

# Role of hr in mergers and acquisitions



A merger and acquisition is one of the stepping stones for the acquiring organization and a different working environment and atmosphere for the acquired organization. In order to retain the talent and also to ensure a smooth transition HR plays a major role. This paper discusses the various issues that an HR manager needs to consider in order to ensure smooth transition. It describes the various aspects and roles of HR manager and the employees in concern.

A combination of two or more companies to form a new company is known to be a merger, while an acquisition is the purchase of one or more companies by another with no new company being formed. A merger is said to occur when one organization assumes all the assets and liabilities of another organization. In this process of acquisition, the acquiring firm retains its identity, while the acquired firm becomes non-existent with no identity of its own while for a merger to happen a majority vote of shareholders is compulsory. A merger can also be seen as a type of acquisition.

#### WHY MERGERS AND ACQUISITIONS??

Mergers and acquisitions happen when one firm becomes too weak to carry on its own i. e. the major players dominate the market to such a great extent that small players are just not able to cope up. It may also happen that sometimes organizations realize that their potential, efficiency and profitability will get a boost if they work in collaboration with other organization.

#### LAWS GOVERNING MERGERS AND ACQUISITIONS

State and federal laws have been laid down so as to govern and control the mergers and acquisitions of organizations. State law lays down a path so as to ensure fair practices during a merger or acquisition by establishing judicial oversights, procedures and guidelines for the approval of mergers so on and so forth which has made the merger and acquisition procedures friendly and negotiated transactions.

## **THE HR PERSPECTIVE OF MERGERS AND ACQUISITIONS**

Getting to grips with a company merger or acquisition is one of the most challenging issues HR professionals face. Understanding the employment law issues along with critical people issues like leadership, employee communications, talent retention and cultural alignment are very important for success and can contribute to a makeover of the long term merit of the transaction. With the high degree and overseas activity in this complex area and the increasing role of HR in the M&A process it is essential that HR specialists become involved in the pre- merger and acquisition processes such as due diligence right through to the integration process and post deal activities. If a merger or an acquisition is planned by the organization in future – or is currently engaged in that M&A process – it can be ensured that the value of the deal can be realized throughout the organization.

The key HR initiatives have included:

To develop preliminary organizational designs and hence identify the top three levels or the strategic levels of management

To assess the critical players and hence deploy appropriate resources in the unique collaboration

To retain key people and if possible eliminate the redundant staff

To develop a total rewards strategy for the merged companies

Communications strategy development and implementation

Integration of payroll benefits and HR-IS

An ability to do this with an accelerated pace.

The alteration associated with any merger or acquisition is one of the major opportunities for the HR to demonstrate its knowledge, skill and ability to manage human capital. HR is an inevitable part of the integration team in mergers and acquisitions due to its ability for evaluating the compatibility of corporate cultures along with different alternatives available for combining enterprises. HR must be the most trusted, accurate and efficient source of information for the employees elaborating the meaning of mergers and acquisitions for those employees.

## **KEY DRIVERS OF MERGERS AND ACQUISITIONS**

Take appropriate action and make decisions in a fairly short amount of time which is the secret to hold onto good people.

It is required to be candid with the employees, and always respect them and to let them know and make them understand the benefits and importance of combined entities which will be a better and more valuable organization.

It is always better to use ownership of the company which is represented by stock options and stock grants whenever possible so as to direct a pull in one direction.

We should always make wise decisions about the people being employed and be honest about them.

There should be no discrimination among the people who are intended to leave and those that continue with the organization and both should be treated with equal respect.

HR executives should be an inseparable entity for all the phases of due diligence, which would help to ease the transition, and help employees focus on the creation of investor or stakeholder value as and when the time permits them to. A wait-and-see attitude can lead to an irrelevant role for HR thereby creating unrest among employees. Instead, the role of HR must be harmonized thereby quantifying its value which eventually becomes integral to the deal.

The companies report their mergers to be successful but in actual practice that is not the case as the end results generally tend to be faulty thereby obscuring the success rate of the mergers. The research conducted on these issues report a success rate of about 30-60 percent varying with the criteria's being measured. Even a perfect deal on paper, how much ever flawless tends to produce poor outputs in the end when they are put into practice and many organizations tend to lose about 10 percent of the market value of the organization in the initial starting year itself after the merger takes place.

There is continuous learning involved about the transition period management, short-term or immediate performance optimization, retaining maximum amount of talent, and process and system integration. Companies that fail to address these critical issues often suffer a loss in profitability, talent, and confidence in their leadership decisions.

Although a horde of factors can contribute to an unsuccessful merger or acquisition, in the end its success depends on the effective utilization of human resource. Bureau of Business Research in their report, prove that rather than the financial factors, it is the organizational and cultural problems which tend to derail a merger. Out of 100, 28 percent of companies claim to have done a decent job of assessing the culture of their merging organizations before the deal, 26 percent claim to have put the deserving people in the proper roles during the merger, while just 15 percent claim to have successfully communicated the vision and goals after the union or merger of the said organizations to their employees.

People issues impact every level or step right from the pre merger investigation point till the identification and evaluation of people to the management of cultural issues, communication issues and so on. Such issues are extremely important and critical for the success of the merger process and should not be treated lightly. It is very impractical or rather silly to assume that a business can be absorbed by another business without altering or being altered. When two companies merge, the effect of change may not be equally proportional, but a change in both is something that is certain.

Looking at just one key issue, leadership, it is essential to evaluate the strengths and weaknesses of the players, both individually and collectively so as to ensure or guarantee that the management aptitude that is required to define the future of the newborn company is there and still will continue to exist so as to steer the chosen course. Diagrammatically the entire merger and acquisition process can be represented as:

### **Pre merger Investigation**

At the beginning of the process itself, HR must harmonize its role in due diligence which is much, much more than a financial evaluation of it. It is desirable and extremely essential to assess the valued human assets, for determining the true and the actual value or worth of the deal and its probability of success as they can never be quantified or show up on a balance sheet.

The first priority or the foremost job or task that needs to be done is to identify, recognize and select the key people and act promptly to restrain them from quitting the job the moment the deal is announced or being announced. Each and every function has to be clearly understood, the effect or the consequence on each department must be clearly analyzed even in the ground organization of stores or salespeople if it is applicable. Often, various facts present in the field are overlooked, yet the true business of a company is carried out. Every key individual should be assessed with great care against a set of clearly defined competencies which are aligned to the requirements of the new group.

If the appropriate questions are asked before a merger, then HR does not need to slog too much for the first six months. The key and the most important areas of HR are due diligence:

Key and the crucial talent analysis and recognition

Culture and civilization

Employee demographics and their competency study

Benefits and its comparison to the original organization

Compensation structure

Legal issues which would relate to the employee litigation, the workers' compensation as also union contracts, notices and issues.

Staffing the newborn organization with the apt people also requires a systematic determination of the roles needed and required and also identifying the people resources who are suited the best for the job.

Valuable people which are the keys for successful integration, may be lost as a result of inadequate staffing decisions that are made and implemented without a plan, any thought of an equitable method of assessment, and without taking into account and consideration the future and the emerging needs of the business.

It is often better to gather a third-party assessment or an expert's opinion regarding the key players in both the merging organizations, using



consistent criteria and thereby getting more buy-in or access to the various outcomes and also to avoid appearance of favoritism.

## **Planning for Amalgamation**

Without a clear and a well defined plan and an appropriate timetable, a merger or an acquisition can fail drastically. The plan should be segregated by function: What is required to be achieved and who is responsible for achieving the set targets and goals? When is it scheduled to get over?

The integration effort and execution must be led by a dedicated team who need to be appointed on a full time basis and are ready to give their 100 percent. An integration project manager free from routine responsibilities and whose only job is to manage the overall plan, need to be appointed. The integration manager is required to have an exclusive and exceptional set of competencies which includes project management as well, tremendous experience in the parent or the main business, and specific or certain functional expertise that are relevant to the newborn business. The assigned person should be willing and competent enough to make tough decisions in a very short span of time, must be able to handle conflict effectively, and work efficiently across functions and management levels. Communication skills also play a vital role for the manager to be efficient.

The integration team must be full of flexible, creative, and enthusiastic people who are willing to take any kind of challenge. For this they must be taken completely away from their usual jobs or assign them new responsibilities so that they can completely devote themselves to the team effort. The best among the available people must be picked and not just the

people that are available at the time and incompetent. Integration leadership should be a profitable investment in the continued and regular development of the newborn organization and should be sustainable.

## **Key HR Tasks**

Developing strategies and action plan for retaining key and important people

Examine compensation and benefit course or agenda

Identify barriers and the road blocks on the way to a merged culture

Develop and execute a comprehensive, broad plan for communicating with the newborn organization.

The entire change-management or the process of change and expertise in the group should be focused on addressing employees' anxieties about the merger.

## **Effective Information Exchange**

The need or the requirement to communicate, make communication, communication extends well into the latter stages probably till the end of the integration but must begin or always start with the first announcements.

Commonly, communication efforts and plans are fragmented with different and various messages and information that is flowing to the investors, the employees, the managers, and the customers. The messages sent to all stakeholders must be considerably planned and should be consistent so as to avoid miscommunication.

Two-way communication always supports comprehension. Various available techniques must be used like written communication, one-on-one meetings or commonly known as personal meetings, and small- and large-group meetings, so on and so forth. People crave to understand the information that they cannot extract from a piece of paper at a personal level by probing, discussing and asking questions

The overriding question which needs to be continually asked is the effect it has on any individual. Speed in communication goes hand in hand with speed in total integration. People should not be left waiting for the other opportunity or a shoe to drop. Talking to them with incomplete or inadequate information, rather than let the gossip or rumor spread, fills the communication void or gap. Anxiety can be reduced by being upfront honest to the employees.

During acquisition, an excellent tool was developed, known as Rumor Buster, which was manufactured and distributed weekly to counteract and deny the rumors. Sometimes, it is sufficient to clarify the message or reveal additional details while in some other cases, a 360-degree turnaround explanation is required for people to ultimately get the right information.

The aim or the final destination of communications should be to inform, as well as to engage employees' hearts and minds. By demonstrating a clear vision and image of the future and gaining absolute commitment to it, the newborn company starts building the loyalty that is crucial to survival for the organization.

## **Seven-Step Communication**

Develop macro messages.

A thorough analysis of the key audiences must be conducted.

The messages produced must be micro or issue-specific in nature.

Appropriate media mix must be selected.

A strategy timeline must be devised for smooth functioning.

Ensure that the strategies designed are implemented in the right manner and measure its efficiency.

## **Ethnology and lifestyle**

By understanding the aspects like their similarities, competencies, differences etc between the two companies early in the merger, it is possible to avoid disasters before the final deal is done. If the incompatibility seems to be very vast, then it may even be wise to withdraw the deal altogether rather than suffering tremendously afterwards.

To apprehend the cultures involved, it is wiser to look at the history and the past of each company or organization, its reputation and standing in the industry and the market, and its various products and services and competencies. Despite the fact that these factors are fixed, other factors influencing company's operations and employees, customers, and other stakeholders' interaction are very crucial to the effective and glitch-free functioning of the newly formed organization. The functioning of the organization can be affected even by non trivial factors such as the location.

Another issue which we must take into account is where the authority lies and how these critical decisions are made. Do the companies seem to be bureaucratic or freewheeling?

Conclusively, there is the emotional element which is most crucial of all. How do employees find the ambience of the company, its management, and future of that organization? How effectively they welcome and adapt to the new strategy or policy? What employee behaviors and activities are the benchmarks, and what values and beliefs are driving those behaviors? How much satisfied and reassured the people are with their jobs?

It is important to pinpoint and target the cultural areas of dissonance in a way such that people can dispel and drive out misconceptions and begin afresh to create a culture that is right for the unique and the unknown organization.

How do we single out the cultural differences and similarities that exist and learn about their leveraging? Usually, the most seemingly inconsequential programs and policies tend to have great symbolic impact. Methods of casual dressing, their attitude about long working hours, and how the offices need to be apportioned and allocated are deeply ingrained and embedded and must be dealt with effectively and in an efficient manner.

One cannot consider culture compatibility explicitly without considering the different views that the acquirer i. e. the taker and the acquired are poised to have about the product and the combination of the merger. The acquirer expects that the newborn company will closely and very accurately resemble the original but with a greater mass and more capabilities but the acquired

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company expects and anticipates that many of its core strengths and competencies will be vital to the newborn company.

During the Shaw's-Star integration, we found that it was better to resist the impulse to assume that the way each company does things is best and instead meld practices.

Below is a table listing the culture type and the outcome of particular mergers

### **Pivotal talent retention**

During a merger or an acquisition it is very difficult and very few techniques available so as to retain people. Offers can be made to certain people and their acceptance and decline of the offer should be fine by the organization and not affect it much. But when there is a question of the key people, the story changes altogether. “ Key people” is not implied to the top executives who may be important in some aspects. But there may be some other key and crucial employees as well who are more valuable or substantial to the working of the enterprise. Their loss can cost a lot to the organizations and the result is not completely fault free. No matter what their domain may be, in must be ensured that they are retained in some or the other manner.

The next question that must be dealt with is that for how long are these people required. Some talent may be useful or required only during the transition or the change over period, after which the responsibilities of these people can be handed off or transferred while others may be needed for much longer than that. Each and every individual has to be considered, and a plan should be designed and set up for that particular individual. The type

and nature of agreement that is drawn and the extent to which it goes to keep key talent always differs from organization to organization.

But it is considered best so as to retain the confidential information or keep someone who is sure to never get adapted to the new structure, just for the sake that, that person is talented or is highly considered and thought of.

People may have to be allowed to let go so as to maintain a tradeoff against disruptive and negative attitudes or constant conflict. The apt fit of any one person in the emerging culture can be as critical and vital to success as talent.

A frequently and most commonly used retention tool is the bonus. It must be planned to be given and distributed among all the employees and it is most likely that the people who do not receive it would consider themselves to be undervalued. But for some individuals who are eligible and deserving enough, a bonus can help make them feel special and entice and tempt them to stay for the period that would be covered by the payout. However, the fact regarding the extension or duration of the program and the level of payout must be clarified which should not be kept hidden and must be perceived and viewed as fair and equitable, for it has the potential and the capacity to generate negativity or develop negative attitude.

The latest structure of the merged companies is subjected to be different, which can threaten the existence or availability of certain jobs due to incumbents are staying, but it is always wise to keep or retain the talent in the peak 10 percent of the population, even if their present jobs do not exist. In such circumstances we must find a position for them in the organization,

and ensure their retraining if desired. Talented people are always ready to welcome the challenges offered by a fresh and innovative role, and they do tend to enjoy their career growth and added responsibility.

## **Collaboration**

There are two different varieties of synergies that companies try to find through a merger or acquisition: evolution and economies of scale.

## **Evolution**

The role of HR is to identify the most important and valuable human assets in the target or the end company, to set up the retention arrangements to retain critical talent, and actualize development plans for employees to make them ready to achieve the anticipated and desired corporate growth. The various other issues that require attention in order to maximize and extend the horizon of the growth synergy are reward, remuneration and recognition programs, a team development, and the integration of benefits and the reimbursement and compensation programs-to ensure that they are competitive enough so as to attract or tempt and retain the desirable employees.

Often when the mergers are considered or contemplated, synergy and value depends heavily on the effective and efficient transfer of knowledge. As knowledge is increasingly becoming a crucial corporate asset, it is critical to capture the very best practices of each and every company for maximum possible return. It commences with a relatively easy task which is to identify the people and processes that are required to keep the business operating as routine. From there it moves on to training on systems, certain job skills,



and methodologies. In the end, it involves capturing of the tacit knowledge and informal networks which enable an organization to get things done in the right manner, at the right time and with the right resources.

### **Economies as per hierarchy**

That is generally a euphemism or a practice or habit for firing people. But to achieve the desired or anticipated synergies, an analysis is required so as to determine the ultimate or the final look and structure of the organization and the desired and necessary positions therein. Once that is clearly identified and distinguished, assessments must be done determining the people who stay back and who are no longer required. Should there be any redundancy, it must be discarded. Personality and motivational factors along with job skills also need to be determined and considered. The apt fit or compatibility of a person with the newly developed team and culture and civilization can greatly influence the person's likelihood and probability of success.

Individual job and career objectives should be dealt with in detail, and employees must be intimated and informed about their options for the future in due time giving them an opportunity to think over matters and make the right selection. The cost of severance or disconnection packages and the various outplacement services is required to be apportioned and factored into the equation. Even non trivial issues such as where to place the newly acquired employees tend to become sensitive and costly. It is very important to have a properly and accurately documented and a rational and an impartial approach to these issues so as to avoid the appearance of favoritism.

## **Buyer's Anguish**

Mergers and acquisitions do not tend to follow a laid-out linear progression in a strict manner or fashion. How much ever as we try and crave for a logical and a properly ordered approach, when two distinct groups combine or come together, the development or the progression takes on its own route and characteristics which is quite natural and obvious. Initial plans and assumptions that were made have to be adjusted, so as to incorporate the new changed life of the organization and the main aim or focus can be lost as various critical and immediate problems start rearing their ugly heads. Executives are generally pulled away so as to deal with the next business issue which tends to reduce their visibility and gives the impression that they are no longer concerned about the merger.

Once the reality starts creeping in, driving out the thrill of the deal, it results in the mood change from the one of exhilaration to remorse as the amount of the workload increases and problems show up which can confuse and exhaust the people to a great extent. The path may or may not be certain, and the people will be working harder and longer, while new employees may require more time than anticipated or expected of them to get up to a desired and expected level of speed and performance. Acknowledgement and prioritizing the problems are the only things that can make the situation more manageable in such circumstances. People require permission to voice their feelings and once they are leaked, their emotions can be handled and taken care of with greater ease.

The structure of integration is as unique as the deal. We can certainly benefit from what came before and should document the process so that the next

deal runs more smoothly than the last. Success is more likely if you follow a flexible, well-designed integration plan to combine the two entities, adapt to issues as they come along, and make the right decisions with reasonable speed.

## **TWO APPROACHES TO M&A**

Emerging giants have different reasons from Western corporations for acquiring companies abroad. They also use novel integration techniques and measure performance in light of long-term goals. It's too early to tell if their approach will work – but if it does, it will take cross-border M&A to new heights.

## **TRADITIONAL APPROACH TO M&A**

### **EMERGING GIANTS' APPROACH TO M&A**

#### **RATIONALE**

The main aim of takeover is to lower costs. It can also be the case that some companies may use acquisitions to obtain technologies, enter niches, or barge into new countries.

The aim is to obtain latest and the most advanced technologies, brands, and consumers in foreign countries that were developed way before the Indians stepped in that market.

#### **SYNERGY LEVELS**

The same business model is followed by both the acquirer and acquisition and the approach does not seem to change even then.

The acquirer generally is a low-cost commodity player, while the acquisition is a value-added branded-products company.

## **INTEGRATION SPEED**

The buyer tends to make many alterations in the acquisition as soon as the takeover takes place and also slows down the quest for synergies henceforth.

Integration generally moves at a snail's pace in the initial phase but when the buyer starts pulling the acquisition closer, it paces up.

## **ORGANIZATIONAL FALLOUT**

High executive turnover and head-count reduction are likely in the beginning. Culture clashes occur and productivity declines, but things settle down over time.

Little interference, executive turnover, or head-count reduction occurs right after the acquisition. Although it's too soon to tell as of now, tensions could simmer over the long run and blow up.

## **GOALS**

The buyer has short-term aims that are very clear but may not have given much thought to the long-term goals.

The acquirer's short-term objectives may be fuzzy, but its long-term vision for the acquisition is clear.

## **SOME EXAMPLES OF MERGERS AND ACQUISITIONS**

### **Hindalco merger with Novelis**

Aditya Birla's Hindalco, the leading producer of aluminium in India, in Aug 2007 took over Novelis Inc so as to further to reach and attain new heights of success. This takeover helped Hindalco to tread the length of the industry's value chain. At Hindalco, the employees of Novelis were not laid off so as to maintain a healthy and peaceful atmosphere. Instead they stopped hiring the consultants which would be costly for the organization.

Hindalco also learned to cope with sensitive post merger integration issues. For example, Alcan faced a threat from the working culture of Hindalco to which they reassured them by deciding to retain all of Indal's senior managers and that they aim to acquire talent rather than just assets

### **Tech Mahindra merger with Satyam**

Tech Mahindra after the merger seemed very considerate about the employees at Satyam due to the amount of employees as deserve to be complimented upon this issue. On this basis they had decided to let Satyam work as an individual entity with the name of Mahindra Satyam. The main reasons for this was

Number of employees at Tech Mahindra were very less compared to that of Satyam

Technologically and talent wise, Satyam was more advanced than Tech Mahindra

Prior to the merger, many employees had already left Satyam owing to its reputation at that time.

The McKinsey Quarterly, reports that the key employee retention is necessary else they tend to depart in search of better, fresher and newer opportunities and challenges. Their position, their pay etc must be properly defined so as to retain them.

## **MAJOR REASONS FOR M&A FAILURE**

The main reasons for the merger and acquisition failure are summarized in the table above. From the graph it can be seen that the major reasons for failure is when the events are not anticipated or the acquirer is paid too much. It accounts for 39 percent of the total reasons and gathers a major chunk.

The next main reason anticipated for failure is when the synergies do not exist or due to the various every day economic conditions which accounts for 35% of the reasons.

Another major source for failure is due to incompatibility in the cultures that exist at different workplaces.

## **KEY LEARNINGS AND OBSERVATION**

Integrate fast and realize the synergies and efficiencies sooner rather than when it is too late.

Make the required amount of dedication to the necessary resources.

Make tough decisions about organizations and its human resources in a short span of time.

We must be able to restructure and re-recruit top talent so as to mould them as per our requirements and utilize their talent for the benefit of the organization.

The short-term objectives set must be very clear and should be celebrated on their accomplishment.

We must communicate in a strategic manner and should be open and forthright as much as possible.

The business must be run according to the acquired company and co operate with them else the whole point of acquisition is lost

The culture integration must be managed carefully and with utmost care