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# Analyzing the Consequences of Mergers and Acquisitions on Human Resource

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## Abstract

Mergers and acquisitions as an external growth strategy gaining flow because of increased deregulation, privatization, globalization and liberalization adopted by several countries. Mergers have become a common phenomenon in India over the recent past. With the increasing array of the Indian corporations choosing Mergers and Acquisitions, now India is currently among the leading nations of the world in terms of Mergers and Acquisitions. The various Indian sectors that have resorted to Mergers and Acquisitions in recent times are telecom, finance, FMCG, construction materials. Matters of Mergers and Acquisitions in India have undergone a shift within the last few years. Though M&A are seen as tools to boost business in today's international marketplace, they have a low success rate, probably as a result of the main target has been on financial and legal problems instead of the human factors. This paper assesses the effect of mergers and acquisitions on employee morale and productivity in an organization and would also discuss the ways to improve employee morale.

**Key Words**: Job Satisfaction, Merger, Acquisition, Employee Morale, Deregulation

## Introduction

Mergers and Acquisitions (M&A) are considered a very complex financial topic. This is a type of business alliance are used by companies either to diversify or to grow their businesses. A typical M&A will have a lot of intricate issues in tax, legal and synergy (companies operating in the same space can leverage each other's strengths, gaining competitive advantage or a larger market share, diversifying offering/services, cutting costs, etc). Although M&A is a generic term now, mergers and acquisitions are entirely different business combinations. In Indian corporate sector, Mergers and Acquisitions of foreign corporations by the Indian corporations has been the latest trend. Factors like dynamic perspective of Indian entrepreneurs, extra liquidity, favorable government policies; buoyancy in economy etc has made M&A a widely used strategy in India. The IT and ITES sector have already assert a dominant role in international market.

 

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## Concept of Mergers and Acquisitions

### Merger

A merger simply means an agreement in which two companies settle into an agreement to form a new third company or legal entity. In this, merged companies are usually of equal size and have a similar number of customers. On the other hand, in acquisition acquirer company is bigger in nature as compared to an acquired company. A new legal entity is being created while this is not the case in an acquisition.
It can be a cash merger or stock merger or both. In a cash deal, the acquiring company will pay the target group with cash for their stocks. In an all-stock deal, acquiring company will offer stocks instead of cash to the target company. The types of Merger are as under:

- Horizontal
- Vertical
- Congeneric
- Reverse
- Conglomerate

### Acquisition

An acquisition is defined as a corporate transaction where one company purchases a portion or all of another company's shares or assets. Acquisitions are typically made in order to take control of, and build on, the target company's strengths and capture synergies. There are several types of business combinations: acquisitions (both companies survive), mergers (one company survives), and amalgamations (neither company survives). The types of Acquisition are as under:

- Hostile
- Friendly
- Buyout

## Differences between Merger and Acquisition

### Title

When a merger happens, a new name is given. It could be coined by joining the companies' names together or creating a new one. For acquisition, the acquiring company's name continues to be used.

### Terms

Mergers are considered friendly and out of a mutual decision by each of the merging companies while an acquisition is considered as either friendly or hostile, voluntary or involuntary.

 

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**Scenarios**

In the case of a merger, two or more companies considering each other on equal basis come together and merge for a strategic decision. When an acquisition is on the table, the acquiring company is usually larger than the acquired ones.

**Power**

For merging companies, their powers are almost nil while for an acquisition, the acquiring Company gets the ultimate power sand to dictate terms

**Governing Laws**

Amerger is surrounded by more legal formalities in comparison to an acquisition.

## Human impact of merger

Employee morale is a key element of any company's culture, and should be closely monitored with employee satisfaction surveys. Workplace morale refers to an essential ingredient of organizational success. It reflects the attitudes and sentiments of an individual and group towards the organizational objectives. High morale can help enhance job performance, job satisfaction and employment stability in any organization irrespective of its nature. On the other hand, low employee morale signs to be aware of. Any one of these signs can be a direct indicator that employee morale is low and needs work.

- Poor communication with management and team
- Frequent absenteeism
- Excessive complaining over small matters
- Increased employee conflicts or fighting amongst staff
- Poor work quality
- Increased customer complaints

## Reasons for Merger and Acquisition failures

MERGERS AND ACQUISITIONS are failing to satisfy employees objectives. Within the last decade, Mergers and Acquisitions has become a worldwide growth story, despite the high risks involved, a recent study showed that around 85% of the consolidations have failed. It's been determined that almost all cases of failures are because of sheer negligence of employees, many efficient worker s have quit the organizations because of the MERGERS AND ACQUISITIONS. Despite a calculatedly strategy M & A have found to be a failure, and the main reason for the failure of M & A is:-

a) Human Resource: Key Concern

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It is reported that one among the most reasons for failure of a merger or acquisition is predicated on Human Resources neglect. Human Resource problems are the prime sensitive area, usually unnoticed in merger and acquisition. Once a call is taken to merge or acquire, a corporation analyses the feasibleness on the business, money and legal fronts, however fails to acknowledge the importance hooked up to the human resources of the organizations concerned. Corporations that do not acknowledge the importance of human resources within their organizations and their role in the success of integration are bound to fail in the long run.

b) Lack of vision

A lack of vision underlies the growth strategies of many banks that believe that increasing the bank's size through M&As will bring a sustainable competitive advantage and generate above-average financial performance. This inadequate vision not only produces no synergies but also endangers the perspective of the whole attempt.

c) Unification failure

This is an inability to arrive at a quick and successful unification of the two banks. This inability refers to the unification of two different bank cultures and their financial and control systems, as well as the effort to create successful cooperation between the managerial executives of the two banks.

d) Culture incompatibility

The compatibility of the cultures of the two banks is a determinant factor of the success of the M&A, but culture is also a failure factor that is largely ignored (Terranova, 2007). Tension is caused between the personnel of the acquiring bank and those of the acquired bank because employees do not know whether they will maintain their positions or be fired. In addition, Mylonakis (2006), concluded that the employees in the acquired bank seemed to have a prejudice against the acquiring bank, believing that they could be treated unfairly if they do not accept the stated purpose of the M&A and the acquiring banks' objectives. The formation of the new bank causes a collision of the two cultures and creates disputes about which bank culture will prevail.

e) Change Management

The organizational reorganization characteristic of M&As represents a major transformative event for the companies and their employees. Kitching (1967), stressed the importance of attentive management in order to direct this kind of change, suggested that installing change managers to handle critical areas was important to accomplishing the tasks of the acquisition, and stressed the need to establish effective management relationships between the 38 acquiring and acquired companies.

## Impact of merger and acquisition on employee

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Mergers and acquisitions impact on employee effectiveness The effectiveness of an employee can be based on the revenues that correspond to the operational or production activity. The effectiveness also based on how the sudden change appeared and the acceptance of the employee on the changes. The productivity of an employee and his contribution is acknowledged every time the business achieved their goal. The effectiveness can be seen on the employees and it can be a result of the business combination that emerged in the face of the business world.

**Psychological Implications**

**Stress** M&A always brings change in the overall environment of the business, Changes are always good but at the very outset they are difficult for employees particularly when they are not directly involved in decision of such M&A, it impacts greatly on their jobs. During M&A, these changes may especially be difficult and lead to stress on employees. Stress if not handled effectively leads to a negative impact on morale of the employees.

**Fear of Job Loss** As a result of M&A two or more organizations join together hence culture clash is obvious, two organizations have rarely the same culture. Employees of these two groups need to be familiar with each other and of course there would be conflict resulted in losses on both sides. In the words of Popha; Employees may fear of their job loss and losing existing opportunities. Fear of job loss can depressingly impact productivity and usually resulted in high employees turnover ratio.

**Emotions Syndrome**

**Denial** Initially workers react to the declared merger with denial. They assert it should be 'just a rumor.'

**Fear** Once the merger becomes a reality, workers become frightened of the unknown. for instance, staff become preoccupied with job loss.

**Anger** Once workers feel that they're unable to forestall the merger or acquisition from happening, they start to specific anger towards those that are accountable.

**Sadness** Workers begin to grieve the loss of company identity.

**Acceptance** In this stage workers begin to acknowledge that to fight would be useless, and that they begin to become hopeful.

**Relief** Workers begin to appreciate that it isn't as inauspicious they had expected.

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**Interest** Once employees become secure with their new positions or with the organization, they start looking at the positive side.

**Liking** Workers discover new opportunities and start to love their new job.

**Enjoyment** Workers discover that the new working is functioning out well and feel safer and cozy. The merger emotions syndrome provides management and researchers with the chance of pinpointing the emotional stage of the staff. Management ought to acknowledge that these emotions exist among the staff and they should take care of them as with efficiency as possible.

**Clashes of Personnel Issue** There are also a personnel issue like salaries, benefits, or insurance can be affected due to merger and acquisition. The ultimate success in dealing with the merger and acquisition is overcoming the numerous personnel conflicts. The human resource integration issues were emanated from the business combination and sudden changes. For this reason, a human resource model by making the employees more consistently rational, predictable, and reasonable. The benefits and drawbacks of the business combination can influence the reaction and behavior of each employee.

**Cultural Shock** The role of the larger company can affect the work culture and the employees work in the company. At some extent this can bound some limitations and required specific instructions that might spend extra time in understanding the business objectives. Each company has its own values and identities that the employees might inherit. And the sudden change might result to the cultural shock and needs to deal with the cultural differences. The employees' inability to adapt in a new culture can definitely increase the stress and worries among the employees. In the absence of strategic plan, the firm's goals cannot be clarified, and that would be the mistake of the business. Without a good planning, a wise decision cannot be crafted for it may only lead to another kind of mistake.

**Technological Changes** The new firm believes that the technologies are required to make the job more efficient and somehow accurate. The firm might set aside the importance of the people and throw them away because the firm relies too much on the power of technology. It is not bad in making the business more interacted with the technological tools and equipment, but without the human intervention, the necessary data cannot be uploaded. In addition, the costs of the technological acquisition might result for the loss of the company, and by avoiding it; the firm might lessen the investment for human capital. In the bright side, acquiring the technology needed may also create impact on individuals about their job tasks which is in favour on the business combination in increasing the productivity and efficiency development which can be the great advantage of the firm.

## The impact of merger and acquisition on employee engagement

 

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According to the research conducted by Wayne, being merged and acquired has a pervasive and negative impact on all the aspects of the employees and how they view the organization. It shows the feeling that an employee has over the company and its feelings about the future. These motivate employees in leaving their jobs and going to some other company. An article that was written in business week stated that managers also have a huge impact, as the managers who are coming from a merged company tends to be less productive than the organization without any recent merger and acquisition activity. When two companies join hands it is very common to see as to how mergers affect employees this is mainly due to uncertainly of work that generally covers the employees at the lower and middle level of management. Questions like which company's policy to be followed and what are the new rules and policies? What should we do, what are the new strategy and its reward? These kinds of questions create much confusion and chaos. This also increases fear in the employees of losing jobs. They cannot cope up with such kinds of changes. Employees have different sets of working styles and when they both are put together to work the productivity of both the groups is low. Also, there not enough direction given during the time of merger to the employees as managers are themselves not very clear as to what to tell to the workers.

When there is merger and acquisition there are sets of two employees for one particular project and that is mainly an operating cost for the company so right after mergers there is a series of layoffs and downsizing. From the prospect of the company there are many benefits, such as a boost in the morale of other employees. Downsizing proves that the remaining employees of the company do take care however; this is not true as many employees leave the company after the announcement of merging is made. A U.S study found that almost 50% of the executives in acquired companies leave within one year, 75% within three years and 58% of managers within five years (Walsh 1988). This data of Walsh gives me an idea that change in organizational culture may not tend to be fruitful to the upper class of management.

## The Impact of Merger and Acquisition on Employee Morale

Employee morale can be significant if it is not recognized as significantly in business, and if it is not handled effectively. During the time of merger and acquisition there are mainly two groups of employees that are involved. The employees who come from a different organizational culture faces a new challenge about uncertainty of the future is concerning them. They are also in the feeling as whose job will go. There are many consequences that the employees feel first and foremost there is the stress. Change is very difficult for the workers if they are not directly involved in decision making position. Workers jobs are impacted from this as the level of efficiency tend to decrease. They might be given a chance to improve however, if the worker is not able to cope with the new stress he or she may be terminated. During the time of merger and acquisition there is a lot of difficulty that an employee goes through, the first and foremost is the stress. Stress can have a huge impact and according to Linda Pophal, communication is a must during the time of merger as it informs the employee as to where they are at this time. The management can tell the employees as to what to expect incoming days so that can and how the changes will affect them.

 

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Another important factor that an employee faces is the fear of job loss. When two companies come together they never have a similar culture in them which results in cultural clash between the two parties. In this situation employees fear losing jobs and this leads to a negative impact on the productivity or leads an employee to leave the job and go work for some other company. In this particular phase it is very important for the management team to provide opportunities to the employees and the management should address the concerns that an employee has and try to create a new culture for both the parties. When employees are concerned with the job they are more competitive and this also leads to cultural conflict. Although competition is good at the workplace however, negative competition is not good as there might be violence at the work place. Employees escalate conflict. In this time period, it is very important for the management team to alert employees about negative competition and ensure that employees are given knowledge about the consequences they might face.

According to a survey that was done by World Bank, it was found that during the recession of 2008-2010 the level of employee engagement dropped 9 percent than the previous year. A survey which was conducted showed that more than 40 percent of employees felt that changes

in pay and benefit over the past years had a negative impact. An unhappy employee can cause trouble in the customer service industry; he or she might be rude with them which would result in losing consumers. Low morale leads to turnover in an economy. The cost of employees not showing to work and other factors are an expensive factor to the company. This leads to decrease in the production of any kind of goods and services and the company might go out of business. Going out of business means employees again losing jobs and we would never want this to happen. Therefore, to save a company from going out of business a manager should be more flexible with his or her workers.

## The impact of merger and acquisition on shareholder, employee and the management

According to the article that was written by McDuffie for the University of Pennsylvania the impact of Mergers and Acquisitions on top level of management may actually involve a “clash of the egos”. When the two companies merge there is a variation in the company culture for the managers. Managers are told to use the strategies which they are not familiar with which mainly leads to confusion. This would create loss in production. Shareholders are mainly of two types when the company mergers. One is the shareholder of the acquiring firm the other is the shareholder of the target firm. The shareholder of the acquiring firm is benefitted the most during the time of merger as the acquiring company generally pays more dividends. The benefit enjoyed by the shareholder is of the company is the same as the harm they are into.

## Ways to improve employee moral

When employees face low morale at work they are generally less productive than they can be. In

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Business employee's morale plays an important role in production as an energetic person is more
productive than others. If there is a high morale in the employees there is minimum wastages and maximum outcome. There are many ways to boost the morale of the employees like improve the working conditions. Many employees are unhappy today mainly due to their working environment that they have companies should give them facilities like work from home or the company can also allow them to bring their kids to work with them at least once a month, this would help an employee feel that he or she is with her family and this would help in higher production of work. In today's time many organization are transparent every person in the business organization knows as to what is happening in their company this helps in building a healthy relationship between the workers and this also helps in reducing the communication gap. Mac Duffie on his research stated that to improve the moral of the employees the companies should adapt to "employability" meaning that the companies should provide trainings in numerous training that if the employee loses his job due to downsizing or layoff he or she could get a new job. Another way of improving employee morale is by rewarding the employees. Rewarding not only means cash reward but an organization can implement numerous plans like bring programs like employee of the month in which the winning employee has a private parking space in the office this generally makes an employee proud of themselves.

## Recommondations

The following recommendations are being suggested for firms to consider the method of Mergers and Acquisitions which is helpful in retaining the employees and thereby protecting the leading valuable assets that is the "Human Resource".

1. Develop a clear vision and business strategy of the merger throughout the method of cooperation, and have it prepared for communication across the two firms.
2. Create a replacement chart, and take up an in depth audit of the competencies of the staff to map their roles and responsibilities as aligned with the new chart.
3. Establish a sturdy communication system, to minimize the fears and anxiety amongst the employees. Establish a purpose of contact for the staff to speak to and ask for clarifications to their queries. These employees should have easy accessibility to the Senior Management team to put their views.
4. Communicate to deliver clarity of the plans. If needed, external expert assistance can also be used.
5. Engage the employee in productive work and keep their motivation and commitment high.

## Conclusion

Mergers and Acquisitions (M&As) is a widely used strategy by the companies throughout the world to strengthen their foothold in the market. M&A are considered as a relatively fast and

 

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efficient way to expand into new markets and incorporate new technologies. Majority of M&As fails because of the negligence towards the Human Resource. Some failure can be explained and justified by financial and market factors. There is a need for firms to address a variety of human resource issues, activities, and challenges . Mergers and Acquisitions helps an organization to provide sustainable competitive advantage, but, such events create severe personal trauma and stress which can result in psychological, behavioral, health, performance, and survival problems for both the individuals and companies.

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