

# Acquisition of Mexican SME's, its Impact on Organizational Culture and Structure: The Case of Glass and Plastic México

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## Abstract

In this paper, the case of glass and plastic Mexico, Guadalajara's company that was recently acquired by the French corporate Essilor through Essilor Mexico will be addressed. Essilor's strategy of further expanding economies of scope, with glass and plastic as optical laboratory, corporate through its new acquisition achieved distribute products from other brands to market where so far could not reach. For the company Glass and plastic Mexico, the practice represents an opportunity for growth and stability; however, the acquisition led to major changes in the organizational structure, as the implementation of controls and processes in the small business, glass and plastic Mexico had not.

**Keywords:** Acquisition; Culture; Strategy; Organizational structure

## Introduction

SMEs are the main driver of the economy in Mexico. Up to 90% of companies are classified as small and medium enterprises (SMEs) and equivalent to more than 3.6 million companies according to the National Institute of Statistics and Economics [1]. The dynamics of markets and the constant changes in technology demand organizations willing to change and continuous improvement of their processes. Thus, before the globalized world in which we live, where the rivalry between companies is largely influenced by large corporations that are shaped by a large number of renowned companies, bordering local businesses, mostly SMEs, to exit the market.

There are cases where, SMEs attract the attention of major global corporations, for various reasons, such as the type of product and/or service, market positioning and/or market niches to which they are addressed, processes of logistics operations, among others; or just the corporate notes some potential in the company. Therefore the corporate offers the opportunity for the company to be part of this, with high expectations of growth and development. It arises, therefore, several questions:

a) The existence of an overvaluation of the target company, in this case Mexico Glass and Plastic as it does not have full control of the proper operation of its business. The lack of systems and processes necessary for the performance of the company how it was conducted the assessment and how profitable it is for corporate to acquire an overrated SME, and

b) The involvement generated by the merger/acquisition to organizational structure, from the owners of the firm, organizational culture and processes both administrative and operational of the company.

## Background

Glass and Plastic of Mexico emerges in 1991 as optical lab, the company disclaims of being owned by his father Optical Glass in the downtown area of the city of Guadalajara. It employs approximately 120 employees in administrative, logistics and production areas.

To define the size of the company's study, below in Table 1 is shown the stratification of enterprises according to the Federal Official Gazette [2].

In the last decade SMEs have had a substantial increase compared

with previous censuses that have been conducted by the National Institute of Statistics and Geography a base on stratification by occupation of the company. In SMEs that are made up of 3-5 people it has had a growth of 993% and it is interesting to note that SMEs more than 1,001 people have had a growth of 53.9%, which directly affects the national economic growth. In general, the growth rate based on the stratification of occupation has had a growth of 39% (Table 2).

Based on data of the above two tables and the following Figure 1, glass and Plastic Mexico is managed as a medium sized company by the number of employees as well as acting as a laboratory strategy for growth in the market has been through strategic alliances with companies like Wal-Mart de Mexico, Coopel and small eye clinics. The way Glass and Plastic Mexico was creating its organizational structure was completely informal, because the owners of the small organization initially hired operators and typists unprepared to perform simple activities, given the growth of the same organization encouraged the staff professional growth and internal development, that is, that despite the lack of professional training, workers could grow and become part of the administrative area.

Such partnerships caught the attention of corporate Essilor that

Size	Sector	Number of workers range	Amount of annual sales range (mdp)
Micro	All	Up to 10	Up to 54
Small	Commerce	From 11 to 30	From \$4.01 to \$100
Small	Industry and services	From 11 to 50	From \$4.01 to \$100
Medium	Commerce	From 31 to 100	From \$100.01 to \$250
Medium	Services	From 51 to 100	From 100.01 to \$ 250
Medium	Industry	From 51 to 250	From \$100.01 to \$250

Source: Journal of Federation [2]

**Table 1:** Stratification of micro, small and medium enterprises.

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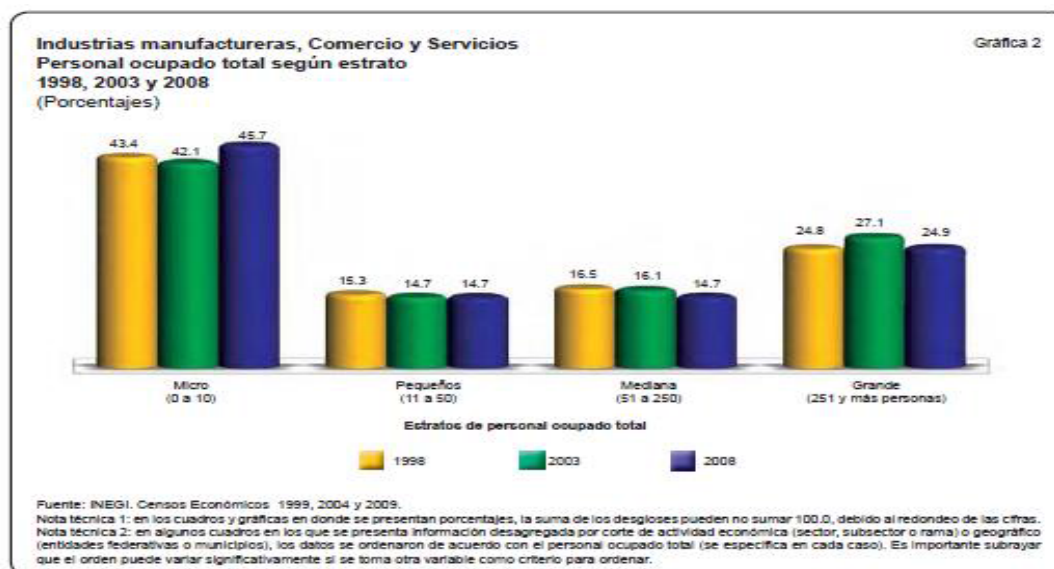
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Census Stratification	Total occupied personnel			Percentage growth		
	1998	2003	2008	1996-2003	2003-2008	1998-2008
Total national	13 050 009	14 411 753	18 135 036	19.4	25.08	39.0
0 to 2	3 254 861	2 959 286	3 514 416	9.1	18.6	8.
2 to 5	1 602 896	2 032 310	3 193 781	26.8	57.2	99.3
6 to 10	914 534	1 070 135	1 577 093	17.0	47.4	72.4
11 to 15	497 575	543 393	736 263	9.2	35.5	48.0
16 to 20	344.617	379 263	492 321	10.1	29.8	42.9
21 to 50	1 050 319	1 196 005	1 435 089	9.7	20.0	31.6
51 to 100	819 118	923 495	1 082 893	12.7	17.3	32.2
100 to 250	1 238106	1 403 386	1 590 825	13.3	13.4	28.5
251 to 500	973 008	1 190 834	1 203 868	22.4	1.1	23.7
501to1,000	903 257	975 766	1 137 035	8.0	16.5	25.9
1,001 to more	1411 718	1738180	2 172 432	23.1	25.0	53.9

Source: INEGI [1].

**Table 2:** Evolution of occupation in micro, small and medium enterprises. Manufacture industries, commerce and services. Evolution of total occupied personnel by strata, 1998, 2003 and 2008.



Source: INEGI [1]

**Figure 1:** Percentage of employment trends in Micro, Small and Medium Enterprises.

through its subsidiary, Essilor of Mexico (located in the Federal District), presents the opportunity to be part of corporate generating high expectations for the local company. Acquisition is one of the best known practices that perform large corporations to grow and market positioning. One strategy that has implemented the renowned ophthalmic optical company Essilor has been strengthening its brand portfolio and market penetration worldwide, this strategy has taken place through acquisitions in key markets as well as providing penetration in niche markets, a consolidated logistics system, through which distributes the many brands that make up its portfolio.

The company has been expanding its business through strategic acquisitions in recent years. Only in 2013-2014 made acquisitions in the United States, Canada, Mexico, and Brazil. With such acquisitions the company's presence through various categories is strengthened and, in turn, improve its first line and profit growth. The company generated more than 75% of its income due to acquisitions made in

North America and Europe in fiscal [3].

At the moment Glass and Plastic Mexico and Essilor Mexico agreed the acquisition as a fact. The Mexican SMEs found it necessary to conduct a series of changes in both operational and administrative processes. This involved the delimitation interdepartmental in the company, the proposal to acquire an information system such as SAP or Oracle to allow it to migrate to a better organizational structure, as well as hiring a group of people with some professional training to carry out the process of the acquisition, and the implementation of processes, internal controls.

### Hypothesis

The organizational structure and culture of Mexican SMEs acquired by corporate tends to be negative due to the lack of administrative and operational processes, so that the benefits gained from the acquisition are heavily influenced by the organizational structure of SMEs acquired and little cultural and structural ownership of it.

## Objective

With the present work is pretended to investigate the impact suffered by Mexican SMEs in their organizational structure and culture that are acquired by transnational corporations, as well as to address the fact that the lack of internal processes in the target companies, the Mexican SMEs, their acquisition is carried out in an inefficient manner. Thereby, the acquisition process is generating uncertainty in the different levels of SMEs as well as corporation that acquires as there is a degree of risk on the possible overvaluation of the Mexican company.

## Main Theoretical Framework

For purposes of this work, it is important to define the difference between acquisition and merger. The acquisition implies that a given organization acquires either on a hostile or on a friendly manner, unlike mergers involving mutual cooperation for joining assets, resources and capacities of the organizations involved, thus generating a new company [4]. In the competitive and uncertain environment it is difficult that the company owns all the resources and capabilities needed to develop a sustainable competitive advantage, due to the applications and implementation of mergers and acquisitions, it is possible to integrate resources and capabilities to achieve objectives [5].

The business acquisition is one of the most frequent ways today to have a certain organizational dimension and create a competitive strategy [6] defines the competitive strategies, including actions taken by the company. These actions can be offensive or defensive, to create an attractive position in a market, which is aimed at obtaining a better result or improved performance, which supports the fact of generally, this type of business operations are caused by the identification of a threat or an opportunity in the market [7]. Mexican SMEs to be acquired by the corporations, they represent a point of opportunity to be more competitive in the market given the support that the transnational corporation represents.

Thus, the company to meet the needs that arose with the opening of the negotiation of the acquisition, SMEs as Glass and Plastic Mexico promote changes in the structure with the support of professionals in each area who are hired for specific tasks of process and corporate structuring. However, the rapid growth hinders the integration of new employees, in terms of the values and methods of management of the company, better known as the Effect Penrose [8,9].

Organizational changes bring impacts on the culture of the firm, because as mentioned above, the way in which the company employed their workers, therefore an organizational culture is generated by the simple social interaction, which directly affects the SME structure, since there is a direct relationship between culture and structure within an organization.

A preventive measure to mitigate the negative impact of culture within the organization in making any decision affecting the company or part of it is communication. Communication to employees regarding any change in the organization is considered a critical element [10]. Every organization considers as part of its strategy communication variable so in the case of the acquisition of SMEs while carrying out that this transition is important that employers evaluate that the information will not be too soon to notify corporate employees both acquiring as well as the target company.

Organizational culture affects the design of the implementation of an organizational structure with its assumptions, values, norms, attitudes; culture creates the context and framework used by those

designing the structure of the company [11]. By so, any impact the firm has on organizational culture can be seen affected certain government controls and decision making.

An important factor for making new decisions is the organizational structure so that flexibility plays a key role. According to the literature of organizational design there are two internal factors that define the internal structure of the firm. These are differentiation and coordination [12]. By differentiation is meant the organizational system within subsystems, on the other hand, when talking about coordination, it refers to the unification of effort through various subsystems for the coupling of the tasks of the organization.

In the case of SMEs, it is understood that depending on the number of people that conform it as stratified the organizational structure. It is observed that in the vast majority of small and medium enterprises in Mexico, there is a lack of structure for various reasons, among which are mentioned, the number of employees as a micro company normally does not have a structure. In the SMEs with a number of employees and considerable size, where the establishment of structures and processes would be crucial linchpin for the company, however, highlights the little information available about the many advantages of such implementations that would bring to the performance of the same [10].

In the present study, the company Glass and Plastic Mexico, prior to being acquired had an organizational structure, in which the activities were not fully defined. With the participation of Essilor of Mexico within the structure, when the acquisition is agreed the approach to making company's changes were substantial. The owners along with the corporate's agents saw an opportunity to make various modifications to the structure of the SMEs and the implementation of administrative and operational processes, for it is hired by an agency in charge of defining the areas, profiles, business philosophy that forms the structure of the company.

Based on agency theory, where the company is considered a legal fiction that serves as a connection to a set of contracts between traders, the economic and law interactions are observed [13]. It sheds light on aspects that occur in the vicinity of the aforementioned interaction, but that from the acquisition approach is observed that enter into conflict the tangible and intangible resources of both companies.

This theory provides the basis to examine how the delegation of authority is given, as in SMEs before carrying out acquisition managers had total ownership over the process of decision making but at the time when the corporate that acquires medium-sized companies therefore hierarchy and decision making is greatly affected. Agents can feel a decline in the decision-making power they possessed, in key functions performed and people who were in charge prior to the acquisition. This may affect performance to be taken after the acquisition.

However, based on the perspective of agency theory where the objectives that the owner have referred, sometimes do not coincide with the goals of the agent. In this case involves the use of delegated authority to the agent will not be in favor of the interests of principal [14]. This applies to acquisitions of companies where the agent may or may not agree with this decision. But the importance of communication and objectivity prevail in the organizational structure as a consensus is reached.

In acquisitions and in the mergers of firms take place interaction and combination of resources and capabilities. Objectively, these strategic practices are done with the primary objective of obtaining resources from the companies involved [9]. Cross-border acquisitions are those

who have had more growth worldwide in the last decade. Innovation and technology are seeking more resources on transnational corporate business objectives. Within the scope of resources and capabilities, various studies have yielded that there is a high correlation between research and development companies that merge or are acquired, plus something that affects the success or failure in acquisition and merger activities is the relationship between the two companies [15].

In the specific case of Mexican SMEs the question of resources and capabilities can be seriously affected as may be the case that the SME has a certain advantage in resources, but in view of its limited experience of interaction in the market, latent threat to disappear by the opening of the market with the entry of transnational corporations there can cause low valuation of the resources of SMEs, making large corporate firms to take advantage of this threat. However, Glass and Plastic Mexico, on the approach of company resources and capabilities while having the focus distribution and location in the Mexican market, low labor costs then propitiated the ability to keep prices low of their products. But human capital resources of the professional area did not possess, since the decision focused only in three directors; Director General, Production Manager, Director of Commerce.

During the acquisition process, it was stressed the need for hiring professional trained staff to carry out the implementation of controls and processes in the management, operational and administrative areas. Since the processes give the parameter for the proper performance of the firm as well as the basis for the generation of strategies, identifying strengths and areas of opportunity to find competitive advantages. To optimize benefits, an organization must take into account the synergies between people, processes and technology [16].

SMEs must become aware that these changes are necessary for growth and continued market investment. Consistency and evaluation of the changes are vital. There must be a record of the proceedings and valuation carried out. In acquiring small businesses it is important to always remember at all times that what it is bought are a sustainable business and running and not a person. To do so requires the ownership experience not only as buyer-seller relationship but as an expert consultant on the target SMEs to acquire [17]. Given the nature of the merger and/or acquisition of a company, it can be seen concretely in the contractual terms that confirm the relationship and therefore the trade name of the company. So transaction costs incurred where both companies are involved in a merger and /or acquisition, both the target and the company that acquired company are significantly reduced by the existence of the contract.

## Method

The methodology of this research is made with an empirical approach with a qualitative analysis, since it builds on various literature sources of different theories as institutional theory, resources and capabilities based theory, agency theory, and also a research based on competitiveness and generation of strategies, transaction costs, culture and organizational structure. The research turned to databases within the period of 2010-2015, as well as statistics bases of Mexico, gathering and analyzing information that brought greater awareness and support for issues raised. For the study, the following variables were established: Independent variables: Culture, acquisition and strategy, business over valuation and organizational structure.

Dependent variable: Mexican SME acquired.

## Conclusion

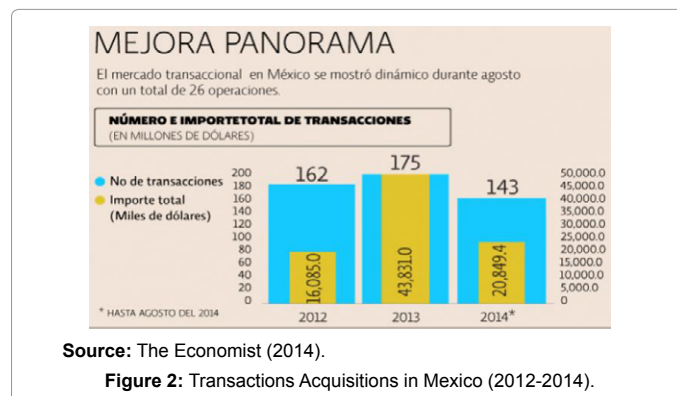
This research has allowed us to develop a more comprehensive and clear appreciation of the role played by the organizational structure, processes and organizational culture, from which is even considered as a prop to generate competitive advantages in the market. Nationally the market of mergers and acquisitions in Mexico continues with a dynamic step with an annual increase from 2013 to 2014, 4%, according to a study threw Transactional Track Record (TTR) [18].

While it is not possible to determine all the factors that cause the success and failure of mergers and acquisitions because each case is unique, depending on the approach to make it look. The success of a merger or acquisition is closely linked to the correct structuring of opportunity, taking into account many factors, such as the resources of both companies, laws and reforms in the countries of the firms involved, the type of product, market maturity, among other things [19] (Figure 2).

In research took an approach into Mexican SMEs and as having been absorbed by a transnational corporate, whether or not affect much or little organizational and cultural structure. Often it requires some advice from professionals who have the agility of negotiation. In the medium term, the success or failure of the acquisition will depend on how companies are integrated, as well as the size and global reach of the company [20]. On the other hand, the failure of an acquisition may have given just before acquiring it, since it may not have been feasible but the arrogance of the officers or agents or owners of the company adopted the idea of sustainability that can leave to be objective.

Of organizational culture is deeply rooted generates adversities during the consolidation of the acquisition and may be hindered by such internal factors of companies [21]. There is a degree of uncertainty for people who work in the SMEs that is acquired, the fear of losing the job once consolidated by the merger or limit the job growth since they may feel threatened by inflows of people from outside the organization. So a good practice to reduce transaction costs in the sense of organizational culture is communication between owner-agents-employees, since that gives some stability to remain within the SMEs. Contracts are another means by which the uncertainty within the small and medium enterprises is reduced. This is because although the micro and small businesses often lack contractual structure or have certain limitations in this aspect of labor relations.

The impact on the organizational structure of SMEs when they are acquired is substantial. As to a weak structure that is the purpose of the acquisition company that acquires, the corporate firm influence fully in the company. However, this influence can be affected agents before the acquisition had some power in the SMEs and the new organizational



structure implemented there is a possibility that the agents disagree with the acquisition and/or changes in the structure to which they belong. The support from the agents is vital because they are the ones who know the operation and key posts in the success or failure of the acquisition that are defined and thus the existence of Mexican SMEs.

Possible changes and influences that may be experienced in the acquisition of a small and medium enterprise by the international corporate firm are filed as following:

- A. Uncertainty
- B. High levels of stress
- C. Climate tension
- D. Problems of leadership style
- E. Anxiety
- F. Duplicate charges
- G. Lack of communication
- H. Absenteeism, among others

The acquisition of small and medium Mexican enterprises generates a series of organizational changes in the sense of letting a thing or situation to take another, that is, to continue the process of being acquired by corporate or just rule out consolidation. For lack of processes and structure in the Mexican SMEs sometimes not always the complexity that exists to target the consolidation of a merger or an acquisition of this magnitude is contemplated. The acquisition of small and medium Mexican enterprises generated a series of organizational changes in the sense of letting a thing or situation to take another, that is, to continue the process of being acquired by a corporate firm or just rule out consolidation. For lack of processes and structure in the Mexican SMEs sometimes not always is contemplated the complexity that exists to target the consolidation of a merger or an acquisition of this magnitude.

In the case of modification of an organizational culture, it can lead to issues such as fear of loss of image as the SME 100%. This in the case of a micro, small or medium enterprise that has entrenched the idea of the origin of company, territory, control or power inside and outside the organization, taking into consideration the effects that are within the scope of the agency theory as already mentioned may affect the ownership, control and decision making of the agents and owners of the organization. A substantial increase in work pressure, as the operational and administrative processes of the target company must adapt to the requirements of the acquiring company, in this case, what the corporate need to perform the consolidation. This result in an increased stress for SMEs in general needed to meet the needs of the corporate firm to which will belong.

Modifying privileges that agents based on their position they had may be affected by the acquisition decreasing certain privileges. Modifying privileges can also affect the owners of the SMEs, since prior to the acquisition possibly had certain benefits or simply lacked controls or accountability. However, with the consolidation of the acquisition, it is already part of a different structure, already having a corporate government that constantly evaluates the actions and decisions that make Mexican SMEs. In incensement or differences in responsibilities at all levels of Mexican SMEs, the reduction of duties on key positions in the organization acquired impacts on various aspects that often the arrogance of the agents becomes a threat to the consolidation of the same.

In people who make up the acquired organization increases the uncertainty due to suspicions with new companions that are incorporated by acquisition. By fear of dismissal once consolidate the same, changes in relationships with superiors, modifying labor conditions before and after implementation of the acquisition, change of schedules that have an impact on the personal lives of people.

Commonly, companies undertaken advice for the acquisition through external agents in disciplines such as finance, accounting, legal management, and marketing. However, they do not consider the intervention of a mediator in the process of acquiring the SMEs in order to seek advice regarding prevention, collision and conflict resolution, mediators, which could be responsible for assuming this part of the construction of a new organization. Such mediation leads to better link in each of the stakeholders, such as employees with new bosses, owner of the SMEs that once gained its organization will be a partner and its relationship with agents of corporate governance in the acquiring company, new colleagues with similar tasks, managers, project leaders or certain areas before the acquisition did not even exist.

Impartial third party intervention avoids negative effects as unresolved disputes, grievances, disciplinary actions, repeated complaints, and aggressive skills, thereby facilitating the accommodation to changes and developing a better organizational climate [22].

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