

# Challenges Faced By Employees and the Role of HR in Mergers and Acquisitions (M&A)



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*The paper will provide a link in the existing concepts with regard to M&A. The focus of the paper will deal with different aspects of M&A and the challenges faced by Human Resources (HR) as result of mismatch between the merging companies. To further, paper will talk about the human factor present in an organisation and reasons for dissatisfaction among them as a result of M&A. The paper will also deal with the management of M&A effectively thereby providing the solutions for the same. Review of existing literature was done where at least 30 papers will be reviewed closely to attain to derive the problems faced by employees and what role does HR play in M&A. The secondary data will be backed by primary data involving the interviews of corporate experts and their opinion regarding the involvement of HR. Despite of the fact that plenty of research done and majority of M&A resulting in failure, HR still continues to be neglected in M&A. It is important to understand the level of support and resistance present in the organization to maximize the success of the process and build synergy. The cost of giving lack of attention and importance given to HR parameters like loss due to attrition, cost of training, communication gap, relationship building and their impact on finances creating financial loss. Organizations need to develop powerful systems before integration that ensures proper communication from top to bottom that will ensure removal of ambiguity and uncertainty. From the literature available regarding the discussion of M&A, the most important topics relating to the human aspect of M&A includes cultural differences, level of integration and resistance, employee turnover, relocation and transfer, changing in job roles, restructuring and knowledge transfer and creation along with change management. The paper will provide the insights and the guidelines to existing merged companies, the companies undergoing M&A or planning to do so as a part of their strategic goal. It will provide support to HR practitioners for better integration of soft and hard aspects of employees. The paper will be useful for academicians and to the interested readers dealing in the HR functions of an organisation.*

**Keywords:** Mergers and Acquisitions, HR, Culture, Resistance, Integration, Synergy

## 1. Introduction

Mergers and acquisitions (M&A) are defined as consolidation of companies. Merger is the combination of two companies to form one, while Acquisitions is one company taken over by the other.

**Mergers & Acquisitions can Take Place:** M&A could take place by cash, debt, equity or barter.

- By purchasing assets
- By purchasing common shares
- By exchange of shares for assets
- By exchanging shares for shares

**Types of Mergers and Acquisitions:** Merger or amalgamation can be classified into three types:

1. Horizontal: where the two firms are in the same industry. Eg- Ford and Volvo
2. Vertical: where the companies are at different production stages or value chain. Eg- Ford and Bendix
3. Conglomerate: where companies are from unrelated

### Reasons for Mergers and Acquisitions

- Enhanced reputation in marketplace or with stakeholders
- Reduction of operating expenses or costs
- Access to management or technical talent
- Access to new product lines
- Growth in market share (complement/extend current business)
- Quick access to new markets or entry into new industry (diversification)
- Reduction in number of competitors
- Access to new technology, manufacturing capacity or suppliers

### Stages involved in any M&A

**Phase 1:** Pre-acquisition review

**Phase 2:** Search and screen targets

**Phase 3:** Investigate and valuation of the target

**Phase 4:** Acquire the target through negotiations

**Phase 5:** Post merger integration

### Due Diligence

Due Diligence in Mergers and Acquisitions is the process of evaluating and investigating a prospective business decision by getting information about the financial, legal, intellectual, customers, employees and other material information from the other party.

Recent Mergers and Acquisitions are

Acquirer	Target Company	Deal Size	Comments
Flipkart	Mynta	USD300mn	Acquisition led to scripting of largest ecommerce stories
Asian Paints	Ess Ess bathroom products	undisclosed	to be onestop provider in home décor space
RIL	Network 18 Media & Investments	Rs4000cr	78% percent shares were taken over by RIL
Merck	Sigma	USD17bn	Acquisition to boost lab supply business of Merck
Sun Pharma	Ranbaxy	USD4bn	increase presence in global and domestic markets
TCS	CMC		merger to consolidate IT business
Tata Power	PT Arutmin Indonesia	Rs 47.4bn	Purchased 30% stake
Groupe Lactalis	Tirumala Milk	USD275mn	lactalis entry into India
CSP CX	Aditya Birla Minacs	USD260mn	Aditya Birla's exit from IT industry
Thomas Cook	Sterling India	Rs 870cr	Entry into hospitality business
Yahoo	Bookpad	USD15mn	First acquisition made by Yahoo
Kotak Bank	ING Vysya	USD2.4bn	All share deal
Ola cabs	Taxi for sure	USD200mn	Acquisition of competition

Integrating a part or whole of two organisations with primary motives to combine strengths and cultivate synergy does not always yield the desired results. With increase in the number of the M&A since past decade there is an increase in the failure rate.

The role of HR comes into play since pre-merger planning and continues after post-merger. HR practitioners can match employees to the right jobs, orient them to the new strategy, facilitate a sense of urgency for change, and ensure clear objectives are developed and communicated to employees. The HR practitioner's role is to modify and/or create plans when existing processes are found to be inadequate. Practitioners can be instrumental in helping employees transition from the old environment to the new.

### Objectives

1. To understand the role of HR in Mergers and Acquisitions
2. To identify the challenges involved in any Mergers and Acquisitions from the human resource perspective
3. To study recent M&A and their HR consequences
4. To suggest ways to have seamless M&A especially by keeping in mind the human factor of an organisation

### Methodology

#### Topic of Paper

This project is titled as "Challenges faced by employees and the role of HR in merger and acquisitions".

#### Data Collection

1. Secondary Case Study method where at least 30 papers will be reviewed closely to attain first three objectives including the review of the exiting literature.
2. The secondary data will be backed by primary data involving the interviews of corporate experts in order to achieve the last objective

#### Sample Size

N=15 (HR of organizations which were involved in any type of merger and acquisition)

#### Analysis of Data

The analysis of data was done using SPSS (Multiple Response Analysis) and Excel.

## 2. Literature Review

A merger and acquisition are a very delicate time for any organization because the organization becomes very fragile and vulnerable with respect to external and internal environment. When two separate corporate entities fuse into one another, an inevitable rapid change is sparked off. Hence, every phase of this change or transition has to be carefully planned, mapped and managed, every loose end needs to be tied up and every loop hole has to be minimised. A necessity for the definitive

vision for future, not merely from commercial or financial perspective but also from the perspective of human resources of the organization arises. This is because during M&A the impact of such large-scale change is stronger and more visible in the case of employees than in any other resources involved.

### About Mergers

In merger one company loses its legal existence and becomes an integral part of another company. In context with the company law Section 391 to 394 deals with the terms relating to mergers and amalgamations.

Authors have devised (with corporate examples) six types of transactions in describing mergers and acquisitions. These are as follows

1. Neither the company is alive nor the brand: For eg. Global Trust Bank merged into Oriental Bank of Commerce.
2. The Company is dead but the brands are kept alive: For eg. Merging of Ponds, Brooke bond and Lipton in Hindustan Unilever.
3. Subsidiary of a company is merged into parent company. For eg ITC Hotel merging into ITC.
4. Reverse Merger: When the parent company loses its legal existence, and becomes a part of its subsidiary. For eg ICICI merged into ICICI Bank.
5. Post-merger the name of the company is changed: Compaq merged in HP and the new name is HP Compaq.
6. Amalgamation: Two transactions are involved in this
  1.  $A+B=C$  For eg Air India + Indian Airlines = National Aviation Company of India Ltd.
  2.  $A+B=AB$  For eg Arcelor + Mittal = Arcelor Mittal

The central idea in case of amalgamation is that a new entity is formed from existing entities.

### Takeovers and Acquisitions

Both these words are interchangeable and indicate the same meaning. Technically speaking, "Anything can be taken over or acquired for a price, this price can be cash, debt, equity, and trade of, or a combination of these."

Takeover or acquisition can be of brands, capital stake, and managerial stake, controlling stake, partial takeover, takeover of assets and complete takeover.

### Theories in Mergers and Acquisitions

Based on the review and study of papers the major theories involved in M&A that explains the psychological and behavioural responses of employees towards M&A and changes relating to are as follows

#### 1. Anxiety Theory

M&A in any company can be a significant source of anxiety to all its employees. Although this anxiety may vary in degree across individuals (**Buono & Bowditch, 1989**) and majorly depends upon the M&A characteristics.

**Cartwright & Cooper, 1993a; Ivancevich, Schweiger, & Power, 1987**, observed that employees experience a higher degree of anxiety during the phase of M&A rather than in any other circumstance. This may result into various problems such as anticipating negative impact on career and job (**Marks & Mirvis, 1985; Rentsch & Schneider, 1991**) which will further lead low productivity, low motivation and mental and physical illness.

#### 2. Social Identity Theory

The part of an individual's identity which is derived from the social group he belongs to (**Ash for the & Mael, 1989; Kramer, 1991**). In the process of M&A different identities of an individual with regard to its company like his professional identity, organizational identity and work group identity gets impacted. The extent to which the employees are flexible enough and are willing to accept the new identity depends upon the status of the company in relation to the M&A partner and also on the degree to which employees consider it as legitimate (**Terry & O'Brien, 2001**).

#### 3. Acculturation Theory

Changes that arise between two groups as a result of interaction and contact between them (**Berry, 1980**). Workplace culture is shaped by the value system, beliefs and behaviour of the employees. This culture percolates from the top level to the bottom level through vision and communication. Within this culture there is presence of sub cultures. Hence, the culture of an organization can be termed as "an network of integrated subcultures" (**Elsass & Veiga, 1994, p. 433**).

Four modes of acculturation have been identified by **Berry (1980)** in context to M&A. These are as follows:

1. Deculturation
2. Assimilation
3. Separation
4. Integration

These cultural differences presenting between organisations may result in "**cultural clash**". The literature present in M&A well documents this aspect (**eg: Cartwright & Cooper, 1993b; Elsass & Veiga, 1994**)

#### 4. Role Conflict Theory

Role conflict arises because of ambiguity and uncertainty present with respect to roles as a result of M&A. Transition with respect to existing culture, structure, and job arrangements results in disruptions of the existing jobs. This role conflict is

another source of stress among employees within an organization which may result into lower motivation and higher dissatisfaction among employees (Igarria & Guimaraes, 1993; Sims & Szilagyi, 1975).

**5. Job Characteristics Theory**

Researchers show that there is a direct impact of changes in job characteristics on the behaviour and attitude of an employee arising because of M&A.

Buono, Bowditch, & Lewis, 1985 in their paper observed that the perception of employees with regard to the quality of work environment dropped after a merger or an acquisition which in turn lead to a drop in their job satisfaction and organizational commitment.

Job characteristics theory identifies five job characteristics that influence the perception of an employee with regard to his work environment and in turn affects his satisfaction and motivation level. These characteristics are as follows:

1. Skill variety
2. Task identity
3. Task significance
4. Task autonomy
5. Task feedback

**6. Organizational Justice Theory**

Any kind of merger or acquisition requires decisions regarding transfer, relocation, shifting or displacement of employees in the organization. The theory provides insights about how these decisions affects the perception of surviving employees. Hence justice arises when employees find them as fairly treated or are seen to be fairly treated. They tend to develop attitudes which support changes instead of resisting them even under adverse conditions (Cobb, Wooten, & Folger, 1995).

Literature reveals three types of fairness perceptions:

1. Distributive justice (Adams, 1965)
2. Procedural justice (Thibaut & Walker, 1975)
3. Interactional justice (Tyler & Bies, 1990)

**Underlying Theories in Merger and Acquisition (M&A) Literature**

<i>Underlying Theories</i>	<i>Sources of Problems</i>	<i>Predicted Outcomes</i>	<i>Related Prescriptions</i>
Anxiety theory	Uncertainty and anticipated negative impact on career and job Prolonged anxiety and uncertainty	Low productivity Self-centered behaviors Mental and physical illness Lack of motivation	Top-down communication; social support; participation in decision making; training managers to empathize and listen to employees; golden parachutes Ongoing communication; speeding up transition
Social identity theory	Loss of old identities (organizational, professional, work group)  Interacting with other organization's members	Sense of loss, anger, and grief Denial and refusal of change  Intergroup bias and conflict Acts of noncompliance	Disengagement efforts (grieving meetings); proactively assessing strength of existing identities and framing new identities to be more appealing Creating a new identity; fostering cross-organizational arrangements and activities
Acculturation theory	Contact with or adjustment to different organizational culture	Acculturative stress and resistance Interorganizational tension and conflict Culture clash	Cultural due diligence; fostering multiculturalism; facilitating intercultural learning; heightening awareness of thinking and behaviors that cause culture clash to develop
Role conflict theory	Ambiguous and conflicting roles	Low productivity Low job satisfaction	Two-way communication; leadership of role clarification
Job characteristics theory	Changes in post-M&A job environments	Job satisfaction and commitment Absenteeism/turnover	Post-M&A job redesign; employee involvement in job design; job transfer training
Organizational justice theory	Perceived fair treatment of surviving and displaced employees	Psychological withdrawal Turnover	Fair and objective human resource management; equal participation in decision making; treating employees with dignity and respect

As per Garpin & Herndon, 2000 there are four stages involved in any merger and acquisition; these are premerger stage, initial planning and formal combination stage, operational combination stage and stabilization stage.

In every stage the factors highlighted by the above mentioned theories that affect the employees' psychology with regard to the M&A impacting their behaviour and attitude in the organization are summarised below

Effects of Different Sources of Problems in Different Integration Stages of Merger and Acquisitions (M&amp;As)

Stressor	Underlying Theory	Impact of Stressors in Each Phase of M&A Integration			
		Premerger	Initial Planning and Formal Combination	Operational Combination	Stabilization
Uncertainty	Anxiety theory	Medium-large	Large-medium	Small	Small
Loss of identity	Social identity theory	Small	Large-medium	Medium-small	Small
Intergroup conflict	Social identity theory	Small	Medium-large	Large-medium	Small
Perceived unfairness	Organizational justice theory	Small	Medium-large	Medium	Medium-small
Acculturation stress	Acculturation theory	Small	Medium	Large	Medium-small
Job environment changes	Job characteristics theory	Small	Small	Medium-large	Medium-small
Role conflict and ambiguity	Role conflict theory	Small	Small	Large-medium	Small
Prolonged uncertainty	Anxiety theory	Small	Small	Small-medium	Small or high

### Major Challenges Faced by Employees in Mergers and Acquisition

Studies show that unresolved issues relating to employees are the often the main reasons for post-merger diminishing of shareholder value. For this reason, it becomes essential to address the needs of the workforce at the earliest during M&A.

Current writings reveal that mergers and acquisitions, despite the amount of benefits they can achieve, their successful management is a great challenge. Not only can the integration of procedures, physical, administrative, managerial but also socio-cultural integration, if not handled properly be considered as a stressful event by employees. The literature believes that the effectiveness, innovation and survival of the organization "**require respect and attention to the humanitarian aspect of the institution**".

**Peerayuth Charoensukmongkol, (2016), "The role of mindfulness on employee psychological reactions to mergers and acquisitions"** in his paper says that employees' resistance to M&A with regard to the uncertain environment and its detrimental impact on the psychological contract leads to decrease mindfulness which tend them to filter the facts and prevent them to see the opportunities lying ahead.

Further, this resistance to change might be because of personal factors (cognitive in nature) or organizational factors like ineffective communication, leadership etc.

The paper is an empirical paper, the data for which has been collected from full time employees of a Japanese multi national bank. 114 usable employee surveys were obtained out of 400 employees working there. Further, partial least square regression was used to analyse the data.

**Laverne Shook Gene Roth, (2011), "Downsizings, mergers, and acquisitions Perspectives of human resource development practitioners"** study explains that in most cases HR practitioners or their team were not involved in any decisions relating to downsizing at the time of merger or acquisition. Further, it says that workplaces became chaotic and stressful after merger, especially if mergers lead to downsizing of the acquired company. The stress is induced by the process of identifying and eliminating the duplicate and overlapping positions. The study participants suggest that the lack of attention to employee issues in the due diligence phase of the merger or acquisition also contributes to the disorganized, even chaotic workplace environment. When integrating becomes the primary motive, these studies conclude that M&As can create/add value for the combined firms and this integration can have a positive effect on targets, acquirers and total gains.

The paper is a qualitative study involving interviews of 13 HR practitioners for which constant comparative method was used to analyse the data.

Hence the practical implication of the paper is that the role of HR has to be more strategic and transitional as soon as the announcement of a particular merger or acquisition is done.

**Christine T.W. Huang Brian H. Kleiner, (2004), in his paper "New developments concerning managing mergers and acquisitions"**, identifies some major challenges that employees face in mergers and acquisitions. These include the following

#### 1. Cultural Barrier or Cross-Cultural Conflicts

Studies show that differences between the cultures of the two merging entities forms the most important reason for failure of M&A. "**Coopers and Lybrand (1992)**," in their study reported that 85 percent of the total executives surveyed said that differences in the culture and management styles is the main reason for an unsuccessful M&A.

Examples: AT&T acquisition of NCR or AOL merger with Time Warner.

**Raffaele Fiorentino Stefano Garzella, (2015), "Synergy management pitfalls in mergers and acquisitions "**, also points out the fact that "**cultural distance**", "**cultural compatibility**" and "**cultural change**" act as variables that impact M&A (**Cartwright and Cooper, 1996; Morosini et al., 1998; Kavanagh and Ashkanasy, 2006; Stahl and Voight, 2008; Stahl et al., 2013**). Further, cultural differences act as a major hindrance in achieving synergy in M&A. Socio cultural integration and task integration forms the most critical part in achieving synergies post M&A.

Surveys, questionnaires and interviews of M&A experts were done in order to get the relevant data.

**Yaakov Weber, Shlomo Yedidia Tarba, (2012), "Mergers and acquisitions process: the use of corporate culture analysis"**, in their paper gives an insight about corporate culture and its impact on M&A. The paper concludes that cultural

incompatibility and lack of synchronization at different stages of merger results in its failure. The paper also provides with managerial tools and frameworks to assess culture of different merging entities and to enhance the post-merger interventions and changes. The paper used the approach of literature review backed by case studies relating to both successful and unsuccessful M&A.

### Example

#### “Mercer: Cultural Intervention during M&A and Major Organizational Changes”; 2013

Methodology: Research and survey by Mercer

According to the survey in the paper, corporate culture is the most important factor during the due diligence and integration phases leading to a successful M&A deal. It has to be considered at the early stage of the transaction. Understanding the cultural difference will also help in the process if implementation finds to be difficult. According to Hofstede model, the different formats with this aspect are:

- Collectivism- Individualism
- Power distance
- Time orientation
- Femininity-Masculinity
- Uncertainty avoidance

The key components when it comes to addressing the cultural transaction are

- Leadership
- Rewards and recognition
- Workforce
- Performance management
- Communication
- Espoused/Expressed culture

The various tools to understand the cultural differences are online survey, HRIS data, executive interviews etc. The study focuses on employee engagement and change measurement to be done throughout the integration.

### 2. Timely Merger and Acquisition

The speed at which M&A takes place also affects its success. Traditional logic of moving slowly and carefully that minimises the risk of its failure cannot be applied to the present technology driven environment. A timely action and reaction is important so as to drive the benefits of the M&A or the opportunities will tend to be dissolved.

### 3. Psychological Barrier

Human as a capital, resource and a factor play a critical role in the success of M&A. However, it tends to get second priority, financial and commercial aspects always taking the limelight. Most of the time this Human Factor is often neglected resulting in the failure of M&A.

Ignoring the personnel their questions, doubts, fear, expectations and reservations develops an environment of ambiguity. They tend to develop resistance towards change (which is a major part of M&A). This may result in dissatisfied and low engaged workforce. As **Yunker, 1983:21**, correctly pointed out that “**no area in corporate life is more sensitive than employee relations**”, still many a times managers and other executives tend to ignore this sensitive area and to check the pulse of the employees in the organization.

### 4. Communication Problems

An effective communication between the employees and the managers is necessary for M&A success. However, communication problem arises because of increase in the scale of business and number of employees after M&A. This is further triggered if the managers keep the human aspect aloof from the entire process. Employees may fear about their job, role or about the new processes etc. which directly impact their commitment and productivity towards the organization. Hence, a proper communication channel becomes necessary at each stage of merger and acquisition.

### 5. Leadership Style

Poorly defined and unclear leadership has led to the failure of plenty of mergers since past. In any change, leadership is an important element which provides the direction to move into uncertain future. Weak leadership or leadership which is dominated by few or clash of different leadership styles (as in case of M&A) affects the success of a merger or an acquisition.

#### “Resistance to change in the case of mergers and acquisitions (part 1)”

Methodology: Based on empirical studies, industry expert findings and academic reviews.

Change management is the approach that company follows during M&A. The following are the categories under which the paper explores the resistance to change and management efforts:

- Communication
- Support from management

- Employee perception and participation
- Adherence to the organization

The first part of the study focuses on Communication factor. Effective communication in a M&A scenario could:

- Eliminate global stress and perceived uncertainty
- Increase job satisfaction, commitment, perceived trustworthiness and self-reported performance

The paper defines adequate communication which is based on certain parameters like realistic information, role of leadership in communication, precision and details and timeliness.

### “Resistance to Change in the Case of Mergers and Acquisitions (Part 2)”

Methodology: Based on empirical studies, industry expert findings and academic reviews.

The paper focuses on support from management and employee perception and participation categories for the resistance to change in the case of M&A.

#### 1. Support from Management

Describes trust in management by inspiring employees. This allows employees to participate in the changes like M&A and accept the changes.

Communicating support for merger and demonstrating management support are the other aspects when support from management is considered.

#### 2. Employee Perception and Participation

Fairness and justice, and employees' participation in the process will also help in negating the resistance in a change. The study showed that by using consistent reward systems and human resource programs with effective communication of company's vision, strategy, goals etc. has increased the employees' satisfaction and performance even though in the scenario of layoff.

The study also proved that for a higher LMX-Leader Member Exchange relationship, the resistance to change is likely lesser. Employee participation a change like M&A will encourage the overall acceptance of the scenario.

### “Resistance to Change in the Case of Mergers and Acquisitions (part 3)”

Methodology: Based on empirical studies, industry expert findings and academic reviews.

Adherence to the organization and engagement.

By increasing the belongingness and engagement, one can increase the adherence of employees to the new merged organization. The more engaged the workforce, less it will resist. The level of engagement differs based on whether the company is an acquiring or acquired company.

This paper also explains different barriers like project-related, people-related, organizational and environmental barriers which have a significant effect on work engagement of the employees.

Belongingness to the new work culture is explained with different modes of acculturation which are deculturation, assimilation, separation and integration.

**Pablo Maran & Christine Panasian, “The Human side of mergers & acquisitions: A look at the evidence,”** the paper takes a look into the strategic role of HR in the entire process of M&A. It says that M&A is a disruptive event in the lives of employees and it lead to increase in stress and dysfunctional outcomes.

The paper comes to a conclusion that it is difficult for any function to remain escape from the impact of M&A. Further, isolating and calculating the contribution of each function or a factor is difficult to estimate. However, it is evident that in practice human related issue of M&A have not received the level of attention that is needed.

### 3. HR to the Rescue

HR as an important participant in the M&A process aids both expansion and economies of scale through assessing employee needs, knowledge management and seamless integration of people and processes. But the most important of its duties is to ensure that employees come to an amicable term with the changes taking place around them and help them ease into a new and unfamiliar environment, work routines and new rules.

Hence, it can be said that HR acts as a saviour of employees by helping them to adjust with the change. Having said that it is neither appropriate nor enough to involve them after the M&A decision has been made. In fact, the presence of HR should be felt from pre-merger or acquisition, through the entire process of due diligence and after wards. An integrated and proper HR plan right from the start is necessary. It may happen that certain changes may be required in the mid-way but at least a right head start is given. As an HR, it will be his responsibility to gauge the effectiveness of its existing HR functions and comparing it with the acquiring or merging company. This will help him to create a strong base for the interventions need post M&A. The most important part is to always have a plan ready with a back whether to build an integration team, cultural compatibility or workforce management or deriving synergies and be flexible and agile about the same.

Next important function of Human Resource after the integration phase has been launched is communication. Channelizing and facilitating two-way communication between the target company and the acquirer company becomes an essential step to pave for workforce analysis and staffing, taking into account the company's present workforce, top talents, creation of new

positions, redundancy of old positions, compensation and benefits, restructuring etc. Communication is the key prevent rumours and gossips, ensuring the loyalty of employees and helping them to eradicate fear and psychological shock that an employee goes through.

A company undergoing merger or acquisition is vulnerable to competitors and head hunters who lure away skilled talent. These skilled talents usually are small set of managers who contributes most to the company's effectiveness. This group have good market value and hence, are always in the eyes of head hunters. Hence, it can be said that in a state of ambiguity, confusion and uncertainty a company can lose its key talents. Therefore, it becomes necessary that a high attention is given to these key resources and maintain their level of satisfaction so as to ensure their loyalty and commitment towards the organization.

A recent report says that majority of mergers fail to achieve the desired synergy and about 50% of them witness an overall drop in their productivity in the initial 4-8 years. These figures prove the fact people and culture related issues are still overlooked. Hence, a greater strategic role of HR is crucial for obtaining the desired synergy and advantage of M&A.

However, it is very important for HR to take the initiative and responsibility of issues pertaining to people and do not escape from such responsibility. From ensuring that the team in charge of merger has the relevant skills and attitudes to carry out the integration to being decisive and able to bring out the best in other people while maintaining their enthusiasm level is what the goal of HR should be in entire process of M&A.

Keeping these points in mind there are some pitfalls that all HR should be aware of

1. Tendency of taking short-term
2. Keeping people in dark or over communicating or communication with media
3. Escaping the responsibility
4. Pretending that hard questions will not be addressed during the merger

#### **“Factors Affecting the Role of HR Managers in International Mergers and Acquisitions”; 2007**

Methodology: Based on interviews of 12 corporate managers in 3 Finnish industrial companies explained with the help of three case studies.

The paper explains that the role of HR managers in M&A is very crucial to the company. HR managers' own capabilities and the activities they carry on before, during and after M&A process are the key contributing factors. The factors affecting role of HR function and managers can be divided into six broader categories:

1. The orientation of top management to people management
2. The expectations line managers have of HR
3. The skills, abilities and competencies of HR managers themselves
4. The HR function and its characteristics
5. External factors
6. Internal factors

Paper stresses on having accurate knowledge on M&A by HR managers. Interviews were taken based on acquiring company's perspective through three different case studies.

**Case 1:** The company employees 19000 people across 40 countries.

The senior Vice President of HR of the company advises to involve HR from the very beginning of the process. Lack of time is always a problem, in such scenario to do investigations such as due diligence. Lack of a clear framework for HRM in M&A can prevent HR from adding value to the process. The interviewee stresses on HR managers to be a good generalist in all areas for having their involvement in M&A.

**Case 2:** International firm employing 27000 people.

This Mentions all the required skill sets and competencies required by HR managers in addition to the knowledge of M&A process in the business.

**Case 3:** Company having 13300 employees.

This interview talks about line managers' approach towards HR in keeping HR managers in M&A process based on the role that HR plays in their day to day business.

The study illustrates that when the HR department is active, it can increase the knowledge about HRM in M&A process inside the organisation. If they are administratively oriented, they are generally not involved much in M&A. If the deal is considered to be strategically large and affecting many people, HR plays an active role.

It can be concluded that the roles of HR managers in the case of a M&A is affected by top and line management's support, external and internal factors, by the HR function itself and factors relating to HR managers themselves.

#### **“HR as Business Partner During Mergers and Acquisitions: The key to success is to get involved early”; A. Uday Bhaskar.; 2012**

The paper is divided into role of HR pre-merger, during merger and after merger.

Before acquisition

HR looks into soft and hard aspects of Target Company. Soft aspects include culture, decision-making styles, organizational values etc which are really challenging. The hard aspects include analysing employee compensation.

#### **During Merger**

In this phase, HR has a more strategic role to play by aligning structures, rules and policies, pay structures and employee designations. This may also include developing a new vision and mission for the merged entity. HR fine tunes the mindset of



employees for developing synergy by having proper and clear communication. The paper cites the example of merger of Oriental Bank of Commerce with Global Trust Bank in 2004, wherein employees from GTB left soon after the news about the merger due to the sole reason of improper communication channel.

#### After Merger

HR specialist must focus on conducting surveys and interviews with the stakeholders and work on the feedback provided by them. Employees' queries must also be addressed on a priority basis. Amalgamation of the two cultures is also important to develop synergy.

**Ingmar Björkman, Anne-Marie Söderberg, (2006), "The HR function in large-scale mergers and acquisitions: the case study of Nordea"**, using empirical evidences by collecting data from sample size of 60 HR and top executives of Nordea, proved that mergers and acquisitions results issues relating to employees and further the difficulty in dealing with these issues. However, the paper also pointed out that despite of the difficulty and issue, HR as a function is sidelined and given a secondary preference.

The paper points out four major roles played by HR or at least should be partly involved in these roles. The roles are as follow:

1. HR as an "Administrative Expert"
2. HR as an "Employee Champion"
3. HR as a "Strategic Partner"
4. HR as a "Change Agent"

**Nicola Mirc., "Mergers and Acquisitions: revisiting the human factor in the light of a knowledge-based view of the firm and complexity theory"**, the literature pointed that there are 3 factors under which human side of mergers and acquisitions can be grouped into. These are:

1. Psychological factors
2. Cultural factors
3. Managerial factors

A major focus of the already existing literature has been on psychological factors and cultural factors relating to mergers and acquisition. The psychological affect that M&A has on the minds of employees resulting into stress, decreased level of motivation, less job satisfaction, threat and fear, and lack of clarity regarding their future in the organization has been well identified and reviewed upon.

Similarly, cultural aspects of mergers and acquisitions, "cultural-fit" and "cultural compatibility" between the merging entities is well talked upon. Lack of assimilation, co-operation and cultural sensitivity are assumed to be few of the major reasons for failure of M&A. However, on the contrary authors like **Cartwright & Cooper, 1996**, argue that cultural differences may not always be reason for failure; in fact, cultural differentiation will result in a diversified workforce having diverse skills which can complement each other thus having a positive impact on the performance of the employees.

However, when we talk about human factor, the majority time it is looked from the perspective of employees (staff). But, looking it from the view point of the management, the entire MA process, it's planning and execution will add to the significance of the human factor. In this case style of the management when viewed from a perspective and angle other than the cultural factors will add to the managerial outlook towards the entire process of M&A.

#### **"Human Resource Integration in Subsidiary Mergers and Acquisitions: Evidence from Poland"; 2012**

Methodology: Semi-structured formal and informal interviews, secondary and primary data analysis.

The paper concentrated on integration of Polish companies with international subsidiaries. It looked into various aspects like:

- Integration leadership
- Staffing
- Expectations for the post-merger organization
- Managing corporate culture
- Communication etc.

It stresses on having more of strategic role rather than administrative role for HR. It is inferred that fast mode process will most likely lead to failure of the process. The process has to be studied and prior communication plan has to be prepared. Employees need to be provided with relevant information about the merger throughout the process. One tactics used by HR in staffing was to reduce the external hiring so as to benefit the internal employees by training. The paper also explains the power of HR to overcome the employees' resistance to change. HR should be involved in the process effectively in order to decrease any dysfunctional impact on the workforce. It comes up with a framework which points out the following:

- Weaker local HR power and low multiculturalism after merger will lead to increased uncertainty among the existing employees and ultimately results in anxiety.
- Increased local HR power and higher multiculturalism of foreign investor after the merger will decrease the autonomy and result in better acculturative scenario in the merged entity.

**Craig W. Fontaine, North-eastern University, UK, "Mergers & Acquisitions: Understanding the role of HRM"**, the paper is based on an empirical evidence that 65% of mergers and acquisitions fail because of people related issues of culture,

communication etc. Traditionally, HR was not involved in the process of M&A and hence the paper points out the areas where HR professionals should involve themselves necessary for the success of the M&A. These include- Style of leadership, Integration Team, Intervention, Change Management, Restructuring and Communication at all levels and throughout the process even post M&A.

**Linda S. Johnson, in her paper “The Human Resource Perspective in Mergers and Acquisitions: Non-Benefits Issue”**, points out that HR professional can play a very important role in M&A. From the due diligence phase and going beyond their traditional role as administrative staff, they can assist in the workforce planning, in terms of numbers, jobs and roles. They can help in reviewing, evaluating and integrating compensation and benefits between the merging entities, they can assess the soft data of the company, their policies, rules especially relating to discrimination, harassment whether sexual or otherwise. They can facilitate communication, help in maintaining employee morale and motivation, and can enable smooth transition by facilitating change management. Hence, carefully involving HR in the process of M&A can ensure its success and long-term value proposition.

#### 4. Findings of Literature Review

Mergers and Acquisitions are one of the most important phenomenon taking place around the corporate world. No sector is aloof from it. Different functions of the organization are looked upon prior M&A from finance to technology and even research. For this purpose, a complete process of due diligence takes place to ensure the right fit and compatibility between the merging entities. However, somewhere down the line the human aspect of M&A is overlooked and the involvement of HR is not considered in formation of any important strategies and policies relating to M&A affecting the workforce.

The major findings of the papers are:

1. Despite of the fact that plenty of research done and majority of M&A resulting in failure, HR still continues to be neglected in M&A.
2. It should be noted that the importance of involving HR from early in the process of M&A has resulted in a smooth and successful M&A. Further, this very fact has been well established by the research done in the field.
3. There are plenty of success stories that reveal the benefits of an integrated HR- driven approach.
4. In M&A the skills required by HR are diverse and difficult. Hence, time and resources are required to build these key skills.
5. It is important to understand the level of support and resistance present in the organization to maximize the success of the process and build synergy.
6. The cost of giving lack of attention and importance given to HR parameters like loss due to attrition, cost of training, communication gap, relationship building and their impact on finances creating financial loss.
7. Organizations need to develop powerful systems before integration that ensures proper communication from top to bottom that will ensure removal of ambiguity and uncertainty.
8. From the literature available regarding the discussion of M&A, the most important topics relating to the human aspect of M&A includes cultural differences, level of integration and resistance, employee turnover, relocation and transfer, changing in job roles, restructuring and knowledge transfer and creation along with change management.

Therefore, assuming that if other aspects like legal, financial, technology, etc. are taken care of, the people-related aspect will take care of themselves is entirely wrong. People, like other resources are an important resource necessary for the well-being of the organization. Ignoring this resource will result in the failure of the process and will cost the organization in long run. Further, use of Five C framework of integration for successful cultural integration determined by cross cultural communication, cross cultural due diligence, control and connection is necessary for the ensuring the compatibility between organizations. Every function is a pillar for M&A and thus integration of all functions is necessary for deriving the benefit of M&A. Overlooking any of the aspect will result in the failure of the process.

#### 5. Primary Data Analysis

**Topic:** Challenges faced by employees and the role of HR in merger and acquisitions”.

**Sample size:** 15

The data has been collected from HR of different organizations who have underwent any kind of M&A or has acted as a third part consultant.

**Question:** Which was the most important strategic rationale for the deal?

**Result**

Case Summary						
	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
\$ Combinedatt <sup>a</sup>	15	100.0%	0	0.0%	15	100.0%
\$ Combinedatt Frequencies						
					Responses	Percent of Cases

		N	Percent	
Reasons for M & A <sup>a</sup>	scale/market share	4	14.3%	26.7%
	<b>geographic expansion</b>	<b>5</b>	<b>17.9%</b>	<b>33.3%</b>
	<b>product distribution</b>	<b>6</b>	<b>21.4%</b>	<b>40.0%</b>
	R&D	6	21.4%	40.0%
	skills and talent	5	17.9%	33.3%
	other	2	7.1%	13.3%
Total		28	100.0%	186.7%

On using Multiple Response Analysis in SPSS, it can be said that product distribution and R&D were the most important rationale for M&A with responses around 21.4% (out of 15 responses), accounting around 40.0% of cases out of the total responses of 28=N. It was followed by geographic expansion with 33.3% of cases.

**Question: Top Integration Priority of Functional Area Compared with Time Allocation (Rank From 1 To 6; 1 Being the Top Priority).**

**Result**

It was found out that of the options given as functional areas, HR was given the top priority compared with time allocation amounting around 26.08%, followed by finance and sale with 21.73% and 17.39% respectively.

**Question: Top Integration Priority of Functional Area Compared with Budget Allocation (Rank From 1 To 6; 1 Being the Top Priority).**

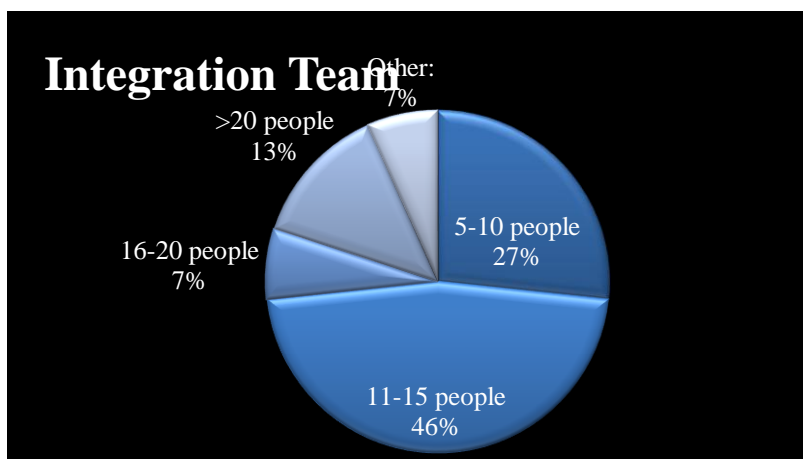
**Result**

HR and Sales as a function were top priority when compared to budget with 20% of responses for each. This was followed by finance accounting for 15% of responses.

**Question: Please Indicate the Size of your Integration Team (s). Specify the Number if Greater than 20.**

**Result:** Response Breakup

Team Size	Frequency Of Responses
<5 people	0
5-10 people	4
11-15 people	7
16-20 people	1
>20 people	2
other	1



**Question: Are you being involved in Due Diligence Process from the Initial Stage of M&A?**

**Result**

60% of the respondents say that HR were not included in the initial process of due diligence. This data proves the fact that the importance of human side of M&A is well known but when it comes to practical implication things are different. Further,

based on the responses of Question 2&3 according to which prioritizes HR as a functional area on the basis time and budget allocation, the fact that they are rarely involved in the process again questions the reality of the HR involvement.

**Question: What tools do you use to understand the culture of the organization during M&A?**

**Result:**

The result showed that 46.7% of the respondents use HRIS data to understand the culture of the organization, followed by company visits (33.33%) and survey (13.3%). Only 6.67% of the respondents use interviews as medium for understanding the culture.

**Question: What were the Challenges Faced by Employees in M&A**

**Result**

Case Summary						
	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
\$ Combinedatt <sup>a</sup>	15	100.0%	0	0.0%	15	100.0%

Using Multiple Response Analysis in SPSS it was found out that 86.7% of cases believed that Lack of Clarity among employees regarding M&A, their roles, jobs, future, etc. is one of the most important challenge faced by employees followed by lack of confidence in leadership (26.7% of cases). This further proves that an environment of ambiguity and uncertainty exists during M&A which results in stress, low motivation and lower productivity.

\$ Combinedatt Frequencies				
		Responses		Percent of Cases
		N	Percent	
Reasons for M & A <sup>a</sup>	career growth	3	10.7%	20.0%
	Separation	2	7.1%	13.3%
	Demotion	2	7.1%	13.3%
	Lack of confidence in leadership	4	14.3%	26.7%
	<b>Lack of clarity</b>	<b>13</b>	<b>46.4%</b>	<b>86.7%</b>
	Loyalty to company	2	7.1%	13.3%
	Lesser Benefits	1	3.6%	6.7%
	Other	1	3.6%	6.7%
Total		28	100.0%	186.7%

**Question: What were the factors used for retaining employees after M&A**

**Result:**

40% of the respondents believe communication is the most important factor for retaining key personnel after M&A. This was followed by up skilling and coaching of employees (26.7%) and promotions (20%).

Further, on qualitatively analysing the entire data it was found out that COMMUNICATION IS THE KEY, for successful M&A. Aligning of processes of both entities, reforming the compensation structure, workforce planning and retention and most importantly to be SEEN AS FAIR, is necessary for the success of M&A.

**6. Conclusion and Discussion**

To maximize the chance of success it is important to analyse all the aspects of an organization. Every aspect act as pillar for M&A to be successful, hence, due diligence of all the aspects of organization should be first step towards M&A. Human as one of these aspects also contributes towards the success or failure of M&A. It is evident from the literature that resistance occurs. This resistance may be because of change in job roles, losing of job, lack of future certainty, lack of career growth, lack of financial growth, loss of credibility, loss of reputation, fear of unknown, threat, low self-esteem damage relationship etc. Understanding the human as a resource of organization is essential in order to overcome the HR challenges relating to M&A. These challenges may relate to cultural synergy and balance, structural changes (impact of new management on the organizational structure), division of workforce, transfer, relocation and shifting dilemmas, training challenges to tune with

the new expectations, alignment of HR philosophy, communication challenges, justification of legal issues, managing future uncertainties, parity of systems, rationalization of workforce, employee engagement, crisis management and change management.

Hence, HR has come to rescue by building up a cooperative and collaborative culture, having response management system in place, providing employees with job satisfaction and security, formulating policies that ensures engagement, usually, policies relating to termination, bonus, vacation, appraisals, training, stock options, promotion etc. Therefore, it can be said that the role of HR has changed from administrative to strategic, wherein he acts as a business partner to facilitate the entire process of M&A.

### Way Forward

With changes noticed in the structure of the organization, growing diversity, temporary workforce, greater mobility, less loyalty and information driven environment, the competencies of HR to meet the above-mentioned challenges has to be changed. HR needs to be more data oriented, design oriented and digitally skilled. He should have wonderful negotiation skills, organization and communication skill. He should know business and align himself with the business strategy. He should possess the required functional skill and change competencies along with skills relating to group dynamics.

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