ROLE OF HRM IN PRE-MERGER PHASE AND POST- MERGER PHASE

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Abstract

Mergers and acquisitions have become a common phenomenon in recent times. Although the merging entities give a great deal of importance to financial matters and the outcomes, HR issues are the most neglected ones. Ironically studies show that most of the mergers fail to bring out the desired outcomes due to people related issues. Whether your small business is the purchaser or the target company in a merger or acquisition, your human resources department as well as the human resources workers in the other company play a vital role in the process. Human resources help manage any problems or challenges related to people in the organizations as the merger or acquisition process unfolds. The uncertainty brought out by poorly managed HR issues in mergers and acquisitions have been the major reason for these failures.

Key Words: Merger, Human Resource Management, Pre-merger and Post-merger

Introduction

However, the practical and empirical cases had shown that the challenge in making mergers' work is the management of people, and this proposed a new creative concept that the right spelling of merger process starts with HR
The human resource issues in the mergers and acquisitions (M&A) can be classified in two phases they are:

- pre-merger phase
- Post- merger phase

Pre-merger phase problems

The pre-acquisition period involves an assessment of the cultural and organizational differences, which will include the organizational cultures, role of leaders in the organization, life cycle of the organization, and the management styles. The mergers often prove to be traumatic for the employees of acquired firms; the impact can range from anger to depression. The usual impact is high turnover, decrease in the morale, motivation, productivity leading to merger failure. The other issues in the M&A activity are the changes in the HR policies, downsizing, layoffs, survivor syndromes, stress on the workers, information system issues etc. The human resource system issues that become important in M&A activity are human resource planning, compensation selection and turnover, performance appraisal system, employee development and employee relations.

Post-merger phase

The post-acquisition is found to have serious impact on the performance of the employees during the period of transition. The M&A leads to stress on the employee, which is caused by the differences in human resource practices, uncertainty in the environment, cultural differences, and differences in organizational structure and changes in the managerial styles. 1
The organizational culture plays an important role during mergers and acquisitions as the organizational practices, managerial styles and structures to a large extent are determined by

the organizational culture. Each organization has a different set of beliefs and value systems, which may clash owing to the M&A activity. The exposure to a new culture during the M&A leads to a psychological state called culture shock. The employees not only need to abandon their own culture, values and belief but also have to accept an entirely different culture. This exposure challenges the old organizational value system and practices leading to stress among the employees. Research has found that dissimilar cultures can produce feeling of hostility and significant discomfort which can lower the commitment and cooperation on the part of the employees. In case of cultural clash, one of the cultures that is dominant culture may get preference in the organization causing frustration and feelings of loss for the other set of employees. The employees of non-dominating culture may also get feelings of loss of identity associated with the acquired firm. In certain cases, like acquisition of a lesser known or less profitable organization by a better one can lead to feelings of superiority complex among the employees of the acquiring organization. In case of hostility in the environment the employees of two organizations may develop “us” versus “them” attitude which may be detrimental to the organizational growth.

The uncertainty during the M&A activity divert the focus of employees from productive work to issues like job security, changes in designation, career path, working in new departments and fear of working with new teams. The M&A activity leads to duplication of certain departments, hence the excess manpower at times needs to be downsized hence the first set of thoughts that occur in the minds of employees are related to security of their jobs. The M&A activity also causes changes in their well-defined career paths and future opportunities in the organization. Some employees also should be relocated or assigned new jobs; hence the employees find themselves in a completely different situation with changes in job profiles and work teams. This may have an impact on the performance of the employees.

For example, if the compensation in the acquired firm is lesser compared to the acquiring firm, the acquisition will raise employee expectations (for the employees of acquired firm) of a possible hike in compensation which may not be realistic. On the other hand, if the compensation level of employees in acquiring firm is lower the employees may press to have equal compensation across all the divisions of the firm. The pay differential can act as a de-motivator for the employees of acquiring firm and may have long term consequences. M&A activity presents a different set of challenge for the human resource managers in both acquiring and acquired organizations.

HR’s Role Before the Merger

The HR leadership has an opportunity before the merger to ensure that both organizations have a strategy mapped out in advance. Once the merger starts taking place, people will often be too busy to keep a strategic perspective. Before the merger takes place, the leaders of both organizations - at least, of the dominant firm - should have a strategy mapped out, including communications to employees and customers, where layoffs will take place (if any do), and how the cultures should be merged. A SWOT (strengths, weaknesses, opportunities, and threats) analysis should be done for the combined company. If possible, a brief culture survey (preferably done via interviews as well as paper or Web/e-mail) should be undertaken in both companies to discover what the cultural differences are. Sometimes this will be obvious in some aspects -e.g. one culture values teams and bottom-up innovation, the other favors command-and-control tactics - but not in others, such as how and whether individuals and teams are rewarded for innovations, how failure is dealt with, whether conflict is addressed openly, etc. This will prevent disconcerting delays between the announcement and the implementation of the merger/takeover.

If the real purpose of the merger is to acquire another company's assets, in terms of a product or brand, its factories or patents, etc., that should be acknowledged and dealt with up front. If employees are fooled at first by pleasant words, they will react more strongly when those words become taunts.

Finally, before the merger or acquisition takes place, the leadership teams should consider the non-financial issues. Will people in the two companies be able to work together? Will acquiring a company, or merging with it, destroy the properties or drive away the talent that made it worth having? Can a simple partnership, alliance, or even stock ownership without integration provide more benefits than combining the two companies?

Strategic Fit Between M&A and HRM

The strategic HRM literature posits the importance of aligning a firm's HRM strategy to its
Business strategy. In a notion that organizational structure follows an organization's strategy, showing that firms that differed in their strategies would use the same HRM practices in different ways and that firms that changed strategies were likely to change their HRM practices.
We argue that, for merging firms to integrate successfully, they need to align their HRM strategy to their M&A strategy. Thus, it is important to have a clear understanding of M&A strategies to be able to specify the role that HRM should play. Moreover, in order to consider the fit between M&A and HRM strategies, and to help make sense of HRM challenges in the different types of M&As.
They are of three conceptual tools:

- Resources
- Processes
- values

Resources are defined as tangible assets, such as money and people, and intangible assets, such as brands and relationships. In the context of HRM in M&As, decisions about resources involve staffing and retention issues, with termination decisions being particularly important.
Processes refer to activities that firms use to convert the resources into valuable goods and services. For example, in our case, these would be training and development programs as well as appraisal and rewards systems.
Values are the way in which employees think about what they do and why they do it. Values shape employees' priorities and decision making. Below, we analyze key issues in the strategies regarding M&A in light.

Five distinct M&A strategies:
(1) The overcapacity M&A
(2) The geographic roll-up M&A
(3) The product or market extension M&A
(4) The M&A as R&D
(5) The industry convergence M&A.

The overcapacity M&A

An overcapacity M&A occurs when an acquiring company seeks to eliminate excess Capacity to create a more efficient corporation. In effect, the acquiring company's Strategic goal is to achieve economies of scale in order to gain market share, doing so in Part by eliminating human resources. This type of M&A often arises in oligopolistic industries characterized by excess capacity and involves firms of similar size. For example, there have been a number of overcapacity M&As in the petroleum sector (e.g. British Petroleum's acquisition of Amoco) and the automobile sector (e.g. Daimler's acquisition of Chrysler). An important concern in this type of M&A is that, although processes and values of the merging entities are frequently similar, relative status differences stemming from a merger of near equals can create problems in M&A integration.

A geographic roll-up M&A

A geographic roll-up M&A takes place when companies seek to expand geographically, often with operating units remaining at the local level. In many instances, large companies acquire smaller companies that they try to keep intact and therefore these firms tend to retain local managers. These types of M&As are common in the banking sector, as exemplified by Banc One's acquisitions of several regional banks. Although these M&As are similar to overcapacity M&As in that both involve consolidation of businesses, they differ significantly in that geographic roll-up M&As are more likely to occur at an earlier point in an industry's life-cycle. Strategically, roll-ups 'are designed to achieve economies of scale and scope and are associated with the building of industry giants' while overcapacity M&As seek to reduce capacity and duplication. Although in geographic roll-up M&As human resources are less disposable, the processes and values of the merging entities are likely to differ more than in the overcapacity M&A. Nevertheless, since the size of the acquirer tends to be greater than that of the acquired firm, conflict stemming from status differences is possibly not as prevalent as in the overcapacity M&A.

A product or market extension M&A

A product or market extension M&A involves expanding product lines or expanding geographically across borders. This type of M&A occurs when the acquiring and acquired companies are functionally related in production and/or distribution but sell products that do not compete directly with one another, or when a company seeks to diversify geographically, such as when two companies manufacture the same product, yet sell it in different markets. In effect, in this type of M&A, firms seek to achieve long-term strategic goals by investing in less saturated markets – often doing so to obtain economies of scale necessary for global competition. The likelihood of success of product or market extension M&As depends on the relative size of the merging firms and the experience of the acquired firm in M&As. For example, large firms such as GE acquire many relatively small firms, thereby increasing their chances of subsequent successful mergers. Similarly, to in the geographic roll-up M&A, human resources in product or market extension M&As frequently remain unchanged in the new entity. However, in product or market extension mergers, some firms have difficulties in changing the processes and values of acquired firms, particularly in cross-border M&As. For example, Marks & Spencer experienced geographical distribution problems when it acquired the Canadian firm Peoples Department Stores. By contrast, when GE acquired the Italian engine producer Nuovo Pignone in 1992, it introduced its systems only sequentially over time. What GE felt was most crucial in the short term was for Nuovo Pignone's managers to use GE's resources to develop their business.

The M&A as R&D

An M&A as a substitute for R&D occurs when acquisitions are used as a means of gaining access to new R&D knowledge or technological capabilities by acquiring innovative firms rather than producing the knowledge in-house. Acquiring firms in this type of M&A tend to be larger than the acquired firm, and sometimes have significant practical merger experience, as in the case of Microsoft and Cisco Systems.

In an M&A as a substitute for R&D, the retention of human resources and knowledge is a paramount goal. Processes and values of the newly formed entity will, however, probably need to be changed, a complex proposition since the entrepreneurial employees often feel their values are constrained by the more bureaucratic structure of the acquiring firm. The success of this type of cross-border M&A will therefore depend on the acquired firm's integration capabilities and the acquiring firm's learning capacity. Integration issues will, however, be industry contingent. For example, the product development cycle is often much shorter in information technology (IT) firms than in pharmaceutical firms, indicating the need for more rapid integration in M&As in the IT industry.

An industry convergence M&A

An industry convergence M&A involves creating a new industry from existing industries whose boundaries are eroding. An example of this type of M&A is the Viacom acquisition of Paramount and Blockbuster. Although this type of merger will probably increase in the future, it is rare and not yet fully understood, making it difficult to analyze. In addition, acquired companies in this type of merger are typically given wide berth, perhaps to a greater extent than in the M&As as a substitute for R&D, with integration driven by a need to create value rather than a desire to create a symmetrical organization.

Acquisition strategy of GE Capital

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

Acquisition strategy of Cisco

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

Conclusion

HRM involvement and a robust discovery process will help prepare an organization for a worthy integration.