ROLE OF HUMAN RESOURCES IN MERGERS & ACQUISITIONS

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ABSTRACT

Many organizations regard mergers & acquisitions as a strategic tool for increasing profitability, gaining market share and developing synergies. From banking to software, insurance to technology, companies have started entering into mergers & acquisitions to become market leaders in their respective industries. This paper discusses about the role of HR professionals in making these deals successful. Many mergers fail to achieve their objectives because HR professionals are either not involved or are involved at a very late stage in merger process. This paper describes about the role of HR manager as facilitator, educationist, team builder and integrator.

Keywords: Merger, Acquisition, Strategy, Culture.

INTRODUCTION:

Merger:

Merger is an arrangement whereby the assets of two or more companies become vested in or under the control of one company, which may or may not be one of the original companies merged in, which will have, as its shareholders, all or more than 90% of all the shareholders of all the original companies. Mergers in India are dealt by companies Act, 1956 (sections 390 – 390A) and to accounting part by Accounting Standard (AS) – 14.

Example of merger is a deal between Bank of Punjab and Centurion Bank and the outcome business unit is Centurian Bank of Punjab.

Acquisitions:

Acquisition simply means buying the ownership in a tangible or intangible asset. In the context of business combinations and acquisition is the purchase by one company, of controlling interest in the share capital or in the voting rights of an existing company. In India acquisitions are previewed under SEBI Takeover code – 1997, which is originated by Justice P.N. Bhagwati Committee report on Takeovers. Example is the acquisition of Associated Cements share by Holdcem.

TYPES OF MERGERS

Mergers can be broadly classified into two types : merger of equals and merger of unequal. For example; the merger between Reliance petrochemicals ltd & Reliance Industries Ltd is a merger of equals, whereas the merger between J.P.Morgan & Chase Manhattan is a merger of unequals. The criteria to decide whether a merger is between equal or unequal is based on post-merger implications for both the parties. If the financial, operational and staffing implications are the same for both the parties, then it is called a merger of equals, otherwise it is a merger of unequals. Mergers can be further classified into following types;

Horizontal mergers:

A horizontal merger involves two firms operating and competing in the same kind of business activity.

Vertical mergers:

Vertical mergers occur between firms in different stages of production operation.

Conglomerate Mergers:

Conglomerate mergers involve firms engaged in unrelated types of business activity.

Horizontal mergers are regulated by government for their potential negative effect on competition.

horizontal mergers take place to gain from collusion or to increase monopoly power of the combined firm.

integration of two firms can result in socially beneficial cost savings

Some cases of horizontal mergers:

- ***The Brown Shoe Case of 1962***
- ***Von's supermarket chain, 1966***

Vertical mergers:

- There are many reasons why firms might want to integrate vertically between different stages.
- The efficiency an affirmative rationale of vertical integration rests primarily on the costliness of the market exchange and contracting.

Benefits of vertical mergers:

Technological Economies

Reducing Transaction Costs

Eliminating Successive Monopolies

Reasons for Mergers & Acquisitions:

- Companies can produce goods or services more efficiently if they combine their efforts and facilities .
- Collaborating or sharing expertise may achieve gains in efficiency.
- Underutilized assets of the company can be used in better way.
- Change in management may make the company more profitable.

REGULATION OF M & A

Regulation of Mergers and Acquisitions:

Mergers and acquisitions are governed by both state and federal laws. State law sets the procedures for the approval of mergers and establishes judicial oversight for the terms of mergers to ensure shareholders of the target company, receive fair value. Generally, state law tends to be deferential to defences as long as the target company is not acting primarily to preserve its own positions. Courts tend to be sceptical of defences if the management of a target company has already decided to sell the company or to bring about a change of control. Because of the fear that mergers will negatively affect employees or other company stakeholders, most states allow directors at target companies to defend against acquisitions. Because of the number of state defences now available, the vast majority of mergers and acquisitions are friendly, negotiated transactions.

Motives behind M&A

i) The following motives are considered to add shareholder value:

Economies of scale, increased revenue / increased market share, cross selling, synergy, taxes, geographical or other diversification and resource transfer.

ii) The following motives are considered to not add shareholder value:

Diversification, overextension, manager's hubris, empire building, manager's compensation, bootstrapping and vertical integration

ROLE OF HR DEPARTMENT AND HR PROFESSIONALS IN M&A

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:

1. **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.

2. **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.

3. **Creating structure**- HR department should create a new organizational structure in line with the merged entity's new strategy.

4. **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.

5. **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?).

For example- Exxon-Mobil Merger

The Exxon-Mobil merger had to overcome many cultural problems . Although the merger involved American companies , unlike the Dailmer-Chrysler merger , considerable differences in culture and work style had to be dealt with. Exxon was known for its conservative culture, whereas Mobil was known for its bold and robust nature. These differences in culture were reflected in their corporate symbols. Exxon's symbol was a stalking tiger, whereas Mobil's symbol was a flying horse. The tiger represented Exxon's conservative approach while the flying horse represented Mobil's open and transparent culture. At Exxon even the smallest thing was planned and executed carefully, whereas at Mobil new ideas and risk taking were always encouraged. Exxon took a lot of time to take decisions because of bureaucratic structure, whereas at Mobil even risky decisions were taken quickly. (Source: ICMR)

Acquisition strategy of GE Capital

The GE Capital uses a successful model called "Pathfinder" for acquiring firms. The model disintegrates the process of M&A into four categories which are further divided into subcategories. The four stages incorporate some of the best practices for optimum results. The pre-aquisition phase of the model involves due diligence, negotiations and closing of deals. This involves the cultural assessments, devising communication strategies and evaluation of strengths and weaknesses of the business leaders. An integration manager is also chosen at this stage. The second phase is the foundation building. At this phase the integration plan is prepared. A team of executives from the GE Capital and the acquiring company is formed. Also a 100 day communication strategy is evolved and the senior management involvement and support is made clear. The needed resources are pooled and accountability is ensured. The third is the integration phase. Here the actual implementation and correction measures are taken. The processes like assessing the work flow, assignment of roles etc are done at this stage. This stage also involves continuous feedbacks and making necessary corrections in the implementation. The last phase involves assimilation process where integration efforts are reassessed. This stage involves long term adjustment and looking for avenues for improving the integration. This is also the period when the organization actual starts reaping the benefits of the acquisition. The model is dynamic in the sense that company constantly improves it through internal discussions between the teams that share their experiences, effective tools and refine best practices.

Source: Ashkensas, R.N., DeMonaco, L.J. and Francis, S.C. (1998).Making the Deal Real: How GE Capital Integrates Acquisitions**.** *Harvard Business Review*, Jan/Feb98, Vol. 76 Issue 1, p165, 1

Acquisition strategy of Cisco

The acquisition strategy of Cisco is an excellent example of how thorough planning can help in successful acquisitions. After experiencing some failures in acquiring companies, Cisco devised a three step process of acquisition. This involved, analyzing the benefits of acquiring, understanding how the two organizations will fit together – how the employees from the organization can match with Cisco culture and then the integration process. In the evaluation process, Cisco looked whether there is compatibility in terms of long term goals of the organization, work culture, geographical proximity etc. For example Cisco believes in an organizational culture which is risk taking and adventurous. If this is lacking in the working style of the target company, Cisco is not convinced about the acquisition. No forced acquisitions are done and the critical element is in convincing the various stakeholders of the target company about the future benefits. The company insists on no layoffs and job security is guaranteed to all the employees of the acquired company. The acquisition team of Cisco evaluates the working style of the management of the target company, the caliber of the employees, the technology systems and the relationship style with the employees. Once the acquisition team is convinced, an integration strategy is rolled out. A top level integration team visits the target company and gives clear cut information regarding Cisco and the future roles of the employees of the acquired firm. After the acquisition, employees of the acquired firm are given 30 days orientation training to fit into the new organizational environment. The planned process of communication and integration has resulted in high rate of success in acquisitions for Cisco. **(The case is adapted from "Cisco's acquisition strategy", ICFAI Center for management research)**

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.

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