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Review Article

ROLE OF HUMAN RESOURCE IN MERGERS AND ACQUISITIONS

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ABSTRACT

Mergers and acquisitions are increasingly being used by firms to strengthens and maintain their position in the market place. They are seen by many as a relatively fast and efficient way to expand into new markets and incorporate new technologies. Yet their success is by no means assured. To the contrary, a majority of fall short there stated goals and objectives. While some failures can be explained as financial and market factors, a substantial number can be traced to neglect human resource issues and activities. Numerous studies confirm the need for firms to systematically address a variety of human resource issues and activities in their merger and acquisition activities. 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.

INTRODUCTION

Companies today need to be fast growing, efficient, profitable, flexible, adaptable, future-ready and have a dominant market position. Without these qualities, firms believe that it is virtually impossible to be competitive in today's global economy. In some industries such as insurance or banking, firms may move into new markets. In others such as pharmaceuticals or software technology, firms may work with smaller firms that have developed or are developing new products that they can manufacture and distribute more efficiently, while other firms focus on their own internal growth, leadership and development.

Regardless of industry, however, it appears that it has become all but impossible in our global environment for firms to compete with others without growing and expanding through deals that result in mergers or acquisitions. The deals between many of the largest and most successful global firms such as Daimler–Chrysler, Chase–J.P. Morgan, McKinsey–Envision, UBS–Paine Webber and not so far in our India deal between Centurian Bank and Bank of Punjab. And the future appears to be ripe for a continuation of the trend for annual increases in merger and acquisition (M&A) activity.

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"I personally see more consolidation: more partnerships, more strategic alliances, and more acquisitions".

Jac Nasser, CEO, Ford Motors

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

Further implications for people management issues are types of mergers and acquisitions. In general there are mergers of equals which include the merger between Citicorp and Travellers forming Citigroup; and between Ciba and Sandoz forming Novartis. 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.

REASONS

There are numerous reasons for companies to merge or acquire. Some of the most frequent include:

- Horizontal mergers for market dominance; economies of scale
- Vertical mergers for channel control
- Hybrid mergers for risk spreading, cost cutting, synergies.
- Growth for world-class leadership and global reach
- Survival; critical mass
- Acquisition of cash, deferred taxes, and excess debt capacity
- Move quickly and inexpensively
- Flexibility; leverage
- Bigger asset base to leverage borrowing
- Adopt potentially disruptive technologies
- Financial gain and personal power
- Gaining a core competence to do more combinations
- Talent, knowledge, and technology today

ASSUMPTIONS

Regardless of the reasons companies have for merging or combining, there are several basic assumptions being made, either explicitly or implicitly. These include:

- M&A's are the fastest and easiest ways to grow
- M&A's are likely to fall short of their initial goals
- M&A's are difficult to do
- Creating synergies is a major challenge
- Molding cultures is a major challenge
- Soft and hard due diligence are necessary
- Pre-planning can help increase chances for success
- 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.Horizontal merger are regulated by government for their potential negative effects on competition. Horizontal mergers take place to gain from collusion or to increase monopoly power of the combined firm.

Some cases of horizontal mergers

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

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.

REGULATION OF MERGER &ACQUISITION

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 defencenow available, the vast majority of mergers and acquisitions are friendly, negotiated transactions.

HUMAN SIDE OF M&A ACTIVITY

Plenty of attention is paid to the legal, financial, and operational elements of mergers and acquisitions. But executives who have been through the merger process now recognize that in today's economy, the management of the human side of change is the real key to maximizing the value of a deal. The management of the human side of M&A activity, however, based upon the failure rates of M&As, appears to be a somewhat neglected focus of the top management's attention.So if people issues are so critical, why are they neglected? Possible reasons include:

- The belief that they are too soft, and, therefore, hard to manage
- Lack of awareness or consensus that people issues are critical
- No spokesperson to articulate these issues
- No model or framework that can serve as a tool to systematically understand and manage the people issues; and therefore
- The focus of attention in M & A activity is on other activities such as finance, accounting, and manufacturing
- Research, however, indicates that people issues occur at several phases or stages of M&A activity. More specifically, people issues in just the integration phase of mergers and acquisitions include: (1) retention of key talent; (2) communications; (3) retention of key managers; and (4) integration of corporate cultures.

ROLE OF 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. There are many activities that are consistent with and appropriate for the HR professional's skills and competencies. These include:

- Developing key strategies for a company's M&A activities. 85 per cent of HR executives say they should be involved.
- Managing the soft due diligence activity. This can mean:
  - Gaining knowledge of the make-up and motivation of the two workforces
  - Accessing management team of the other com- pany
  - Conducting analysis of its organizational structure
  - Comparing benefits, compensation policies, and labor contracts of both firms
  - Assessing the cultural match between the two firms
- Providing input into managing the process of change:
  - HR is a change champion providing the change management skills to align the right people with the appropriate knowledge and skills base to meet the shared goals of the enterprise
- Creating transition teams, especially those that will:
  - Develop infrastructure for new organization
  - Process and design systems
  - Address cultural issues
  - Provide training
  - Managing the activities associated with staffing, in particular, developing and overseeing
  - Selection processes
  - Retention strategies
  - Separation strategies
- Overseeing the communications. Developing a communication plan aimed at realizing a vision of the new organization through:
  - Assessing issues re: audience, timing, method and message
  - Information delivery
  - Information gathering
  - Change galvanization
  - Helping employees cope with change
- Re-casting the HR department itself:
  - Develop new policies and practices consistent with vision of new organization
  - Develop HR structure and staffing
  - Determine service delivery model
- Identifying and embracing new roles for the HR leader, namely,
  - Partnership
  - Change Facilitator
  - Strategy Implementor
  - Strategy Formulator
  - Innovator
  - Collaborator
- 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 period.
- Post-acquisition period.

In pre-acquisition: Phase, 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 employeescompensation structure and performance appraisal systems.

FOUR STAGES OF MERGERS AND AN ACQUISITIONS

Most mergers and acquisitions follow a four-stage process

- **Pre-Deal**: Based on its growth strategy, the acquirer searches for an appropriate target or partner, assesses potential targets and develops a plan for executing the deal. In addition to defining the finan- cial and business aspects of a good merger can- didate, HR can help define the cultural aspecIs the acquirer looking for a company that has a compatible culture? Or one that is more entrepreneurial? Do lines of business that are to be combined have compatible success re- quirements
- 2**Due Diligence**: After making the offer, the acquirer ensures that the deal is strategically and economically sound and has a high likeli- hood of success. Thorough, detailed execution of this stage is particularly critical for financial services companies.Once a partner has been identified, HR can help assess its culture. Do the companies differ drastically in management style? Are there potential HR financial issues.
- **Integration Planning**: The acquirer creates a comprehensive plan for integrating the two organizations. HR is likely to be the most qualified party to understand and execute such integration-planning activities as developing employee communication strate- gies, programs to retain key talent and organi- zational and staffing plans.
- **Implementation**: The final stage builds on all the planning that has gone before. Imple- mentation can take months or even years to complete, depending on the complexity of the deal and the size of the merging companies.

HR: READY OR NOT?

The crucial question for financial services companies is whether HR is up to the task of playing a strategic role in a merger or an acquisition. If HR has traditionally served as a technical expert (e.g., focusing on benefit administration and hiring pro- grams), its leaders are not likely to be inclined or prepared to play a strategic role. If HR leadership is not strategic enough to participate early in M&A planning, the organization should consider how to transform HR into a strategic player.

This may entail divesting HR of its more routine chores — benefits enrollment and basic administrative tasks that can be outsourced or turned into a self-service function via the Web. This would allow HR to focus on providing high-level counsel to senior management on such topics as strategic staffing, long-term incentive plans and methods for developing a world-class workforce. To meet these obligations, senior HR practitioners must understand how the business functions, its goals, financial operations, marketing and product/service development, as well as how the business fits into the competi- tive landscape. Only when HR is as business savvy as the rest of senior leadership and approaches its functions from a strategic per- spective will it earn a seat at the management table.

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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