

## CONCERNS AND ACTIONS OF HR IN MERGERS AND ACQUISITIONS

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### Abstract

Business associations generally consolidate with other firms with a view to attain new technology, explore new markets, expand business base or reduce competition. Such consolidations can benefit the organisations in becoming more competent, cost-effective and dominant. Hypothetically it may seem that M&As is the best answer for progressing in terms of business expansion, enhancing profitability and reducing cost. But the fact is, out of all the mergers done, a significant number of mergers have failed on expectations. While financial, legal and market aspects contribute to some failures, majority of failed mergers are largely caused due to ignored human capital issues. It is found that in course of the M&As, legal and financial issues are dealt with utmost sincerity but often the element of human capital is overlooked. Such approach towards employees reduces their drive and efficiency and lead to an exit of prime talent.

The HR department has significant responsibility to address all the issues related to human capital. Here human capital is inclusive of employees at all levels in all departments. Hence HR has to deal with all the major challenges that are allied with all the traits of human capital. The productivity of employees greatly influenced by numerous aspects such as safety, job security, self-esteem, contentment, growth potential etc. Also all the human stakeholders like customers, existing and potential investors, suppliers, media and government should also be taken care of. This paper aims to throw some light on such HR issues and attempts to provide some strategies in regards to resolve these concerns.

**Keywords:** consolidations, human capital issues, failures

### INTRODUCTION

In today's competitive global economy, the business organisations must build a dominant position in the market. For acquiring this dominance and to become competent, the business must expand rapidly, efficiently and cost-effectively. Not only this, it is supremely important that the entity not only keep pace with the technological changes but also overtake others in the industry so as to ensure the dominance in the industry. Lack of these merits would make the company's survival grim. Competitive ambience around the globe demands continuous growth in size of the business in all spheres. With a view to gain all these perquisites, mergers are undertaken by companies.

The practical view is that most of the mergers and acquisitions fail to achieve the desired results and aims due to human obstacles. Merger is not only amalgamation of assets and liabilities but also of employees. Merger also involves a huge amount of direct costs of attorneys, investment bankers, consultants and accountants though not a big percentage of the value of the merger deal. Substantial amount of cost is also lost in time and efforts made by the key employees in evaluating and implementing the merger. It may happen in all this procedures, the synergies would not materialize and even the employees of the new entity may not adopt it and the chances of success of the merger may decrease. The aim of this paper is to articulate an structured, humanitarian approach for conducting M&A activity from commencing the consolidation to post-consolidation.

### MERGERS AND ACQUISITIONS

In a merger, two companies come together and create a new entity. In an acquisition, one company buys another one and manages it in coherence with the requirements of the acquirer. Both mergers and acquisitions together represent the end of the gamut of options companies in combination with each other. Licensing is the least concentrated and complex form of combination. Next in row are alliances and partnerships and then joint ventures. Mergers and acquisitions are the combinations having greatest implications for size of investment, control, integration requirements, pains of separation and people management issues.

### TYPES

In general there are mergers of equals that include the merger between Daimler-Benz and Chrysler forming DaimlerChrysler. There are also mergers between unequal such as HDFC and Max Life. Similarly there are two major types of acquisitions: those involving acquisition and integration such as those typically made by Cisco Systems and those involving acquisition and separation such as Unilever and Best foods. It is imperative to

acknowledge these types of mergers and acquisitions are critical in describing and acting upon the unique people management.

An acquisition involving integration has greater staffing implications than one that involves separation. A merger of equals often compels the two companies to share in the staffing implications whereas a merger of unequal results in the staffing implications being shared unequally.

## REASONS

Some of the most frequently included reasons for companies to merge or acquire are as under:

- Horizontal mergers for gaining industry power and increasing the size
- Vertical mergers for channel control
- Hybrid mergers for thinning out the risk and cost effectiveness
- Growth for global leadership
- Sustainance
- Attainment of liquidity, deferred taxes
- Flexibility; leverage
- Larger asset base to facilitate borrowing
- Advantage of latest Technology
- Consolidation of Human Talent and knowledge

A company, which is able to successfully combine, has an edge over others as they have developed a core competence, in addition to creating value, along with integrated management.

## SUPPOSITIONS

Several fundamental suppositions are taken into consideration irrespective of the reasons companies have for merger and combinations:

- Creating collaborations and transforming cultures is a major challenge
- The initial goals are difficult for M&A
- M&A's are fastest and easiest ways to grow
- Planning in advance is critical for success
- Successful implementation is difficult

Companies with a wide and extensive experience of previous combinations take the above suppositions more effectively than those that have no earlier experience. To strengthen the core competency and competitive advantage, firms with far-reaching experience appear to learn more.

## UNFOLDING THE HISTORY

Statistics depict that M&A are more likely to fail than succeed. Only 15-20% of M&A in the US have successfully achieved their financial objectives whereas as much as 75-80% have failed. With the increasing relevance of M&A and the base of upsurge in experience, it is realistic to draw a conclusion that success is more likely to occur in these types of combinations.

## ROOTS FOR FAILURE

The most frequent roots that are cited are culture clashes, gaps, and losses of key talent to name a few. Distinctive reasons for failure include the following:

- Poor planning and weak execution
- Failure or inability to unify the objectives of two organizations
- Failure of transition management
- High transition cost
- Distraction of executives from the core business
- Poor combination of human resource
- Cultural conflicts not addressed effectively

In case of merger of Kotak Mahindra Bank from North India with ING Vysa Bank from South India, it is believed that the cultural issues seemed to be addressed by executives only when making broad statements to the media regarding the differences in the two companies. Either they did not fully realize the effects or they opted to focus on the operational and business interactions with the hope that culture would be looked after on its own.

Cultural differences created difficulties in the synchronization between not only the employees at lower levels but also at managerial levels. This affected greatly in carrying out the decisions from top level to bottom. The companies should provide accurate information and avoid making false promises as in turn it adversely affects all the stakeholders at large.

The Chairman of Daimler stated the clear understanding of the company as 'one company, one vision, one chairman and two cultures'. Both Daimler and Chrysler each had their own agenda, which categorically focused on distinct visions, and goals of the automobile market which in turn made it difficult to accommodate into one single vision.

A major concern for failure of M&A is the loss of key talent. It may be due to companies rarely involved in accurate analysis of key talent in the due diligence process. The focus during M&As tends to be to more on getting the top leadership team in place. As per EY report, 47% of the key employees leave a company within a year of the merger and 75% leave within the first three years.

Also Gallup research shows that 35% of the workers report changing jobs in the past three years resulting in high employee turnover ratio.

It is necessary to understand that the highly talented employees that are not engaged feel high level of discomfort as a result of which they tend to leave the organization for better opportunities. Overseeing the talent issues during M&A lays the foundation for disaster. The following are the four broad strategies to deal with the problem:

**1. Identify and retain 'Star-players'**

High potential human resource should be distinguished and retained. They can play a vital role in dealing with great challenges of a new merged company. People with passion and talent can learn things fast and can deliver with high productivity and precision.

**2. Entrusting key responsibilities amongst top talent**

The best people in a company feel most insecure if they find they are not utilized properly or their worth is not recognized. Hence for retaining the star-players, over and above offering them monetary gain, it is imperative to engage them by giving key responsibilities in building and developing a merged company.

**3. Creating new culture by involving top talent**

It is quite understandable that consolidating two cultures into one is a real challenge post merger. Culture can be defined and driven by the top talent, as it is necessary to respect and acknowledge the identity, values and their culture.

**4. Enhance leadership through mergers**

Merger creates discomfort for the leaders in both the companies but at the same time it provides them with a chance to have a deeper understanding of running new businesses and functions as specific change management skills. So mergers can be made successful by providing emerging skilled leaders to manage complex situations.

### REASONS FOR SUCCESS

As per the Watson Wyatt Global M&A Survey, it is reported that the key motives for success in M&A can be outlined as follows:

- Planning for combination
- Well-managed M&A team
- Well-thought out goals and objectives
- Retention of key talent
- Extensive and timely communications to all stakeholders

The survey suggested that there is an emergence for companies to be more critical in dealing about their own performance to ensure that futuristic lessons are learned. A discrepancy was also observed between the number of respondents who had favourable M&A experience and the overall rate of success.

### THE HUMAN VERTEX IN M&A EVENT

Financial, operational and legal elements are the three sides of the M&A whereas human capital is the vertex, which is essentially the most important pre-requisite for a successful combination in order to maximize value.

Looking into the reasons of majority of failed M&As it can be said that top management did not pay much attention to the very crucial human side involved in the whole deal. Majority of mergers could not create the shareholder's value due to the poor strategy in reference to ill-conceived human resource assimilation. The primary reasons behind such negligence of human capital include:

- Lack of awareness of criticality of human issues
- Absence of representative to bring forward the issues

- Inability to pose a proper framework to comprehend people's issue systematically
- The conception that people are too vulnerable and difficult to manage
- Finance, accounting and manufacturing are more vital arenas as compared to human capital.

### THREE PHASES MODEL OF M&A

When a company undergoes a merger activity, the event of M & A can be divided into three phases. These three phases are applicable to various functions namely finance, manufacturing, sales, marketing, IT etc. And the most important is management of human resource capital. To gain understanding regarding three phases in relation to HR concerns and the actions is vital.

#### PHASE 1 – PRE-CONSOLIDATION

In the first stage of Synergy, there are numerous human resource issues.

Out of several reasons for M&A like expansion, increase market share etc. a substantial number of objectives of M&A are human resource related such as acquiring of key talent, retention of the talent.

To create a senior executive for leading the M&A process is another issue at the pre-consolidation phase. While taking decision about Merger, identification of potential partners and then selection of right partner is vital.

For dealing with the above issues various factors must be considered and thought carefully. Firms must attain better understanding and knowledge base and then shared

and spread. Cultural assessment is also an important element under which philosophies of two companies in regards to leadership styles, relative value of stakeholders in comparison with performance of individuals. Cultural differences should be given due importance as in many cases it is found to be the ultimate reason for the failure of M&A. Befitting planning and control can handle all the human capital issues.

#### PHASE 2 – CONSOLIDATION – ASSIMILATING THE COMPANIES

During the second phase of consolidation, it is crucial to decide the integrating executive who has to determine the teams for carrying out the M&A event smoothly. Plans and strategies should be created retaining key employees and motivating employees. The merger leader should manage the change process by communicating and involving stakeholders. Moreover HR policies should be decided.

The integrating executive is responsible for establishing a new culture, and structure. The consolidation stage is most critical and difficult.

#### PHASE 3 – STRENGTHENING AND EVALUATING THE NEW ENTITY

When two equal companies merge, the new company is required to deal with variety of HR concerns with practicality to confirm the success of new entity. The leadership at the top has to be strengthened for which elective leadership is indispensable. This is to be followed by vigilant staffing. Current strategies and structures are to be evaluated. It is important to create new strategies and then reshaped properly. The issues such as employee reduction and retention of staff should be dealt efficiently while achieving the objectives of cost reduction.

All the organisations have their own cultures and moreover employees have their individual cultures. Hence culture evaluation and assimilation becomes crucial to prevent dissatisfaction among the human capital.

All the stakeholders of both the entities should be communicated adequately and satisfactorily.

### ROLE OF THE HR DEPARTMENT IN M&A ACTIVITY

The role of HR department during M&A activity especially in third phase of consolidation. More than 80% of mergers fail during implementation stage. Hence several activities must be conducted by HR department.

Key strategies must be developed by involving the employees and key persons.

The workforce should be motivated, management team of the merged company should be accessed and involved, organisational structure should be analysed, HR policies of both companies should be compared and new policies must be evolved.

Merger provides opportunities for change management and so HR department can place right people at right place so as to meet new goals.

It is vital for HR department to find and determine new roles for HR leader like Change Facilitator, Strategy Implementor, Strategy Formulator, Innovator and Collaborator.

### CONCLUSIONS

Several conclusions can be drawn :

#### AT THE COMPANY LEVEL

- Consolidation policies and strategies should be clearly made.

- The vision regarding new combination should be decided as in whether it will be stand-alone or connected.
- Decision making should be quick to prevent confusion at all levels.
- Realistic performance goals should be determined considering market conditions, capital investment requirement etc.
- Capital expenditures, product development etc should be decided with participation decision making.
- Market dynamics, customers, other stakeholders should be understood properly before entering new markets.

#### AT THE HR LEVEL

- Best people in the companies should be identified and allotted the responsibilities for implementing the Merger.
- Pre-consolidation planning and implementation should be give due importance.
- Adequate employee communication, retention of key human capital and cultural assimilation are the most important activities of the Merger.
- Cultural differences should be tackled sensitively. They can be followed by miscommunications and misunderstandings which may further lead to failed merger.
- Efficient M&A management plays a significant role in successful consolidation.

In a nutshell it seems that M&A activity taking place all over the world is growing, significance of HR department will further increase. The success of businesses undergoing M&As will have greater dependence on the role of HR department.

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