ABSTRACT

In order to grow organizations are realizing; internal expansion will not be enough. External expansion is also an option most of the organizations are resorting to in order to increase the size of their business. Mergers and acquisition is the common strategy applied by the organizations in order to promote growth or respond to market change. However problem lies with the fact that in the process of M&As (Merger & Acquisition) organizations are paying attention to just one aspect i.e. the financial aspect; the monetary gains. Investment bankers have a narrower training, and are rewarded for making deals. The deals are finalized without even taking human resource aspect into account. In reality, HR or employees of the organization is the most valuable asset which is often being overlooked at the time of taking strategically important decisions. Management must realize that involving HR early in the process can generate best results for all the stakeholders.

For securing synergy which is the fundamental objective of M&A, organization culture and employee issues should be the first matter of consideration. To the contrary, HR is taken for granted that employees will eventually fall into the line of the organization’s decision and will accept it. Management fails to understand important aspect of HR which is making M&A fail. According to Hunt (1987), only in 1/3rd of cases of M&As the HR aspect was taken into account. A study carried out by KPMG showed that 83% of mergers and acquisitions failed to produce any benefits - and over half actually ended up reducing the value of the companies involved.

HR aspects are not the “soft” aspects which can be kept on the back burner but these are the “Hard Core” issues which should be tackled with lot of sensitivity and taking employees into confidence.
INTRODUCTION

M & A Current Indian Scenario

India in the recent years has showed tremendous growth in the M&A deal. The increasing volume is witnessed in various sectors like that of finance, pharmaceuticals, telecom, FMCG, industrial development, automotives and metals. The volume of M&A transactions in India has apparently increased to about 67.2 billion USD in 2010 from 21.3 billion USD in 2009. At present the industry is witnessing a whopping 270% increase in M&A deal in the first quarter of the financial year. This increasing percentage is mainly attributed to the increasing cross-border M&A transactions. Over that increasing interest of foreign companies in Indian companies has given a tremendous push to such transactions.

The recent merger and acquisition 2011 made by Indian companies worldwide are those of Tata Steel acquiring Corus Group plc, UK based company with a deal of US $12,000 million and Hindalco acquiring Novelis from Canada for US $6,000 million. With these major mergers and many more on the annual chart, M&A India is taking a revolutionary form and India is constantly rising with edge over competition.

The Role of HR

The role of HR is of strategic importance in the process of M&A. One of the airlines decided to expand its operations by buying more planes to have more flights among important destinations of the world. But soon it realized that the strategy could not be implemented on the ground because of the scarcity of number of pilots with desired experience and skills. In most of the case executives fail to understand significance of HR issues and therefore either HR is not considered at all or it comes as the last consideration.

HR Issues in Mergers & Acquisitions

Hard Issues
- Compensation
- Benefits & Incentives
- Trade Unions
- Legislature
- Employee Retention

Soft Issues
- Psychological Issues

58
HARD ISSUES

Compensation
If the acquiring firm is paying its employees more, the employees of the acquired firm expect that they should too be paid at par, which may not happen. In the opposite case of acquiring company paying less to its own employees than the acquired company, can bring significant psychological and legal repercussions. When Hindustan Lever Limited acquired TOMCO, the employees in TOMCO had better pay compared to the HLL employees. The HLL employees argued since both the set of employees now belong to one firm, such disparity could create two classes and can become a matter of discrimination. However the court upheld the side of TOMCO employees. The pay structure too varies as one organization having more fixed pay base and the other on the basis of performance. The compensation structure should be made uniform in the new entity.

Trade Unions
The power equation between management and trade unions is bound to change with the acquisition. For example, UK trade unions sought the intervention of their Indian counterparts for better interface with Tata Steel management. The idea was to "restore good relations" with the management after workers and the company went on a warpath in the UK, where Tata Steel sought to either close down or keep production facilities idle in view of losses due to slowing demand in Europe and rising cost of raw materials. Prior study of management-union equation, employee contracts, political linkages of the unions, compensation related clauses, number of trade union and dynamics between the unions should be made.

Legislature
It is likely that the unhappy staff may resort to legal actions. It is essential that documentation regarding contracts, consultation and correspondence is kept updated and accessible. Meticulous approach is necessary to contracts, rewards systems, benefits and pension schemes, employment legislation and the involvement of the trade unions.

Employee Retention
It has been observed in a recent research, 47% of senior managers leave the acquired firm in the first year and 50-75% of them plan to quit within the first three years. People may decide to quit or stay. Because acquisitions and mergers increase the likelihood of employee turnover, it is imperative for the acquiring organization to investigate what kind of personnel talent it wishes to retain. It will then be able to assess the talent, and identify the redundancies and the employees it wishes to dismiss. Some employees are essential during transition period, others for longer period of time. But it is very much essential to keep the key player who may not be top executives. These are the people who are important for the functioning of the organization. E.g. technology specialists, marketing people, or top management, an effective strategy must be drawn in order to retain this talent. Finding out replacement for them can be time consuming and costly. Equally unwise would be to retain those key players who are unwilling to adapt to changes or with negative or of belligerent attitude.
Psychological Issues

Different emotional syndromes can be seen among employees ranging from complete disbelief, anger, fear, sadness. This nervousness basically gets created among employees regarding their job security, job titles, status, organization structure, career development, about new colleagues or bosses and overall power equations in the company. Management should identify that these emotions and deal with them as fast as possible. Rumors find their easy way to spread across organizations in such an atmosphere. It is the responsibility of the management to have honest and constant communication. Even in times of uncertainty, people still trust the management if the objectives are made clear at the outset. In times of transition employees lose their focus on productivity. Managers still can motivate employees by commending their performance under stressful situation. In case of acquisition, employees of acquired company find themselves in a complete new organization culture and can feel loss of identity.

M&As also change power equations in the company and interpersonal or intergroup conflicts can also be witnessed. These should be dealt early on, not allowing them to turn destructive by bringing out acceptable solution for both sides.

THE KEY TO SUCCESSFUL M & A

Culture + Communication + Compensation = Commitment

With proper culture, communication and compensation, management can bring commitment among staff after the process of M&As gets completed.

Culture

Organizational culture is an organization’s shared values, beliefs, and preferred ways to behave. To understand the cultures involved, the history of each company, its reputation in the industry, and its products and services must be looked into. Cultural incompatibility may make M&A fail to produce synergy and it is wise to give up the idea at the start if the cultures are two opposite poles.

Research has found that cultural incompatibility can produce feeling of hostility and significant discomfort which can lower the commitment and cooperation on the part of the employees. Employees go through psychologically tough times where they not only are required to unlearn the earlier ways of doing things but learn new ways and adopt new values and belief. Things which may appear to be very insignificant at the surface can have deeper impacts. Practices regarding dress up, long hours, and how offices are furnished are deeply ingrained and must be dealt with.

For example, in case of acquisition of Sangli Bank by ICICI, most of the employees of the Sangli Bank were in their late 40s. ICICI employee demographic comprises young staff. ICICI requires its employees work for longer hours and in a completely computerized banking system, more stylish and modern office look, with uniforms and quick service. This was in complete contrast to original Sangli Bank culture. It required intense training at the start for employees and this acquisition seems to be working well on the ground.

It is however must be accepted that no two organizations are similar with each other and cultural differences do exist. Cultural survey can help in finding out best practices in both the organizations and what values and practices management wants to continue for the new entity and give up the rest. Cultural feedback should also be taken from all the levels of employees after M&A.
Communication

Often different messages and information gets passed on to stakeholders like customers, shareholders and employees. Communication strategy should be well planned even well before first announcement till the stage of willful acceptance on the part of all stakeholders. There has to be consistent communication till the time it is well understood by all. Two-way communication always helps in better understanding and confidence building. People should be allowed to clarify their doubts and discuss all the issues. The communication must be honest and speedy. Dilly dally tactics in communication make people feel more anxious and suspicious. Nothing can be more harmful to the future of organization than a dishonest communication. All the speculations and rumors should be speedily clarified, either through media or one-to-one communication, in written way or oral way. The integration effort must be led by a full-time dedicated team. Hunsacker and Coombs (1988) suggest that a merger-integration team should be established, composed of representatives from all levels of the organization in order to effectively address concerns. Information sharing should not be done for the sake of formality but it should be for convincing and making employees believe the organization is heading towards right direction.

Compensation

Unequal compensation may become issue of dividing new co-workers, creating attitude of “we” versus “they”. Equal compensation structure must be brought in to create feeling of internal equity.

OTHER INITIATIVES

• Train managers on the nature of change
• Technical retraining
• Family assistance programs
• Stress reduction program
• Meeting between the counter parts
• Orientation programs
• Explaining new roles
• Helping people who lost jobs
• Post merger team building
• Anonymous feedback helpline for employees

CONCLUSION

In a strategic move like that of Merger and Acquisition, not only financial & economic but human resource aspect too must be given priority. HR should take lead in the process and should act as a strategic advisor. Many key HR issues are involved and they must be brought to the notice of top management and should be addressed if the strategic move is to be successful for both the companies.
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