Merger and acquisition

In recent years human resource (HR) managers have been encouraged to play a more strategic role in their organizations, especially in the case of extensive organizational change processes such as
international mergers and acquisitions (IM&As). Today this requirement is even more acute since the past decade has been characterized by enormous growth in IM&As. In addition, it has been argued that the challenge in making M&As work is the management of people.

In a case of IM&As the role of HR managers is very demanding because they needs to integrate HRpractices and, moreover, perform two other roles simultaneously: a strategic role for company-wide integration and a support role for business unit transaction. Considering the importance of human resource management (HRM) in IM&As, it is surprising how little is known about the role and activities of HR managers in these processes. This study addresses the existing research gap by investigating the role
of HR managers in the IM&A process.

Based on semi-structured theme interviews among corporate level managers in three Finnish international industrial organizations, the roles of corporate HR managers at different stages of the IM&A process are analysed. This study applies Ulrich’s (1997) theory of the four HR roles in combination with the HR issues which are present at the different stages of the IM process. This paper demonstrates that HRM is an essential part of M and that HR issues are given a lot of emphasis throughout the process.

In addition, HR managers play an important role in the IM process, although it is not self-evident in every case. Once a business has decided to merge with another company, one of the most important tasks is the combination of the two workforces into one. This task is primarily carried out by Human Resources (HR), and it is a critical and ongoing process that supports the entire merger or acquisition. HR must lead decision processes, prepare the company for integration and execute the actual reorganization. Throughout the process, they should also focus on building relationships with the new company.

What about M tools? In today's mergers and acquisitions, an org chart is a requirement as it will make the process of workforce planning easier and quicker. A good software solution can help management combine workforces by using visualization and workforce organizational tools. Management can then set new budgets and organize the structure to best meet the new organization's objectives. Centralizing the data and personnel files helps in the allocation of resources, mapping out of the future company layout, and ' what if' analysis for possible reductions in force or promotions.

The role of HR during mergers and acquisitions can be separated into three phases: Pre-deal ? Analyze hierarchies and reporting relationships ? Identify key personnel ? Generate headcounts by department ? Roll up total workforce cost ? Audit the workforce for diversity and other characteristics ? Assess government compliance issues Integration planning ? Model the workforce to determine optimal structure ? Conduct " what if" scenario planning to visualize merger integration ? Collaborate with department managers to plan resources and structures ? Identify duplicate roles and plan necessary reductions Plan optimal management and reporting hierarchies ? Determine pay structure and reward systems ? Determine retirement and benefits structure ? Align workforce costs with departmental budgets ? Determine HR technology Integration implementation and communication ? Consolidate workforce data into a centralized organizational chart ? Share the integration roadmap with management ? Provide managers with adjusted Spans of Control and budgets ? Publish a view of the new organization to all employees ? Produce documentation of the merger process for auditors ?

Capture a history of organizational changes as planning progresses ? Communicate changes in compensation, benefits and reward systems Post-merger workforce management and optimization ? Merge workforce data into a single system of record ? Ensure the successful assimilation of corporate cultures ? Align resources with corporate initiatives and business goals ? Refine business processes and workflow to reduce operational expenses ? Communicate performance management, talent acquisition and succession planning data. ? Present the unified workforce via a globally accessible, secure, intelligent organizational charting system

An increasingly important critical success factor in M is the ability to identify the organization that is not only the most strategic play but also the best organizational fit. Organizations with senior HR leadership are able to analyze the human capital factors during the due diligence process – often leading to better decisions ROLE OF HR DEPARTMENT AND HR PROFESSIONALS IN M HR department plays an important role during a merger. The success or failure of a merger or acquisition deal depends upon to a large extent on the involvement of HR professionals.

Many mergers fail to achieve their objectives because HR professionals are either not involved or are involved at a very late stage in the merger process. To ensure a successful merger, the HR department of the concerned companies should undertake the following activities: Formulating strategy- all companies should formulate a strategy before starting the process of a merger or acquisition. HR departments should be involved in formulating the strategy. Creating teams- HR department should form teams including members from both the companies.

The team members should be trained to develop various types of skills. Creating structure- HR department should create a new organizational structure in line with the merged entity’s new strategy. Developing a communication plan- HR department should prepare a communication plan so that information is collected and delivered to the right people at the right time. Creating a transition system- HR department should also prepare a blueprint of the new HR systems, like compensation and performance appraisal system to avoid confusion after the merger. In HR there are two phases • Pre-acquisition Post acquisition period. In pre-acquisition phase things which needs to be taken care of: 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. In post acquisition phase: power equation between management and trade unions needs to be dealt with utmost care. These are the issues which are very brittle. Designations for the employees’ compensation structure and performance appraisal systems BEST PRACTICES FOLLOWED BY HR DURING M&A: 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 CULTURE COMPATIBILITY: An important issue in M&A By understanding the similarities and differences between the two companies early in the game, it is possible to avoid a divorce before the marriage vows are taken. Should incompatibility be too great, it may even be wise to call off the wedding.

It’s important to identify cultural areas of dissonance so that people can dispel misconceptions and begin creating a culture that’s right for the new organization. That’s often left until after the final papers are signed, which is risky because culture mismatches can be the Achilles’ heel of many deals. How do we identify cultural differences and similarities and learn to leverage them? Often, the most seemingly inconsequential programs and policies have great symbolic impact. Practices regarding casual dress, attitudes about long hours, and how offices are apportioned are deeply ingrained and must be dealt with.

One can’t consider culture compatibility without touching on the different views that the acquirer and the acquired have about the new company. The acquirer assumes that the new company will closely resemble the original but with greater mass and capabilities. The acquired company expects that many of its strengths will be crucial to the new company (after all, isn’t that why it was acquired?). Human capital development role of human resource (HR) during mergers and acquisitions Selden and Colvin (2003) stated that

70 – 80% of acquisitions fail, meaning that they create no wealth for the share owners of the acquiring company.

Successfully integrating the target and the acquirer's businesses after the transaction closes is critical to achieving the goal of the combination, which is, making the new entity worth more than the sum of its parts. One of the ways to accomplish this is to effectively implement the required changes and address the related dynamics occurring in the new entity. Most mergers and acquisitions deals fail to accomplish many of the strategic objectives so optimistically projected in the initial announcements.

Schmidt (2003) has identified five major roadblocks to merger and acquisition (M& A) success, the last three of which are HR issues: Inability to sustain financial performance (64%), loss of productivity (62%), incompatible cultures (56%), loss of key talent (53%) and clash of management styles (53%). According to Marks (1997), human resource professionals should take an active role in educating senior executives about HR issues that can interfere with the success of the merger and with meeting key business objectives.

His work has stated the important role of HCD to smoothen the transition. The following ways have been described by him: Education of managers and employees To help employees and managers manage stress, low morale and productivity issues in work groups, educational seminars should be developed and delivered to minimize stress and uncertainty in the organisation during the merger process. These seminars should focus on specific issues which affect employees rather than on general change management HR Problems in Mergers and Acquisitions

McCann and Gilkey (1988) have developed a seven-step model of the merger process that provides a useful framework for considering the difficult human resource problems that may arise in any merger or acquisition. The first five steps occur in the pre-merger stage and the last two in the postmerger stage. The Pre-Merger Stage Strategic Planning and Organization The first step is strategic planning in which the acquiring firm develops its mission statement and determines the type of merger or acquisition that will be sought and how it will achieve corporate objectives.

In the next stage the firm is primarily concerned with organization—creating a specific team to manage the M&A activity. In their eight-year study of mergers and acquisitions, Marks and Cutcliffe (1988) found that corporate executives generally failed to integrate human resource aspects into the merger process, perhaps because they were not familiar with the appropriate methods of managing the change in their organizations or because they did not realize that the merger might have a significant negative effect on their employees.

Consequently, financial and legal concerns dominated the pre-merger stage, and human resource managers, who could have provided advice on managing the human side of the transaction, were -seldom included in the core planning group. Similarly, Bohl’s (1989) survey of 109 companies with active M&A programs found that the human A better understanding of human resource issues in the integration stage of M&As could help them s u c c e e d. esource function had not played an important role in the pre-merger planning in about two-thirds of companies reporting post-event problems, while the same was true in only about half of those reporting no problems (34). With such results in mind Fombrun, Tichy, and Devanna (1984) stress the need to include human resource managers in the core strategic team. Because ‘ people problems’ are a primary source of poor M&A performance, including HR managers early in the decision-making process is an important part of any M&A strategy (Marks and Mirvis 1986; Marks and Cutcliffe 1988; Tichy and Ulrich 1984).

Searching Searching for potential acquisitions and thoroughly investigating the merits of each is the third step of the merger process. Of particular relevance to HR are the results of Schweiger and Weber (1989) who found in a survey of 80 firms that the most important factors in evaluating potential acquisitions were the talent and management philosophy of the acquired top managers and the talent of the acquired middle managers. Similarly, McCann and Gilkey (1988) and Walsh (1989) note that most M&A’s are undertaken partly to capture the valuable asset of a qualified management team.

The retention of management thus becomes a key factor in the success of a merger or acquisition. Analysis and Offer The fourth stage of the merger process is analysis and offer, in which a primary objective is to evaluate the ‘ fit’ of the two firms. McCann and Gilkey (1988) identity three types of fit—financial, business, and organizational fit—that must all be present if the merger or acquisition is to be successful. For the purposes of this study, organizational fit, which includes human resources and the two organizational cultures, is of primary importance, since it helps to determine how well the two firms can be integrated.

McCann and Gilkey suggest that ‘ the greater the differences between the two firms in these areas, the greater the difficulty in achieving the desired level of integration and in realizing business synergies which will ultimately show up in financial performance’ (58-9). The Post-Merger Transition The last two stages in a merger or acquisition are the transition and integration. These two stages are the most complicated and are surrounded by the highest level of uncertainty.

The transition stage is in fact the most poorly managed of all, and consequently it is the stage where most failures occur (McCann and Gilkey 1988). A Delicate Balance Management of the transition stage requires a delicate balance between providing a stabilizing influence and creating a climate for change. Uncertainty and anxiety, anger, frustration, psychological withdrawal and family disruptions are pervasive during M&A activity (Schweiger, Ivancevich, and Power 1987). Those who voluntarily leave their company indicate that uncertainty leads them to do so early in the acquisition process (130).

The importance of transition management is further emphasized by Beatty (1990) which shows that negative employee reactions and behaviours are more common in failed acquisitions than in successes Insecurity and Anxiety Negative employee feelings and behaviour are typical responses to threatening situations (Dyer 1983)—in this case, job insecurity. The magnitude of the response will be determined by the employee’s perception of the severity of the threat and the degree of powerlessness to counteract it, which will in turn be a function of his or her confusion concerning the expectations of the new firm.

For example, if employees are unaware of how they will be evaluated for the retention decision, feelings of powerlessness will be Transition and integration are the most c o m p l i c a t e d and are surrounded bythe highest level of uncertainty. high. Since information is generally scarce in the transition stage, the employee's perceptions will be influenced predominately by rumour and speculation. Greenhalgh and Jick (1979) found a positive correlation between job insecurity and resistance to change (see also Staw, Sandelands, and Dutton (1981)).

Individuals faced with a threatening situation exhibit strong attachment to previously learned behaviours, even if they are inappropriate. Since the transition stage in the merger process is supposed to facilitate change, high levels of uncertainty are clearly counterproductive. Unanticipated Turnover The predominance of negative attitudes caused by uncertainty often leads employees to act on the worst scenario and begin updating resumes (Greenhalgh and Jick 1975). The most valuable employees— those that the post-merger corporation can least afford to lose—tend to be the first to leave the organization.

For example, when Fluor Corporation acquired St. Joe Mineral in 1981, in a deal costing $2. 2 billion, the large-scale migration of key managers following the acquisition contributed to millions of dollars in losses at the previously profitable St. Joe (Shrivastava 1986). Estimates of unanticipated turnover suggests that 47 percent of top executives in an acquired firm leave within the first year and 75 percent within three years. Within five years 58 percent of all managers leave (Walsh 1989, 313), and it is often the managers with the best performance histories who leave early on (Walsh and Ellwood 1991, 215).

If there is no planned intervention strategy to deal with negative feelings and behaviours, the long-term behaviour of employees who do remain with the organization may be affected, significantly reducing the likelihood of a successful post-merger integration (Marks and Cutcliffe 1988). ' More than any other issue, how you handle employees in the first three to six months will set thetone for future relations between the two firms' (McCann and Gilkey 1988, 65). HR Interventions

Several authors have suggested how to reduce the incidence of counterproductive behaviours (Bridges 1988; DeNoble, Gustafson, and Hergert 1988; Marks and Cutcliffe 1988). Preliminary interventions target emotional support, and may begin while negotiations are still underway. Activities in this phase are focused on providing stability. Other techniques are intended to create apositive environment for change by decreasing the level of uncertainty and fostering realistic expectations for the future.

Feelings of powerlessness on the part of employees are reduced by providing information to determine how (or if) the threat to job security can be counteracted. Commitment to the new organization may be fostered if the employees are encouraged to see that career opportunities are available and continued success is possible in the new organization CONCLUSION Merger and Acquisitions success entirely depends on the people who drive the Business, their ability to Execute, Creativity, and Innovation.

It is of utmost importance to involve HR Professionals in Mergers and Acquisitions discussions as it has an impact on key people issues. As Mergers and Acquisitions activity continues to step up globally, Companies involved in these transactions have the opportunity to adopt a different approach including the increased involvement of HR professionals. By doing so they will achieve a much better outcome and increase the chance that the overall deal is a total success. HR professionals can play an active role in the change process by offering interventions that will help ensure a successful merger.