IMPACT OF MERGERS AND ACQUISITION IN CORPORATE SECTOR: ISSUES IN HUMAN RESOURCE MANAGEMENT

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Abstract

Corporate mergers and acquisitions (M&As) have become popular from corner to corner the world during the last two decades thanks to globalization, liberalization, technological developments and intensely competitive business environment. The synergistic gains from M&As may result from more efficient management, economies of scale, more profitable use of assets, exploitation of market power, the use of complementary resources, etc. Mergers and acquisitions (M&As) often refer to the aspect of corporate strategy, and management dealing with the buying, selling and combining of another company. Mergers and acquisitions are often created to expand a current organization or operation aiming for long term profitability and an increase in market power.

Buoyant Indian Economy, extra cash with Indian corporates, Government policies and newly found dynamism in Indian businessmen have all contributed to this new merger & acquisition trend in India. Indian companies are now aggressively looking at American, African and European markets to spread their wings and become the global players. PricewaterhouseCoopers global study concluded that lack of attention to people and related organizational aspects contribute significantly to disappointing post-merger results. Organizations must realize that people have the capability to make or break the successful union of the two organizations involved. The leading roles of modern human resources functions are to be actively engaged in the organization and perform as a business partner and advisor on business-related issues. Employees do not participate enough in the integration process of a merger. If a merger is to reach its full success potential, they need to be informed and involved more actively throughout all the stages of the merger process.

> ***An organization's people strategy is a necessary precursor to the successful execution of its business strategy – "people must be in place, prepared and ready before the business strategy unfolds,"***

Introduction

Companies today need to be fast growing, efficient, profitable, flexible, adaptable, future-ready and have a dominant market position. Without these qualities, firms believe that it is virtually impossible to be competitive in today's global economy. Executives have at their disposal a wide range of strategic alternatives for inorganic growth. They may decide to grow incrementally by introducing not only new products but also gain entry into new markets by investing in research and development. However this mode of growth will have a long gestation period i.e. long time to realize the actual growth.

Welcome to the world of mergers & acquisitions (M&A), which has become the most important strategic element driving business growth and excellence. They have become the dominant mode of growth for organizations seeking a competitive advantage in an increasingly complex and global business economy. Therefore, in an era of increasing globalization and competitiveness, they are considered as a strategic driver for market dominance, geographical expansion, leverage in resource and capability acquisition, competence, adjusting to competition.

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Buoyant Indian Economy, extra cash with Indian corporates, Government policies and newly found dynamism in Indian businessmen have all contributed to this new merger & acquisition trend in India. Indian companies are now aggressively looking at American, African and European markets to spread their wings and become the global players. The Indian IT and ITES companies already have a strong presence in foreign markets, however, other sectors are also now growing rapidly. The increasing engagement of the Indian companies in the world markets, and particularly in the US, is not only an indication of the maturity reached by Indian Industry but also the extent of their participation in the overall globalization process..

Mergers and Acquisitions

> *"It is clear that you cannot stay in the top league if you only grow internally. You cannot catch up just by internal growth. If you want to stay in the top league, you must combine."*
>
> **Daniel Vasella**, Chief Executive Officer, Novartis.

Although they are often uttered in the same breath and used as though they were synonymous, the terms merger and acquisition mean slightly different things.

When one company takes over another and clearly established itself as the new owner, the purchase is called an **Acquisition**. From a legal point of view, the target company ceases to exist, the buyer "swallows" the business and the buyer's stock continues to be traded. An acquisition may be friendly or hostile. In the former case, the companies cooperate in negotiations; in the latter case, the takeover target is unwilling to be bought or the target's board has no prior knowledge of the offer.

A **Merger** is a combination of two companies into one larger company. In the pure sense of the term, a merger happens when two firms, often of about the same size, agree to go forward as a single new company rather than remain separately owned and operated. This kind of action is more precisely referred to as a "merger of equals." Both companies' stocks are surrendered and new company stock is issued in its place. A merger may be of following types: -

(i) Horizontal Merger - Two companies that are in direct competition and share similar product lines and markets.

(ii) Vertical Merger - Vertical mergers occur between firms in different stages of production operation. In a vertical merger two or more companies which are complementary to each join together.

(iii) Market-Extension Merger - Two companies that sell the same products in different markets.

(iv) Product-Extension Merger - Two companies selling different but related products in the same market.

(v) Conglomeration - Two companies that have no common business areas. It means their businesses or services, are neither horizontally nor vertically related to each other.

(vi) Concentric Mergers - Two merging firms are in the same general industry, but they have no mutual buyer/customer or supplier relationship.

A purchase deal will be called a merger when both CEOs agree that joining together is in the best interest of both of their companies. But when the deal is unfriendly - that is, when the target company does not want to be purchased - it is always regarded as an acquisition. In other words, the real difference lies in how the purchase is communicated to and received by the target company's board of directors, employees and shareholders.

Merger & Acquisition: Motives

Why do companies merge or acquirer other companies? There seems to be a number of reasons given to merge/acquire a company, many of which involving the market and an extension of the customer base. These are: -

- Coordinated Strategies - To create a number of new business opportunities and to gain competitive advantage
- Scale- Purchasing companies in the same space to gain revenues, streamline cost structures, and diversify sales channels;
- Geographic reach- Tapping into previously inaccessible geographic markets;
- Customers- Acquiring companies with good customer lists that can be sold more products;
- Products- Access to new products which in turn can be sold to existing customers or to reach a new customer base;
- Segments- Entering new vertical markets;
- Channels- Finding new ways of delivering the same products and services;
- Employees- Adding needed engineering, sales, or other talent quickly;
- Technology- Adding key technical capabilities or acquiring a disruptive technology.
- Shared Know-how - in the form of process knowledge, market knowledge and talent

Failure of Merger & Acquisition

Mergers and Acquisitions (M&As) have become the dominant mode of growth for organizations seeking a competitive advantage in an increasingly complex and global business economy. Every merger, acquisition, or strategic alliance promises to create value from some kind of synergy, yet statistics show that the benefits that look so good on paper often do not materialize. Unfortunately, many mergers and acquisitions fail to meet their objectives, which are typically to accelerate growth, cut costs, increase market share or take advantage of other synergies.

A global A.T.Kearney study suggests that 58 percent of all mergers, acquisitions, and other forms of corporate restructuring fail to produce results rather than create value. Similarly, a KPMG survey found that "83 percent of mergers were unsuccessful in producing any business benefits regards shareholder value. A major McKinsey & Company study found that "61 percent of acquisition programs were failures because the acquisition strategies did not earn a sufficient return (cost of capital) on the funds invested". Between 55 and 77 percent of all mergers fail to deliver on the financial promise announced when the merger was initiated. Even though most mergers and acquisitions are carefully designed, they still face major challenges. Nearly two-thirds of companies lose market share in the first quarter after a merger; by the third quarter, the figure is 90 percent. In the first four to eight months that follow the deal, productivity may be reduced by up to 50 percent.

The failure rate of acquisitions is unacceptable and unnecessary. This motivates us to look for other solutions and identify the real causes for the high failure rate. Each acquisition is a complex process from pre-deal research and planning (selecting the target), due diligence and integration planning, through to post-acquisition integration and value extraction. Priorities have to be set and rational decisions under time pressure have to be made for the proper performance.

Human Resource: Key Factor

It is reported that one of the main reasons for failure of a merger or acquisition is based on Human Resources neglect. People issues have been the most sensitive but often ignored issues in a merger and acquisition. When a decision is taken to merge or acquire, a company analyses the feasibility on the business, financial and legal fronts, but fails to recognize the importance attached to the human resources of the organizations involved. Companies which have failed to recognize the importance of human resources in their organizations and their role in the success of integration have failed to reach success. While it is true that some of these failures can be largely attributed to financial and market factors, many studies are pointing to the neglect of human resources issues as the main reason for M&A failures. PricewaterhouseCoopers global study concluded that lack of attention to people and related organizational aspects contribute significantly to disappointing post-merger results. Organizations must realize that people have the capability to make or break the successful union of the two organizations involved.

Human resource professionals are key in pre-merger discussions and the strategic planning phase of mergers and acquisitions early as to allow them assess to the corporate cultures of the two organizations (Anderson, 1999). Being involved in the pre-merger stage allows HR to identify areas of divergence which could hinder the integration process. They can play a vital role in addressing any communication issues, employees concerns, compensation policies, skill sets, downsizing issues and company goals that need to be assessed.

Strategies for Managing Human Resource in M&A

I. Communication

During mergers and acquisitions, employees are often kept in the dark about the sale of the corporation. They often hear about the acquisition through the press or through the corporate grapevine. This can lead to a distorted or misrepresented picture of the acquisition's ramifications and to counterproductive activities by employees, who may be anxious about possible job losses. Therefore, Communication is of utmost importance in every stage of a merger or acquisition process, and is the key to its success.

It is very important for management to communicate clearly and regularly to all employees the implications of the merger, including the planned changes to working practices and organizational processes. Management should share as much information as it can with employees before, during, and after the acquisition. To be effective, the communication process has to be carried out in such a way as to avoid confusion and mixed messages. The communication process should also encourage two-way feedback between management and employees to make employees feel that they are contributing to the solution. By involving people at all levels of the organization, the merging companies are encouraging widespread acceptance of the merger process and reducing feelings of insecurity.

II. Retaining Key People

The retention of a talented workforce, which is often a major reason behind the decision to merge, should take priority during the merger process, and management needs to adopt measures to improve the retention rate of the best people in the merging companies. Truthful and thorough communication with employees can play a significant part in management's retention strategy. If the communication process is performed effectively, it can reduce employees' sense of insecurity and give them a better picture of what the future holds for them.

Pay and reward strategies can also play an important role in management's retention strategy but they need to be addressed early on in the merger process and should not only focus on senior executive pay, but also on the remuneration of employees at all levels of the organization.

III. Try to Establish a Common Culture

Successfully integrating the two cultures of the merging companies is an essential step towards achieving a successful partnership. Both organizations, the acquiring and the acquired, will have unique and beneficial cultural elements. Rather than imposing one organization's cultural elements on the other, 'the best of both companies can be integrated into a common culture for the new organization' (Hunsaker and Coombs 1988, 62). This can create a win-win situation for both organizations, since it will result in a corporate culture with which both sides can identify.

Defining and promoting the new corporate culture will enable employees to work together toward achieving the business goals of the new organization. Conducting a cultural audit is a useful way of obtaining useful information about the two companies' differing cultures and helps to evaluate differences and similarities in work standards and practices. That information can raise awareness of potential difficulties and issues in the merging process, and allows the merging company to take steps to minimise culture clashes by building an effective communication structure.

IV. Training and Development

Training and development should be provided to senior and middle management and should focus on all aspects of the merger process. Training should focus on the implications of the merger for the company, its effects on employees at all levels of the organization and its impact on working practices and organizational structures. Training should also educate managers on what each stage of the merger process entails for them and for the company as a whole. Such interventions will facilitate more effective leadership on the part of managers, who will have a better understanding of the key issues that arise during the course of a merger.

V. Try to Eliminate the Them-Us Syndrome

Acquiring organizations should try to eradicate any arrogance on the part of their personnel to ensure that acquired employees do not feel inferior and 'conquered.' A post-acquisition atmosphere fostering mutual respect among management groups will facilitate a better understanding of the others' perspective and make a smoother transition.

VI. Provide Individual Counseling

Individual counselling on personal adjustment and stress coping strategies can assist the employees to 'solve the problems associated with merger stress; recommend, demonstrate and initiate coping with merger stress strategies; or improve the employee's mastery'. In addition, a counsellor can unveil new career paths and job opportunities within the newly acquired organization, which can provide incentives for employees to remain with the organization.

Conclusion

Mergers & Acquisitions (M&A) has become the most important strategic element driving business growth and excellence. Mergers and acquisitions will continue to be an ever-present characteristic of the modern corporate landscape. Merger and acquisition (M&A) bring together different sets of people, processes and technologies with the common objective of creating a larger, unified organization. The organization aims to benefit from the synergies of merging organisations by consolidation, rationalization and integration of the people, processes and technologies of both organizations. Human Resources (HR) has the potential to play an important role during all stages of M&A. However, these issues are rarely considered until serious difficulties arise. The Human Resource dimension of M&A should be accorded the same emphasis and attention given financial, legal, operational and strategic concerns. HR no longer plays a dormant role and is emerging as a strategic business partner where key initiatives undertaken such as communication, training, counseling, career planning, support workshops, building trust, coaching and compensation planning, have significant business impact.

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