ABSTRACT

Mergers and acquisitions (M&A) are transactions in which the ownership of companies, other business organizations or their operating units are transferred or combined. As an aspect of strategic management, M&A can allow enterprises to grow, shrink, and change the nature of their business or competitive position. From a legal point of view, a merger is a legal consolidation of two entities into one entity, whereas an acquisition occurs when one entity takes ownership of another entity's stock, equity interests or assets. From a commercial and economic point of view, both types of transactions generally result in the consolidation of assets and liabilities under one entity, and the distinction between a "merger" and an "acquisition" is less clear. A transaction legally structured as an acquisition may have the effect of placing one party's business under the indirect ownership of the other party's shareholders, while a transaction legally structured as a merger may give each party's shareholders partial ownership and control of the combined enterprise. The past decade has seen a spurt in M&A activity buzzing across board rooms. Acquisitions were evaluated in terms of synergies, cost savings, increase in market share etc. with investment bankers rolling out figures justifying valuations. In spite of all this homework, nearly 75-80% of the mergers fail. Potential synergies do a vanishing job. If companies go through a detailed analysis and due diligence review in all areas- business, markets, financial, legal etc.


INTRODUCTION

In today’s new economy, corporations are increasingly facing new challenges. Escalating competition in a globalized market, shrinking corporate resources, maturing markets, rapid shifts in technology, the recruitment, retention of talented and skilled people are just a few of these challenges. In addition corporations are constricted by the need to show short-term results no matter what circumstances exist.
The pressure for month-to-month increases can be overwhelming. Organizational dynamics is well recognized not only by practitioners, but also by scientists. Dynamics is determined by the external environment change (actors and the relations between them is in continuous change) together with the organization’s internal environment changes (related to all company’s fields as: production, operations, financial-accounting, research and development, human resources, information and communication system etc.). In addition, the organizational change approaches (including the related processes and activities) are often assimilated with a complex project management approach. In this context, the merger and acquisitions (M&A) and outsourcing processes are high complex projects, and one of the most difficult approaches is related to human resources change management aspects. The project management perspective has to be considered as useful and necessary in this case. This represents a crucial competitive factor. Besides the legal and labour aspects the receiving company has to face the challenge to use appropriate human resources methods and tools to integrate the new staff with the new organizational context.

The basis for the qualified implementation of the human resources and the integration methods that could be applied are always based on the needs assessment, which relies on the human resources evaluation and investigation by the company. Because of the tight time frames specific to the M&A projects the individual needs assessment is only possible in a very limited form. Aspects concerning the individual, such as infringement of the psychological contract, the employee’s lacking commitment towards the company and the lack of company identification are only occasionally taken into consideration in practice by some prestigious consulting firms. The focus of this paper is the debate and identification of human resources methods and tools, which support a proper individual employee integration (in the case of those human resources transferred and integrated in a new organizational context). In order to find the appropriate methods for human resources integration, models from different socio-economic fields, such as change management, labour and organisation psychology or human resources management were taken into consideration.

In the context of the research only the “soft factors” (socio-psychological) that positively affect the transferred human resources and support their integration process in the new organizational context have been considered. “Tough factors” as remuneration policy and working time flexibility were not included in the research approach. It has been recognized that the M&A management encompasses the process and the result of the strategically motivated purchase, respectively the merger of companies or parts of a company and their subsequent integration or resale. Connected to this is a transfer of authority in ways of leadership, power of control and of disposition. The main target of the M&A projects is the sustainable safeguarding and increasing of the company value as well as
of its competitive position. Till the year 2000, publications of different scientists and practitioners on the M&A transactions implementation success evaluation have underlined that the desired targets and effects were often not achieved. According to (Unger, 2007, p. 875) research, only 30% of the analysed 232 M&A transactions improve their return on sales and actually only 21% have achieved an enhancement in value on the stock exchange. More recent studies prove that the currently evaluated transactions were more successful than those at the beginning of the nineties.

The recognizable and decisive factor is sustainability built upon M&A competences and adapted to strategic focus. Unger has observed through a research results survey, that both the strategy definition phase and the post-merger-integration phase are of particular importance for the M&A success. The key here is being especially the overcoming of cultural differences as well as mastering the integration process effectively. In order to evaluate the performed personnel instruments, a corporate study was performed in a large company during 2013. The results have not been published for reasons of confidentiality but will be described in detail hereinafter: The evaluation assignment means the assessment of selected personnel instruments regarding their benefit for the integration process of the new employees in a M&A situation. As the study was conceived as an evaluation of the results, it shows the extent to which the personnel instruments have generated changes (output) and the degree to which these instruments have contributed to success (intervention). The human resources methods used were individually assessed and they are part of the employees' integration program. The detailed analysis was performed within the evaluation of changes. The method of retrognosis will be applied, by comparing the current situation (the moment of evaluation) to a moment from the past (the employee’s first day in the new organizational context) with regard to quantity and/or quality. Based on the personnel instruments applied in practice an empiric study will be performed with the help of a structured interview.

**HUMAN RESOURCES ASPECTS IN M&A PROJECTS DEVELOPMENT**

**Human resources aspects**

Typical phases of the M&A project are:

1. Strategy analysis and concept phase (pre-merger phase);
2. Transaction phase (merger phase);
3. Integration phase (post-merger phase).

This three-phase model describes the perspective of the buying company. Hereby the chronological order is not rigid; each phase may overlap with another (Piehler, 2007, p. 15). The transaction process and the merging of the organization during the integration phase are crucial for success.

Furthermore, according to (Unger, 2007, p. 880) a study there has been underlined that
the top management has turned their attention towards other issues too early during this phase and has left the tasks in hand to the middle management. As a frequent consequence, the human resources oriented aspects have not been prioritised enough. Especially aspects related to human resources integration have been discovered as very important for the success of the M&A process, since the human factor is the key element of know-how, engagement and identification with the company are either the reason or the decisive element in a successful takeover process.

**Merger syndrome:** The merger syndrome is a phenomenon first documented by Marks and Mirvis (1985, 1992). The term describes employees’ (and managers’) reactions after the announcement and in general all positive and negative effects and consequences triggered by a merger. Usually employees of the acquired company are more affected by the big changes. That is why the merger syndrome is more intensively felt in the ‘weaker’ organization. The merger syndrome is characterized by a change of identity, higher centralization of decision making, coping with high levels of stress, formalization of communications on the one side and starting of rumor mills on the other, moving into a crisis-management mode, power games, a loss of identity, motivation and commitment, decreased productivity, feelings of insecurity and impotence, anxiety, mistrust and by manifold similar and simultaneously occurring phenomena.
On the M&A situation, sale of companies or similarly, the human resources processes are particular challenges for management; they represent the central factor of success within the resource oriented approach. The major importance of the staff in the present is to be attributed to the difficulty in substituting staff, due to their increasing specialisation and customer focus. Furthermore, staff is important because the fusion can be successful only when the employees are willing to cooperate with their new workmates. Beyond that highly qualified employees cannot be replaced in the short term, as they are rather scarce within M&A projects. In the same context, employees are sometimes the main actors of the failure of many M&A projects. Reasons therefore can be: organisational incompatibility, dwindling productivity or flight of skilled personnel and executives to the competition. Furthermore, an error analysis within the post-merger management shows that the insufficient integration of the personnel with 31% can be considered in this case, that is the greatest error, but other errors, like ineffective communication strategy (27%), a focus on costs instead of growth (19%), bad
planning of the integration process (18%), insufficient observance of organizational culture (17%), high losses of know-how though human resources fluctuation (14%) and a lack of career planning and perspective (13%), are directly or indirectly related to human resources management aspects. It becomes obvious that especially the integration of the staff and the internal communication with all categories of human resources is of vital importance. These central points are to be identified with success factors, which is why the corporate management should manage them in a precautious way and in a targeted fashion. A modern human resources management should assist the company in the merger process, to raise its awareness for the needs of change, increasing thus its ability to learn. Therefore it is necessary to identify and to foster key human resources, to avoid drain of know-how. In order to improve human resources integration in the company, to raise the staff’s satisfaction and the fluctuation rate, carefully selected personnel instruments should be applied and harmonised. The challenge and the difficulty of M&A situations resides in the fact that the assessment of the human resources development is very difficult to achieve because of the narrow time frame allotted in the merger phase (very low validity). Brings this in the connection within the scope of the organisational psychological research.

HUMAN RESOURCES INTEGRATION

In almost all midsize and larger companies new employees are introduced in the company in accordance with the plan actions established by integration programs. For the purpose of the present research study, there have been selected four methods: two classical and two psychological oriented methods used in the human resources integration process. The selected methods showed the best adequacy for a large organization, as the research results from the year 2013 have underlined. Integration between human resource management and businesses strategy is amongst the most important demands that are put forward by modern day organisations. It is generally acknowledged that the development and deployment of corporate strategy with cooperation from human resource strategy is a difficult preposition. Some go even further by saying that its organisations’ human resource strategy that gives the 'competitive advantage'. Marchington and Wilkinson (2008) argue that Human Resource Management is now often seen as the major factor differentiating between successful and unsuccessful organisations, more important than technology or finance in achieving competitive advantage. In UK the shift of industry from manufacturing to service has made it even more significant as most of the staff is in face-to-face contact with the customers, hence emphasizing the importance of human capital in routine operation of the organisation. Human resource strategy, particularly in last two decades has emerged as a corner stone strategy that has much of positive correlation with performance of the work force. In this paper, I will examine the linkage between the human resource strategy and how it helps performance in context of flexibility and innovation.
The relationship between strategic goals and objectives with Human resource is emerged in late twentieth century and is called Strategic Human Resource Management (SHRM). Strategic Human Resource Management may be defined as linking of HRM with strategic goals and objectives in order to improve organization performance and developing organizational culture that foster innovation and flexibility. SHRM involves developing and planning HR policies to achieve organizational goals and objectives. Association of HR system with the strategic goals and objectives of the organization has help organization to achieve required performance. Innovation, by default, is a process by which an idea or invention is translated into a good or service or service for which people will pay. It involves deliberate application of information, imagination and initiative in delivering greater or different value. A business innovation applies to other things than its product only. It includes branding, customer satisfaction, employees' satisfaction, costs, etc. is a type of organizational adoption that improves the effectiveness of organizational response to the changes in the internal and external environment. It is an idea to improve process, product, and service and develop management practices, strategies and new products. In the present competitive environment, it is very difficult for the organizations to keep their market share without constant innovation. In today's business continuous development in innovation is the key strategy for the bright future of the organizations. HRM practices and policies improve the organization's capacity to adopt innovation. HRM system and human capital are important organizational characteristics that enhance level of innovation.

**ISSUES THAT ARISE IN HR INTEGRATION:**

**Top Management Combination:**
Integrating top management to lead and achieve the future organizational goals is a sensitive issue since realistically all cannot be accommodated. The challenge is to retain the desired talent for the merged entity and deal with departing people quickly and effectively but with dignity. The practical issue here is that political reasons often dictate that individuals are required to fill certain roles, which means an objective, competency-based selection process may be difficult to achieve. However, the long-term benefits of a thorough and objective leadership selection process far outweigh the advantages of a politically-correct leadership appointment which may be inevitable in the short run.

Top management is critical for organizational success. It is necessary to retain key people as they also have a group of people who are committed and attached to them. If these key people are not retained then it would also involve losing the people who worked in their team. A very good example is PWC where after the Satyam scam many key employees including partners moved on to other Big Four firms and also took their team along with them. Another important need is how soon and how well the leadership ensures ‘vision Sharing’ and the ‘Mission Accomplishment’
Development of vision and mission: The development of a corporate vision is not as easy as one might think. A merger without a clear and realistic vision may lead to similar negative results in terms of shareholder value as merger based solely on fit-approaches may do. Visions are borne from good ideas, often developed by visionary people in endless meetings and projects. The problem is that many ideas look promising at the first sight, but prove to be useless later on.

Redefining and not summation of organizational goals: Summation of individual goals of the merging entities would certainly result in a disaster since the merging entities post-merger would pursue its redefined goals. Defining common organizational goals of the merged entity is the first step in HR integration to provide a clear-cut direction to the merged entity the course of action to be adopted post-merger which in turn is based on the objectives for which the deal was executed.

Dovetailing employees: The uncertainties of M&A shift the focus of employees from productive work to issues related to interpersonal conflicts, layoffs, career growth with the Acquirer Company, compensation, etc. Moreover, employees are concerned with how well they will go with new colleagues. The mergers involve downsizing, hence the first thing that comes to the minds of employees is related to their job security. Mergers also lead to changes in the well-defined career paths of employees, as defined by the acquired company. Due to these reasons, employees find themselves in a completely different situation with changes in job profiles and work teams. This may have a negative impact on the performance of the employees.

Cultural Integration: Culture consists of the long-standing, largely implicit shared values, beliefs, and assumptions that influence behaviour, attitudes, and meaning in a company (or society). Culture has emerged as one of the dominant barriers to effective integrations. An organization’s culture defines its management style, structure, and organizational practices. Each company has its own set of values which may conflict with those of the acquired company. Imagine play-at-work culture Google tying the knot with IBM buying Google? The ‘suit’ culture of IBM will not at all jell with
the casual approach that Google has, and a merger of this sort would fail miserably. At the time of short listing of a target, it is very necessary to understand the culture and HR structure of the acquire company. The organization has to assess as to whether the successful integration of people and culture would be possible. For example, before ICICI bank, HDFC Bank had considered a merger with Bank of Rajasthan. However before it could assess the commercial and financial viability, HDFC bank management could not see a successful integration of people and culture of the traditionally run Bank of Rajasthan. Moreover even now after ICICI has decided to merge BOR with it there still seems to be a lot of friction from BOR employees who fear they would not be able to adapt themselves to the professional ICICI bank culture.

**HR PLAYS A SUBSTANTIAL ROLE IN MERGER & ACQUISITIONS**

The HR leadership of both companies should be capable of promptly developing a strategy to help out the companies in accomplishing the synergies they are looking for. Before the merger or acquisition takes place, the HR managers of both the firms should advise the management to map out a roadmap in advance so that the merging companies can stick to it as soon as the M&A procedure gets going. The strategy should stress on the organizational communication structure, layoffs (if any), and amalgamation of corporate cultures. This initiative by HR leaders helps the management to conform to a specific set of objectives, thus driving away all misunderstandings and differences that may come up in future.

The HR of any organization, by extending their intervention, can facilitate a successful M&A. Since Human Resource entails employees of an organization and deals with significant issues pertaining to employees, involvement of HR professionals is indispensable for successful mergers and acquisitions. Thus, during an M&A deal, an HR plays the role of a catalyst as well as a coach to enable employees of merging companies to work collectively and constructively.

The HR can help the employee in the following ways:

1. HR helps in managing interpersonal conflicts and makes employees better team players. It also helps them in dealing with cultural differences. Clear communication content and channels are customized to address cultural differences.

2. HR also deals effectively with the integration issue. Effective employee communication acts as a key here. Questions about job security, relocation, changes in benefit programs and new reporting relationships are answered by the HR only. Keeping a check on rumors, anxiety, resentment and the loss of top talent, has also to be dealt with.

3. The M&A phase is very sensitive to employees as they feel insecure about their future in the transitional times. HR in such a situation makes people retain
their faith in the organization. The HR has to retain the confidence of employees and assure them job security.

CONCLUSION

In the age of globalization and grave competition, an ideal organization structure and efficient & effective control system are the fundamental conditions for the success of any business. The world economy has witnessed mergers and acquisitions as the most preferred mean for corporate restructuring and effective strategy for expansion. Because of that, there is significant increase in the mergers and acquisitions events across the globe. Even though, it’s popular choice for inorganic development of the organization and to have corporate restructuring, there is a myth that most of the mergers fails. From the review of literature and secondary data analysis, it is observed that most of the mergers fail to create financial synergy in long term. The basic reason observed is behavioural crash within organization and over valuation of the target company. Indian economy is witnessing the last phrase of globalization where only twelve sectors are kept reserve for the government and rest of every sectors open up for the private which made multinationals entrance in India. Mergers and acquisitions are even one of the favorite options for foreign market entry. Therefore, it was indeed required to have detail study to understand and analyze the event of mergers and acquisitions. There are considerable studies have carried on in India to evaluate the M&A event. Maximum research is carried to evaluate impact on organization behavior and culture after the merger. In early time of the last decades, there are certain researches carried on to gauge the trend of the mergers and acquisitions but later marginal work is conducted in that direction. Certain work is defiantly conducted in the area of valuation but it considers limited motives of acquiring organization i.e. more or less they are based on future cash flows and assets valuation. The research related to evaluating operating efficiency and post-merger impact is conducted in developed countries in last five to six years. In India also, different isolated and scattered researches are performed but there is a vacuum of the research which provides integrated analysis taking each of the objectives and considering the trend for last two decades. This study create the difference as at one point of time each of above objectives measured and interpretations and conclusion would derived on the basis of combine study of each objective.

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