



**ISSUES AND CHALLENGES OF HR IN POST MERGER & ACQUISITION FACE BY
COMPANY AFTER GLOBALISATIZATION - AN OBSERVATION AT GLOBAL
LEVEL**

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ABSTRACT

The present paper has tried to present the major issues & challenges of HR in post M&A at global level. an attempt is also made to draw a few suggestions to overcome the same. It has further examined the assessment of employees' sentiments towards the merger or acquisition is central to tailoring communications and change-management initiatives to foster unity, teamwork and collegiality. Lapses in productivity are common in this early stage of integration. In a 2,000-employee organization, where one half of the workforce is spending an hour each day discussing the uncertainties of the merger, a newly merged company can lose 1,000 hours per day in productivity. Assuming an average wage of \$50 per hour, this wasted time can deliver a weekly loss to the bottom line of \$250,000 per week! HR's efforts can make a critical cost-saving contribution. Few studies have been revealing that the overall M&A with Asian participation has greatly gained in significance over the past couple of years. During 1995 - 2008 in total 100,000 deals, almost the value of 3,941 billion USD has been announced. In 2008, 11,518 Asian transactions were announced. This is a slight decrease of 1.5% compared to 2007, but still another year of high activity in terms of numbers. This rather small decrease is even more astonishing given that worldwide the number of deals decreased much more, by 10%. The total value of Asian deals in 2008 declined 37% to 519 billion USD. The number and value of cross-border M&A transactions have increased to levels never seen before. While in 1995 there were about 1,300 cross border deals announced, in 2008 it was 3,600 (an increase of 280%). Over the same time period, the value of such deals has disproportionately increased from 46 to 238 billion USD (+517%). The importance of Asian M&A has increased its share in the number of worldwide transactions from 8.5% in 1995 to 17.7% in 2008 and in its value from 13.3% to 20.0%.



INTRODUCTION

The rapid changing business scenario in the market place, due to the globalization phenomenon, growth in the outsourcing mode of working, the need to speed up growth, and the shortening of product cycles, has forced companies to think about using "mergers and acquisitions" as a part of their business strategy, to meet their business goals. Depending on how the two companies see their position in the merger, they would broadly fit into one of the four situations - rescue, partnership, adversarial, hostile. Regardless of the reasons for the merger the objective is to produce advantages for both the buying and selling companies, that is, the resultant entity should be greater than the sum total of the individual entities. While there are many reasons cited for failures of mergers, the key area that has become very important, is to understand the process of managing the human resources in a way where they are not only retained, but also collaborate effectively to contribute higher levels of performance.

WHAT IS MERGER?

A merger occurs when one company is combined with and totally absorbs another. Operations, facilities, and functions are rationalized and combined for maximum efficiency. The cultural beliefs, norms, and infrastructure of the acquired organization generally change to the acquiring culture for the integration purposes. The acquired organization effectively loses its identity. Acquisition is a process used to transfer stocks or assets from one company to another (from seller to buyer). The process of acquisition can take place as a purchase of stock, purchase of assets, or a merger. Acquisition is a generic term used to communicate the transfer of ownership. A merger may or may not be a part of an acquisition. One can do an acquisition followed by a merger or by means of a merger, or one can also do an acquisition where no merger takes place. A merger between organizations can create a difficult work environment for employees, with job redundancy and futures in question. Post-merger, the human resources (HR) department fills a critical role in managing change and implementing new mandates in the least disruptive and most constructive ways possible. Keeping employees' needs in mind is HR's job in a post merger organization and something that can mean the difference between a successful and an unsuccessful merger.



OBJECTIVES FOR MERGERS & ACQUISITIONS

The major objectives of Mergers & Acquisitions may include: Horizontal mergers for market dominance or economies of scale, Vertical mergers for efficient channel control, Hybrid mergers for spreading risk, cutting costs, creating synergies, or could also be a defense mechanism to survive against competition, Growth for global reach, Survival by developing a critical mass, Acquiring cash, deferred taxes, or even excess debt capacity, Acquire a bigger asset base to leverage borrowing, Top line growth objective, financial gains and personal power, Adding a core competency to provide more combinations of products and services and To acquire talent, knowledge, and technology.

REASONS FOR MERGERS

There are many reasons for a company to merge with others or to acquire other companies. Some of the reasons are in the interest of survival, Horizontal mergers for market dominance, The vertical mergers for channel control, Fusion Hybrid at the risk of spreading, cutting costs, Growth for world class leadership and global reach, Purchase of Cash, move quickly in Market, Flexibility, good technology as its own, Gain core competence, financial gain and personal power, The talent, knowledge and skills, Whatever the reason, there are assumptions, which contains the facts., Planning can help your chances of success, Mergers and acquisitions (M & A) are the easiest and fastest way to grow, Mergers and acquisitions are difficult do, synergies is a challenge and horse culture is a challenge.

WHAT NUMBERS SPEAK ON' M&A'

Overall M&A with Asian participation has greatly gained in significance over the past couple of years. From 1995 to 2008 in total 100,000 deals with a known value of 3,941 billion USD have been announced (UNCTAD). In 2008, 11,518 Asian transactions were announced. This is a slight decrease of 1.5% compared to 2007, but still another year of high activity in terms of numbers. This rather small decrease is even more astonishing given that worldwide the number of deals decreased much more, by 10%. The total value of Asian deals in 2008 declined 37% to 519 billion USD. This decline is almost in trend with developments worldwide (down 40%). Although the number and value of transactions may decrease again this year, the long-term trend is clear and increasing: The number of Asian M&A since 1995 shows a compound annual



growth rate (CAGR) of almost 10%. The value of deals will continue to fluctuate with stock markets. The year 2008 probably marks the end of just another M&A wave, but M&A however will remain cyclical and will continue to play a vital role in Asia. The next wave of M&A will come for sure. The number and value of cross-border M&A transactions have increased to levels never seen before. While in 1995 there were about 1,300 cross border deals announced, in 2008 it was 3,600 (an increase of 280%). Over the same time period, the value of such deals has disproportionately increased from 46 to 238 billion USD (+517%). The importance of Asian M&A has increased its share in the number of worldwide transactions from 8.5% in 1995 to 17.7% in 2008 and in its value from 13.3% to 20.0%. M&A are said to be quite unsuccessful with a success rate of only about 25% to 50% at best (for a list of studies on the success and failure of M&As see Bruner, 1994). Post-merger integration (PMI) is often blamed as the major reason why M&A deals are less successful than they should be. For these reasons it makes perfect sense to explore how PMI in Asia can be improved.

METHODOLOGY

For the purpose of the study data have been collected from secondary sources. Necessary secondary data have been collected from published and unpublished records and documents of the organizations went for M&A. Data regarding to the conceptual frame work of the M&A, statutory and legislative dimensions and literature are collected from Journals, Magazines, and News letters, News papers, Periodicals, Reference books and websites.

A FEW PREVIOUS INTERNATIONAL STUDIES

C.D Fisher (1989) highlighted the operative issues, organizational strategies and managing HR dealings with Mergers & Acquisitions. GK Stahl, V Pucik and P.Evans (2004) have stressed on different stages in the M&A process and made attention to the 'Softer', less- tangible but critical cultural issues and HR aspects of M&A management. E.M. Antila (2006) addresses the existing research gap by investigating the role of HR managers in the M&A process by defining the key roles of employees, designing the reporting relationships, planning the lay-offs and managing transition. N.S Rajan (2007) has recognized the retention as the perfect sum of all delights and also advocated the method of tracking selected indicators of talent integration success in the three stages viz, pre-merger, during- merger and post-merger. P. Prakash (2007) has identified the issues relating to the human and culture. C. Kumar (2009) witnessed the advanced post



merger integration (PMI) as a strategy to overcome the challenges and issues of post-merger. P.S Budhwar. A Varma (2009) have examined the three main reasons corporate cultures, absence of clear communication and employee involvement in post-merger scenario. K.A Jerjawi (2011) has ascertained that most of the post-merger challenges results from not integrating the HR tactics of merging organizations. He had also demonstrated that HR managers are an essential part of mergers and that HR practices should be given an extensive emphasizing throughout such organizational change the merger process.

OBJECTIVES OF THE PAPER

Following are the main objectives of the present paper:

1. To examine the Issues & challenges of HR in post M&A after globalization.
2. To brief a few studies in India on Issues & challenges of HR in post M&A.
3. To identify the major findings/consequences of HR in post M&A.
4. To offer suggestions to consider in making the process of mergers useful in retaining the people.

THE PROBLEM

Mergers are failing to meet their objectives. In the last decade, mergers and acquisitions have become a worldwide growth story, despite the high risks attached, and the information that over 85% of them have failed during the process of integration. It has been determined that most cases of failures have been because of employees not being able to adjust to the new environment, and/or many good employees leaving the organizations during the process of the integration. Despite a well planned strategy acquisitions have found to be a failure, and the main reason attributed for the failure is the challenges faced in managing people related issues. The human resource issues in the mergers and acquisitions (M&A) can be classified as the pre acquisition and post acquisition period. Due diligence is important in the first phase while integration issues take the front seat in the later. The pre acquisition period involves an assessment of the cultural and organizational differences, which will include the organizational cultures, role of leaders in the organization, life cycle of the organization, and the management styles. The mergers often prove to be traumatic for the employees of acquired firms; the impact can range from anger to depression. The usual impact is high turnover, decrease in the morale, motivation, productivity leading to merger failure. The other issues in the M&A activity are the changes in the HR



policies, downsizing, layoffs, survivor syndromes, stress on the workers, information system issues etc. The human resource system issues that become important in M&A activity are human resource planning, compensation selection and turnover, performance appraisal system, employee development and employee relations.

SOME REPORTED FINDINGS/CONSEQUENCES

People are the key to making a merger work, and it is the people-related problems like, culture clashes, management disputes, loss of talent and the inability to manage change, which are the basic reasons why mergers fail. The top seven obstacles to achieving success with a merger or acquisition are: An inability to sustain financial performance, Loss of productivity, Incompatible cultures, Loss of key talent, A clash of management styles, An inability to manage / implement change and Objectives / synergies not being well understood. All these obstacles are either directly or indirectly related to the strategic management of people and that cultural differences between companies may be the single highest barrier to success. A merger has a profound effect on the people of both companies, and managing this impact is an important part of managing a successful transition to a unified leadership, business model, and organization. By recognizing and responding appropriately to the impact of the deal on each employee, HR managers can set the tone for long-term success or failure of the new company.

Remuneration also plays a key role and needs to be considered from the multiple perspective of strategy impacting employer, employee, and cost. Maintaining and building morale and loyalty, and treating people fairly are the other areas in this stage that plays a significant role. In the post-deal stage, it is the responsibility of the HR to plan and manage the integration process.

HR ISSUES AND CHALLENGES IN POST M&A

1. PSYCHOLOGICAL ISSUES

Management-union equation, employee contracts, political linkages of the unions, compensation related clauses, number of trade union and dynamics between the unions and Psychological trauma, increased workload, survivor guilt and stress are the few issues pertaining to the psychological aspects of the employees of the both companies. The likely reactions as noted by studies in this regard are anger fear, denial frustration and depression which leads to altered behavior, reduced productivity, stress, illness, accidents , conflicts and a total lack of



commitment to make merger work. The feeling of political back stabbing adds to the psychological trauma.

2. SOCIAL THREATS

The reaction of the employees can vary from anger to dejection and depression. The process of merger can have inbuilt psychological and social threats which should be identified like exodus of managers due to the perceived job insecurity.

3. CULTURAL ISSUES

There is also fall in the morale, commitment and loyalty. The merger can lead to depression and impaired performance. The dissimilarity in the cultures can produce the feelings of hostility and significant discomfort, which impact on the commitment and cooperation on the part of employees. The cultural difference also leads to counterculture feelings where employees tend to completely reject the dominant culture of the organization. The impact of cultural shock is significant and long lasting on the employees. The initial shock is followed by employees making their own perceptions based on values and past experiences. The more dissimilar the culture is higher will be the cultural shock.

4. STRUCTURAL ISSUES

Another practical problem is differences in the grading or organizational structures in the systems. Since the organizational structures are different designations for the employees are used, during the integration of acquired organization the acquiring organizations need to develop a mechanism to remove the differences in the grading systems bring them at equal level, as many a times the compensation is related to the grade of employee in the organization.

5. EMPLOYEE RELATIONS ISSUES

Employee relation issues gain more importance in the acquisitions of manufacturing units in India. The power equation between management and trade unions is bound to change with the acquisition. The acquiring management also needs to keep track of number of unions in the workplace and equations between them as many Indian manufacturing units have multiple unions. Hence comprehensive analysis of trade unions operating in the plant should be done. This will require study of management-union equation, employee contracts, political linkages of the unions, compensation related clauses, number of trade union and dynamics between the unions.



6. HUMAN RESOURCE ISSUES

There are many reasons for neglect of human resource issues and activities. Some of the Reasons are: The lack of awareness that human problems are more critical, No spokesperson to articulate these issues, the belief that they are too soft and therefore difficult to manage, there is no model or tool for understanding and addressing human problems and focus, while mergers and acquisitions are also other activities rather than on human affairs.

7. REDUNDANCY

One of the most difficult issues facing HR post-merger is job and employee redundancy. The two companies that have now become one most likely had their own management team and sales, accounting and even HR departments. That means informing employees who will be losing their jobs, and arranging for and facilitating outplacement and counseling services for employees who will be leaving. For those who will be staying, it is HR's job to ensure that employees understand the reasoning behind decisions and have clear and immediate guidance on their new roles and responsibilities. Minimizing employees' uncertainty is the best way to ensure a considerable productivity.

8. SALARIES AND BENEFITS

Employees might have been compensated differently by the two companies and these differences must be quickly reconciled. Once decisions have been made about who will stay with the new organization, HR must establish new salary guidelines and implement a new benefits structure. It is up to HR to decide whether to maintain the salaries and benefits of one or the other of the organizations or to develop an entirely new approach.

9. LAYOFFS AND DOWNSIZING

One of the main HR issues in mergers is how many employees will be affected and what time lines will be involved. In some situations, the downsizing (the decision to let personnel go to improve efficiency) is dramatic and the number of layoffs (the termination of employees or elimination of positions) can be high. Employees are tense, as losing their jobs affects their ability to provide food and shelter for their families. Planning a fair method of implementing a layoff process can be challenging as the dominant company (the new company that bought or absorbed the present one) may be in charge of the decisions. This requires HR employees to remain businesslike and professional in their dealings with both companies.



10. ASSIMILATION OF NEW EMPLOYEES

Another HR issue in a merger is the assimilation of new employees. Employees coming into the acquired company may be a source of tension and stress for the present employees. Careful planning is required to introduce the employees and facilitate teamwork. HR-planned activities (picnics, off-site meetings, ball games, and bowling evenings) involving all employees may be helpful to allow for introductions and socializing.

11. PREPARING FOR CHANGE

Preparing for change can be a major HR issue in a merger. Some people may not like change and will resist any change actions. HR professionals can be helpful by preparing written communications, holding department meetings, and placing suggestion boxes (for employee ideas) in various areas. Preparing all employees for the planned changes within the company and discussing how the changes will affect them can enhance a successful transition.

12. NEW NORMS

Every organization has a unique cultural makeup. The shared norms and values in a company evolve over time, are typically guided by leaders and are perpetuated by employees. When two entities combine, they bring two distinct cultures. HR professionals must diligently work to build a new organizational culture without forcing employees to give up key values and rituals they have enjoyed. Many newly merged companies conduct more regular employee meetings and try to organize company activities during the first few months.

13. TEAM-BUILDING

Integrating employees from the merging organizations is critical to maintaining or improving production and performance quickly following the merger. The first step is to introduce new colleagues and give them ample time and opportunity to bond. Team-building activities and scheduled department meetings strengthen rapport and enable work groups to formulate new ways of doing things.

SUGGESTIONS

The following suggestions are being put forth for companies to consider in making the process of mergers useful in retaining the people, and thereby protecting perhaps the most valuable assets that the company has acquired.



1. Evolve a clear vision and business strategy of the merger during the process of negotiation, and have it ready for communication across the two companies.
2. Involve the HR early in the cycle of negotiations, to map the culture of both the companies, and where necessary evolve a culture that suits the merged entity.
3. Create a new Organization Chart, and take up a detailed audit of the competencies of the employees to map their roles and responsibilities as aligned with the new chart.
4. Establish a strong communication system, to proactively stall the arising fears and insecurity amongst the people.
5. Communicate to provide clarity of the plans, and communicate continuously. If needed, using an external agency that can be seen as a neutral agency.
6. Engage employees in productive work and keep their motivation / commitment levels at the highest possible levels.
7. Clearly defined communication strategy during M&A plays an important role in removing the employee fears and kill rumors floating around in the organization.
8. The transition period also becomes crucial from communication point of view. In case of lengthy transition period the employee stress increases, the best strategy in this period is to convince the employees that they are part of new organization and their concerns will be taken care of. The transition period can also be used to improve communication with the employees of acquired firm. Improved communication will help to better understand each other's cultures and practices. Firms can also use this period to analyze the human capital of the acquired firm and define their possible roles in the new organizations. The transition period provides ample opportunity to design the new organization, explain the new roles to the employees, plan synergies and train the employees as the new role. This will make the integration process easier for the acquiring organization.
9. The communication aspect being very important should be handled carefully by the human resource department. The communication should provide precise information to the employees, providing any piece of information which is unreal can lead to rumors and counteract. The communication should be sufficient enough to answer the queries and worries of the employees.
10. HR may take control over the post merger issues and challenges by undertaking the process of Train managers on the nature of change, providing Technical retraining, organizing 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 and by taking Anonymous feedback helpline for employees.

CONCLUSION

In fact, research shows in this sector over the past 15 years, that 50-70% of all mergers, acquisitions and other business units do not achieve the desired results, transformations, primarily because of the problems of the people. ‘Marriages Not Always Made in Heaven’ (Cartwright S, Cooper CL. 1994) don’t let anyone tell you that a merger or acquisition is the union or marriage of two sets of employees. Outside of some of the executives, it is more like two mind sets who have never dated, and now are thrown together because of the wishes of stockholders or boards over whom they have had no control. Some Final Advice: Make no commitments or promises. That's not HR's job in the merger process. Furthermore, once the merger is official and integration starts, you're guaranteed to find that perspective, personnel, and data have changed. It often amazes me how much change actually does take place between inception and completion. In a large company, true integration can take three or more years, by the way.

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