

MERGERS AND ACQUISITIONS IT'S IMPACT ON MANAGEMENT AND EMPLOYEES

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ABSTRACT:

A merger is a combination of two companies to form a new company, while an acquisition is the purchase of one company by another with no new company being formed. A merger occurs when one firm assumes all the assets and all the liabilities of another. The acquiring firm retains its identity, while the acquired firm ceases to exist. A majority vote of shareholders is generally required to approve a merger. A merger is just one type of acquisition. One company can acquire another in several other ways, including purchasing some or all of the company's assets or buying up its outstanding shares of stock. The term "acquisition" is typically used when one company takes control of another. This can occur through a merger or a number of other methods, such as purchasing the majority of a company's stock or all of its assets. The purpose of this paper is to study the concept of Merger/Acquisition in detail by taking examples of some companies.

Key Words: Merger, Acquisition, Employees, Management

INTRODUCTION:

The terms merger, amalgamations, take-over and acquisitions are often used interchangeably to refer to a situation where two or more firms come together and combine into one to avail the benefits of such combinations and re-structuring in the form of merger etc., to face the challenge of increasing competition and to achieve synergy in business operations. The literature sources most frequently identify three phases of a merger or an acquisition process. Restructuring of business is an integral part of the new economic paradigm. As controls and restrictions give way to competition and free trade, restructuring and reorganization become essential. Restructuring usually involves major organizational change such as shift in corporate strategies to meet increased competition or changed market conditions. This activity can take place internally in the form of new investments in plant and machinery, research and development at product and process levels.

It can also take place externally through mergers and acquisitions (M&A) by which a firm may acquire another firm or by which joint venture with other firms. This restructuring process has been mergers, acquisitions, takeovers, collaborations, consolidation, diversification etc. Domestic firms have taken steps to consolidate their position to face increasing competitive pressures and MNC's have taken this opportunity to enter Indian corporate sector. This discusses impact of merger with reference to human resource aspect, it has actually integrated most of the significant management subjects under considerations into the judgment.

The results of this study provide relatively strong support for the existence of a positive relationship between employee participation from top to bottom with employee satisfaction, motivation and performance. Since the basic aim of the study is to examine the impact of any major change like merge on the management. Here in this study the organizational performance is measured by means of employee performance and employee performance is measured by their motivation, satisfaction of employees towards the job and the organization. Empirical evidence appears to support the view that human capital practices like employee participation after merger can influence the organizational performance and growth. Organizations interested in the growth and

in high performance must involve their employees in decision making process to motivate, satisfy and better performance of the employees. The research provides proofs for the organizations that whenever the workforce is not satisfied and motivated with their jobs, performance is affected.

REASONS FOR MERGERS AND ACQUISITIONS:

The management of an acquiring company may be motivated more by the desire to manage ever-larger companies than by any possible gains in efficiency. There are a number of reasons why a corporation will merge with, acquire, or be acquired by another corporation. Sometimes, corporations can produce goods or services more efficiently if they combine their efforts and facilities. Collaborating or sharing expertise may achieve gains in efficiency, or a company might have underutilized assets, the other company can better use. Also, a change in management may make the company more profitable. Other reasons for acquisitions have to do more with hubris and power.

REVIEW OF LITERATURE:

Schweiger and Ivancevich (1985) studied the human factor in merger and acquisition and identified some common merger stressors, which include uncertainty, insecurity, and fears concerning job loss, job changes, compensation changes, and changes in power, status, and prestige. These stressors should be given utmost care in pre-merger strategic issues.

Ivancevich, Schweiger, and Power (1987) studied the merger stress process, stages of the merger process and the sources of stress created and choosing guidelines and interventions to encourage more effective management of merger stress. They suggested some measures to effectively manage merger stress, like prevention, to reduce the actual stress-inducing merger events; secondly, reappraisal of employee which refers to changing initial cognitive appraisal of a situation and at last effective stress management and professional help, which supports those employees, that are already stressed.

Schweiger and Weber (1989) suggested that Mergers and acquisitions (M&As) are corporate events that have the potential to create severe personal trauma and stress which can result in psychological, behavioural, health, performance, and survival problems for both the individuals and companies involved. With the increasing size and number of M&As transacted and the number of employees affected, it is essential that executives and human resource professionals pay greater attention to understanding the sequence of actions and reactions associated with the process.

Cartwright and Cooper (1993) studied the human aspects of merger and acquisition and the impact of such a major change event has on employee health and well being which has received relatively little research attention. They took the sample size of 157 middle managers involved in the merger of two U.K. Building Societies. They found that Post-merger measures of mental health to be a stressful life event, even when there is a high degree of cultural compatibility between the partnering organizations.

Clarke and Salleh (2011) conducted a qualitative study examining the emotional impact of a merger between two banking institutions on managers in Brunei. The distinctive national culture representing a fusion of Malay and Islamic values was found to influence the emotional impact of this merger. These values place less emphasis on personal control as a means for dealing with uncertainty. The findings suggest that Western transactional models of perceived control to explain how people manage change may have far more limited application within a Bruneian context.

Joshi and Goyal (2012) reviewed stressors, which contribute in increasing the level of stress among employees. These included uncertainty, insecurity, fears concerning job loss, job changes, compensation, changes in power, status, prestige, workload, working hours, technological problem at work, inadequate salary, time for family job worries at home group differences and communication.

HISTORICAL BACKGROUND:

United Beverages company when acquired Shaw Wallace the company was on its expanding line. UB it is a conglomerate of different beverages companies. After the acquisition they combined under one head of United Spirits Ltd. The combined entity now owns 12 millionaire brands to its credit. . The UB Spirits Division now has sales figures of 56.6 million cases, making the group the second largest marketer of spirits in the world. The Housing Development Finance Corporation Limited (HDFC) was amongst the first to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector, as part of the RBI's liberalization of the Indian Banking Industry in 1994. The bank was incorporated in August 1994 in the name of 'HDFC Bank Limited', with its registered office in Mumbai, India. HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995. Centurion Bank of Punjab was formed by the merger of Centurion Bank and Bank of Punjab, both of which had strong retail franchises in their respective markets. On May 23, 2008, the amalgamation of Centurion Bank of Punjab with HDFC Bank was formally approved by Reserve Bank of India to complete the statutory and regulatory approval process.

The merged entity will have a strong deposit base of around. 1, 22,000 crores and net advances of around Rs. 89,000 crores. The amalgamation added significant value to HDFC Bank in terms of increased branch network, geographic reach, and customer base, and a bigger pool of skilled manpower. As per the scheme of amalgamation, shareholders of CBoP received 1 share of HDFC Bank for every 29 shares of CBoP. Third Combination is taken as Vodafone & Hutch Merger. Fourth combination is of Goetz India and Federal Mogul. Goetz India Founded in 1954, Goetze India began as a joint venture of Anil Nanda Group and FM. Goetze was the largest domestic manufacturer of piston rings and pistons. Fifth and final merger for study is HP and Compaq merger. The company began in the year 1938 when two electrical engineering graduates from Stanford University called William Hewlett and David Packard started their business in a garage in Palo Alto.

In a year's time, the partnership called Hewlett-Packard was made and by the year 1947, HP was incorporated. Compaq company is better known as Compaq Computer Corporation. This was company that started itself as a personal computer company in the year 1982. The name of the company came from- "Compatibility and Quality" The most often mentioned human risks related to the M&A situation are listed as follows

1. Voluntary turnover of key people and losses of expertise
2. Job losses
3. Lowered commitment and disloyalty
4. Performance drops and lowered productivity
5. Motivational problems
6. Dissatisfaction, frustration, confusion and stress
7. Dysfunctional behaviour and sabotage
8. People refusing assignments
9. Health problems
10. Power struggles.

Merger or acquisition process contains uncertainty, instability, disappointments and creates lack of commitment. When studying personnel particularly, the voluntary labour turnover is one of the severest human risks caused by these negative emotions. Voluntary turnover is at its highest in the early stages of the M&A process. This is due to the uncertain and ambiguous situation where employees are uncertain of what will happen and in which time scale the changes will come true. As the industry is undergoing fast changes and the number of information professionals has increased, their developmental needs are also constantly increasing. Problems may stem from e.g. if the personnel and their requirements are not included in pre-merger planning, or decision making during the merging.

There are various reasons that why problems exist or stem out in front of the employees. All those problems are studied in detail with the why reason and a ways to solve out those problems are also tried to find out. A recommended approach is also suggested instead of traditional approach in order to solve out the problems which consists of many alternatives and suggestions for various problems. The employees section move around the four parts (a) identifying the factors affecting the post merger integration, (b) identifying the challenges and opportunities presented by this situation, (c) identifying the managerial actions that can be taken, and to (d) explaining the dynamics between (a-c), as well as their effect on the possible outcomes.

The success of a merger and acquisition depends on how well an organization deals with issues related to its people and cultural integration.

Major Human Related issues involved in any merger or acquisition activity starts with lack of communication which further moves on the lack of training. People face many HR related issues just because of lack of proper communication. Mergers and Acquisitions are now moved from a concept to the actual implementation for the companies to become a big giant. Theoretically there are various terms with different meanings but practically they are used interchangeably or as synonyms. Various types of mergers like horizontal vertical conglomerate or reverse mergers serve different purposes for which they are made. The various factors which compel any company to acquire or to be acquired decide the type of merger required for the particular company. India has faced a very fast moving trend towards merger/acquisition. Cross-border mergers are now a common phenomenon. If we see the basic impact over the management all the analysis reveals that mergers or acquisition is a path to get two motives financial or value maximizing and managerial non value maximizing motives to be fulfilled. In most of the cases financial motives are easily fulfilled as every merger or acquisition is done with proper planning by the top management people.

They are very much or at most concerned with the money objective which they realised by many means either by reducing cost or removing work force or by reducing cost of buying of products or services. Synergies are broadly divided into three categories: 1) Universal which is generally related to pre deal phase which is obtained by generally each and every merger deal. 2) Then next is Specific Synergy which shows the combination of task force teams which is during the transactional phase. 3) Then the last one is Unique Synergy which is generally related to the combination of complex technologies and is realized only by the expert merger deals only in a very format way. Mergers are divided into four basic categories operational mergers which is taken to gain operational benefits from the organization. Takeover merger which is conducted to take over the sick or in debt companies for their own benefits.

Then comes to mergers of equals, this is a kind of merger in which ego and cultural clash occurs at a very high level. At the last is Transformational merger which is intended to get transform benefits from one organization to another. In case of Hutch Vodafone this is a kind of Expansion merger in which management has not faced much of the cultural problems because they have no separate office in India in which they have to face the problem of overlapping. Similar happened with the Federal Mogul and Goetri India. In case of HDFC and Centurian and UB Group and Shaw Wallace they have faced the problem of overlapping as that has acquired a separate running branch. So they have to take care of all those problems emerged due to the no of existing employees and overlapping of employees and positions in the organization. There are various tactics suggested for the management also so that they can easily handle the problems.

MOTIVES BEHIND M&A (MERGERS AND ACQUISITIONS):

The dominant rationale used to explain M&A activity is that acquiring firms seek improved financial performance. The following motives are considered to improve financial performance: Synergies: This refers to the fact that the combined company can often reduce its fixed costs by removing duplicate departments or operations, lowering the costs of the company relative to the same revenue stream, thus increasing profit margins. Increased revenue.

MARKET SHARE:

This assumes that the buyer will be absorbing a major competitor and thus increase its market power (by capturing increased market share) to set prices.

CROSS SELLING:

For example, a bank buying a stock broker could then sell its banking products to the stock broker's customers, while the broker can sign up the bank's customers for brokerage accounts. Or, a manufacturer can acquire and sell complementary products.

ECONOMIES OF SCALE:

For example managerial economies have increased the opportunity of managerial specialization. Another example is purchasing economies due to increased order size and associated bulk-buying discounts.

TAXES:

A profitable company can buy a loss maker to use the target's loss as their advantage by reducing their tax liability.

SUGGESTIONS:

Involve HR at the earliest possible juncture and commit to addressing all issues and processes from a "people perspective." HR helps to know what people actually thinks about the conditions and the company. It can become a good mediator between the company and the people factor. As soon as HR is involved clouds of confusion will almost clear and the company and people both are very clear about one another. Develop a cultural assessment that helps the two groups identify their differences and appreciate all that they have in common.

This assessment group helps to locate out the points of differences from both the sides. When two sides are not communicating directly from one another such kind of assessment groups help in revealing the reality from both the sides. Both the sides can easily explain what they want and where are the problems. Develop forums – in all areas and at all levels - for sharing institutional history, vocabulary and acronyms, formal and informal networks, management and work styles, and the sources of institutional pride.

CONCLUSION:

Merger and Acquisitions success entirely depends on the people who drive the Business, their ability to Execute, Creativity, and Innovation. It is of utmost importance to involve HR Professionals in Mergers and Acquisitions discussions as it has an impact on key people issues. As Mergers and Acquisitions activity continues to step up globally, Companies involved in these transactions have the opportunity to adopt a different approach including the increased involvement of HR professionals. By doing so they will achieve a much better outcome and increase the chance that the overall deal is a total success.

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