter and has overpaid the deal. Such things brought many challenges before Musk-led Twitter and the acquisition paved the way for many opportunities also. Based on the study it can be clearly said, that M&A deals bring many opportunities to work with synergy, full control over the management and assets and also throw some challenges as there are many changes in the management and policies and workforce etc. In short, it can be said that there may be various reasons behind the merger and acquisition which may vary from organisation to

organisation but one thing is surely common that all M&A deals throw some pre and post event challenges and also provide some opportunities accordingly.

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