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Inorganic growth: from mirage to reality. (an empirical research paper on mergers and acquisitions and the role of hr department)

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ABSTRACT: Recent years have seen an explosive growth rate in the mergers and acquisition‘ activities around the world. Indian too has seen a tremendous increase in these types of activities not only with the country limits but also across t he border. It is seen that after the M&A activities are undertaken ,the window of opportunity that one saw and tried to turn into a door through has been wiped off the wall.

In the scenario where companies need to be growing fast, while being flexible, efficient and profitable, the inorganic form of growth seems to be the best option. In the global environment, that persists today a company just can‘t rely on the internal growth and ignore the industry happening.

This research paper is based on the primary data collected from IT companies in and around Pune. The study tries to find out the communication strategy used, change of roles and responsibilities during this phase, the level of stress and resistance to change as faced by the management and experienced by employees. It also analysis the extent of the involvement of the HR department as perceived by the employees and the cultural differences encountered by the employees in the merged organization.

Keywords: Mergers & Aquistions ,Communication Strategy,Stress level, Change resistance,Cultural Differences.

1. INTRODUCTION: The term ‗merger‘ is not defined under the Companies Act, 1956 (the ‗Companies Act‘), the Income Tax Act, 1961 (the ‗ITA‘) or any other Indian law. Simply put, a merger is a combination of two or more distinct entities into one; the desired effect being not just the accumulation of assets and liabilities of the distinct entities, but to achieve several other benefits such as, economies of scale, acquisition of cutting edge technologies, obtaining access into sectors / markets with established players etc. Generally, in a merger, the merging entities would cease to be in existence and would merge into a single surviving entity. Nishith Desai Associates

With M&A becoming the recent norm of every industry the companies aspiring to have scale and scope in the new global economy have prepared themselves to be better at deal cracking. To be in sync with this most admired form of corporate development some have even trained staff for identifying and enabling the deals and merger process. The companies announced a total of 50 M&A deals during February 2012, as against 57 deals worth $1.31 billion in the previous month, global consultancy firm Grant Thornton said in a report.http://articles.economictimes.indiatimes.com/2012-03-12/news/31153105_1_merger-and-acquisition-deals-harish-hv-total-value

Alex Mandl, Chairman and CEO of Teligent explained the reason behind this phenomenon is much simpler words: ‗The plain fact i s that acquiring is much faster than building. And speed — speed to market, speed to positioning, speed to becoming a viable company — is absolutely essential in the new economy.‘ (*Harvard Business Review*, 2000)

Khemani (1991) states that there are multiple reasons, motives, economic forces and institutional factors that can be taken together or in isolation, which influence corporate decisions to engage in M&As. It can be assumed that these reasons and motivations have enhanced corporate profitability as the ultimate, long-term objective. It seems reasonable to assume that, even if this is not always the case, the ultimate concern of corporate managers who make acquisitions, regardless of their motives at the outset, is increasing long-term profit. The factors that have driven the M&A activity in the past decade are forecast only to intensify: need for large economies of scale, deregulation, globalization, expanding markets, risk spreading, and need for rapid response to market conditions. Even in a tough financial environment and a declining stock market in 2000, the value of global mergers and acquisition exceeded $3.5 billion for the first time (Taylor, 2001). M&A research has now been ongoing for over 30 years, and while it has been possible to mention only a few of the varied contributions in the space available, each disciplinary approach has made significant advances in our understanding. Yet, despite this robust academic interest, empirical data reveal that there has been little change in acquisi tion failure rates over the same time period (Cartwright 2006).Most of the firms do not show significant improvement in long term profitability after acquisition (Scherer, 1988). In their excellent book, *Joining Forces* Marks and Mirvis (1998) state the case thus: _more than three-quarters of corporate combinations fail to attain projected business results. In fact most produce higher-than-expected costs and lower-than-acceptable returns. Meanwhile, executive time and operating capital are diverted from internal growth; morale, productivity, and quality often plummet; talented crew members jump ship; and customers go elsewhere. In a great majority of combinations, one plus one yields less than two.'

Three possible reasons might be advanced for this disturbing lack of improvement in M&A performance over the years (*)

- Executives are undertaking acquisitions driven by non-value maximizing motives
- The prescriptions from the academic research have not reached the practitioner community
- The research to date is incomplete in some way.

The financial, technical and operational aspects are well taken care of by the management. But it's the softer HR issues that become the hard rock's to move ultimately resulting in the merger fallout. _Many mergers do not create the shareholder value expected of them. The combination of cultural differences and an ill-conceived human resource integration strategy is one of the most common reasons for that failure. Given the well-publicized war for talent, I am constantly surprised by how little attention is paid to the matter of human capital during mergers,' says David Kidd, a partner at Egon Zehnder International in Chicago. (Light, 2001)

Internally managers of acquiring firms report that only 56% of their acquisitions can be considered successful against the or iginal objectives set for them (Schoenberg, in press) target firm executives experience considerable acculturative stress and, on average, almost 70% depart in the five years following completion (Krug and Aguilera, 2005).

Agrawal and Jaffe's (2000) comprehensive review of this literature suggests that in aggregate the abnormal returns accruing to acquiring firms in the years following an acquisition are negative or, at best, not statistically different from zero. Importantly, these studies also highlight the wide variation in acquisition performance at the firm level. Approximately 35-45% of acquirers do achieve positive returns in the two to three year period following acquisition, with reported standard deviations in the order of 10% around the mean return (e.g. Conn et al., 2001).Of the 150 recent deals valued at $500MM or more, half destroyed shareholder wealth judged by stock performance, and another third contributed only marginally to shareholder wealth.' Mercer/*Business Week* Study (Zweig, 1995). In his original work on European acquisitions, Kitching (1974) reported failure rates of 46-50 per cent, based on managers' self-report. More recently both Rostand (1994) and Schoenberg (in press) reported equally poor failure rates of 44-45 per cent, using comparable methodology. An examination of the returns to acquiring firm shareholders also reveals that acquisitions continue to produce negative average returns similar to those seen historically (Agrawal and Jaffe, 2000; Gregory, 1997).

–In India, in contrast to this finding, the effects of acquisition on acquirer returns—both on announcement as well as over a three-year post-acquisition window—over and above the market index are significantly positive. However, the statistical significance of the positive long-run effects disappears when we correct for industry effects. Also acquirers do considerably worse compared to their performance vis-à-vis the index or with respect to their relevant industry indices in a three-year pre-acquisition window, suggesting that the acquisitions are actually value reducing, but the markets fail to perceive them as such on announcement.‖ Indian enterprises were subjected to strict control regime before 1990s. This has led to haphazard growth of Indian corporate enterprises during that period. The reforms process initiated by the Government since 1991, has influenced the functioning and governance of Indian enterprises which has resulted in adoption of different growth and expansion strategies by the corporate enterprises. In that process, mergers and acquisitions (M&As) have become a common phenomenon.(khar & soni)

The functional importance of M&As is undergoing a sea change since liberalization in India. The MRTP Act and other legislations have been amended paving way for large business groups and foreign companies to resort to the M&A route for growth. Further The SEBI (Substantial Acquisition of Shares and Take over) Regulations, 1994 and 1997, have been notified. The decision of the Government to allow companies to buy back their shares through the promulgation of buy back ordinance, all these developments, have influenced the market for corporate control in India. In a study by Prahalad and others (1977), it has been found that, Indian enterprises in both the private and public sectors are much diversified. This diversification led to M&As. They also found that India has a large percentage of unrelated diversifiers as compared to the USA, UK, France, Germany, and Italy (Kaul 1991, 2003).The work of Rao and Rao (1987) is one of the earlier attempts to analyse mergers in India from a sample of 94 mergers orders passed during 1970-86 by the MRTP Act 1969. In the post 1991 period, several researchers have attempted to study M&As in India. Some of these prominent studies are; Beena (1998), Roy (1999), Das (2000), Saple (2000), Basant (2000), Kumar (2000), Pawaskar (2001) and Mantravedi and Reddy (2008). There are few other studies which analyses mergers as case studies only.
Comparing the pre merger profitability of the firms involved with the industry average, Saple (2000) finds that the target firms were better than industry averages while the acquiring firms had lower than industry average profitability. Overall, acquirers were high growth firms which had improved the performance over the years prior to the merger and had a higher liquidity. The target firms, on the other hand, were firms with higher than industry profitability, which had deteriorated over the period just prior to merger. When pre-merger profitability (an index of efficiency of a company) of acquirer and target companies is compared, Das (2000) finds the acquiring companies had higher pre-merger profitability in 18 of the 25 merge cases considered. This is also confirmed from the findings of Roy (1999) and Beena (1998).

The 1995 Business Week/Mercer Consulting analysis indicates that, while the 1990s deals were performing better than the deals in the 1980s, most of the 1990s deals have not worked. The analysis method used the S&P industry indexes three months before the deal and up to 36 months after. They used techniques to filter out impacts of other events. While not a perfect methodology, it is one used by many to determine the impact of M&A performance. The study claims that the major reasons M&As do not work is because of:

— inadequate due diligence by the acquirer or merger partner
— lack of compelling strategic rationale
— unrealistic expectations of possible synergies
— paying too much
— conflicting corporate cultures
— failure to quickly meld the two companies. (Zweig, 1995)

The management of the human side of M&A activity, however, based upon the failure rates of M&As , appears to be a somewhat neglected focus of the top management‘s attention. According to Gertsen and Soderberg (1998), in M&A situations, the discourse around cultural differences is a vehicle by which employee groups assert the distinctiveness of their social identities

So if people issues are so critical, why are they neglected? Possible reasons include:

❖ The belief that they are too soft, and, therefore, hard to manage
❖ Lack of awareness or consensus that people issues are critical

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- ❖ No spokesperson to articulate these issues
- ❖ No model or framework that can serve as a tool to systematically understand and manage the people issues; and therefore
- ❖ The focus of attention in M & A activity is on other activities such as finance, accounting, and manufacturing (*)

Towers Perrin and the SHRM (Society for Human Resource Management) Foundation did more current research regarding the key issues that trip up mergers. They interviewed 600 top

HR executives and CEOs. They reported the following as key reasons for problems in the performance of the combined organisation (Rubis, 2001):

— inability to sustain financial performance (65 per cent) — loss of productivity (60 per cent)

— incompatible cultures (55 per cent)

— clash of managerial styles or egos (53 per cent)

— slow decision making (51 per cent)

— wrong people selected for key jobs (50 per cent).

The ―cultural distance‖ hypothesis, in its most general form, suggests that the difficulties, costs, and risks associated with cross-cultural contact increase with growing cultural differences between two individuals, groups, or organizations (Hofstede, 1980).

In their conceptual article Teerikangas and Very (2006) attempt to disentangle some of the issues which may shed light on the current inconsistent research evidence and offer advice for future research, particularly the importance of more

Longitudinal studies. Such observations highlight the notion that M&As pose a potential threat to workers‗ social as well as security needs and the valuable theoretical contribution which Social Identity Theory (Tajfel and Turner, 1979) can make to our understanding of the merger process

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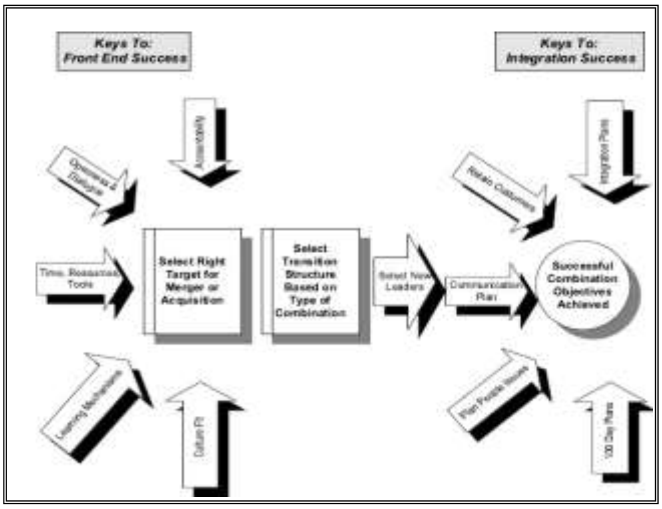
Richard M. DiGeorgio 2002 A systems approach to successful mergers & acquistions



2. OBJECTIVES OF THE STUDY:

Research Objective 1: To find whether there is an association between gender and their perception regarding the need for conducting the cultural survey in the organization.

Research Objective 2: To find whether there is an association between the stress level and change in reporting structure among the employees in the organizations that underwent merger.

Research Objective 3: To find whether there is an association between the stress level and change in reporting structure among the employees in the organizations that underwent merger.

Research Objective 4: Stress Level during the merger and acquisition period:

Research Objective 5: Need of cultural survey for the organization going through merger & acquisition

Research Objective 6: Hr initiatives taken by organization during the merger and acquisition

Research Objective 7: Communication about merger by the organization to employees

3. DATA ANALYSIS AND INTERPRETATION:

esearch Objective 1: To find whether there is an association between gender and their perception regarding the need for conducting the cultural survey in the organization.

Ho: There is no association between gender and need for cultural survey

H1: There is association between gender and need for cultural survey

Table No:1 Association between gender and their perception

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.139[a]	4	.129
Likelihood Ratio	8.325	4	.080
Linear-by-Linear Association	1.733	1	.188
N of Valid Cases	49		

a. 7 cells (70.0%) have expected count less than 5. The minimum expected count is .86.

Interpretation: The Pearson chi-square value is .129. which is greater than level of significance ($\alpha = 0.05$).Thus, we fail to reject the null hypothesis. Hence, it is concluded, that Need for cultural survey is independent of fact gender.

Research Objective 2: To find whether there is an association between the stress level and change in reporting structure among the employees in the organizations that underwent merger.

Ho: There is no association between stress level and change in reporting structure.

H1: There is association between stress level and change in reporting structure.

Table No:2 Change in reporting structure and stress level:

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.234[a]	2	.198
Likelihood Ratio	3.344	2	.188
N of Valid Cases	50		

Interpretation: The Pearson chi-square value is .198. Which is greater than level of significance (α = 0.05).Thus, we fail to reject the null hypothesis. Hence, it is concluded, that there is no association between the stress level and change in reporting structure among the employees of the merged organization.

Research Objective 3: To find whether there is an association between the stress level and change in reporting structure among the employees in the organizations that underwent merger.

Ho: There is no association between gender and reaction of employee‘s regarding the merger.

H1: There is association between gender and reaction of employee‘s regarding the merger.

Table No:3 Association between Gender and Reaction of Employees

Cross tabulation

			Reaction of emp			Total
			Supportive	Against	No reaction	
Gender	Male	Count	3	11	7	21
		% within Gender	14.3%	52.4%	33.3%	100.0%
		% within Reaction of emp	17.6%	57.9%	50.0%	42.0%
		% of Total	6.0%	22.0%	14.0%	42.0%
	Female	Count	14	8	7	29
		% within Gender	48.3%	27.6%	24.1%	100.0%
		% within Reactionofemp	82.4%	42.1%	50.0%	58.0%
		% of Total	28.0%	16.0%	14.0%	58.0%
Total		Count	17	19	14	50
		% within Gender	34.0%	38.0%	28.0%	100.0%
		% within Reactionofemp	100.0%	100.0%	100.0%	100.0%
		% of Total	34.0%	38.0%	28.0%	100.0%

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.477[a]	2	.039
Likelihood Ratio	6.913	2	.032
Linear-by-Linear Association	3.612	1	.057
N of Valid Cases	50		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 5.88.

Interpretation: The Pearson chi-square value is .039. Which is lesser than level of significance (α = 0.05).Thus, we accept the null hypothesis. Hence, it is concluded, that there is association between the gender and the reaction towards the merger in the organization. From the frequency analysis, it was found that majority were against the merger.

Research Objective 4: To find out whether the respondents were stressed out during the merger and acquisition period.

Table No 4 :Stress level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	27	54.0	54.0	54.0
	No	23	46.0	46.0	100.0
	Total	50	100.0	100.0	

Chart No: 1 Stress Level

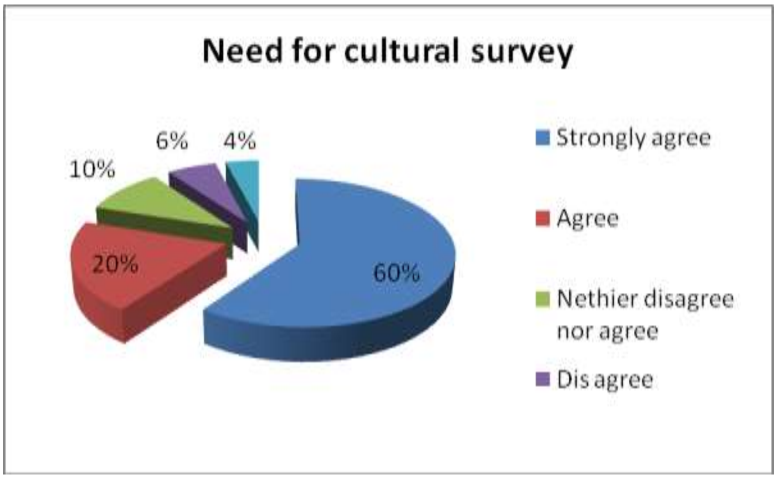
Data Interpretation: It was found during the survey that 54 % of the respondents felt stressed out during the merger & acquisition period.

Research Objective 5: Need of cultural survey for the organization going through merger & acquisition:

Table No:5 Need for cultural survey

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	30	60.0	60.0	60.0
	Agree	10	20.0	20.0	80.0
	Neither disagree nor agree	5	10.0	10.0	90.0
	Dis agree	3	6.0	6.0	96.0
	Strongly Disagree	2	4.0	4.0	100.0
	Total	50	100.0	100.0	

Chart No: 2 Need for cultural survey



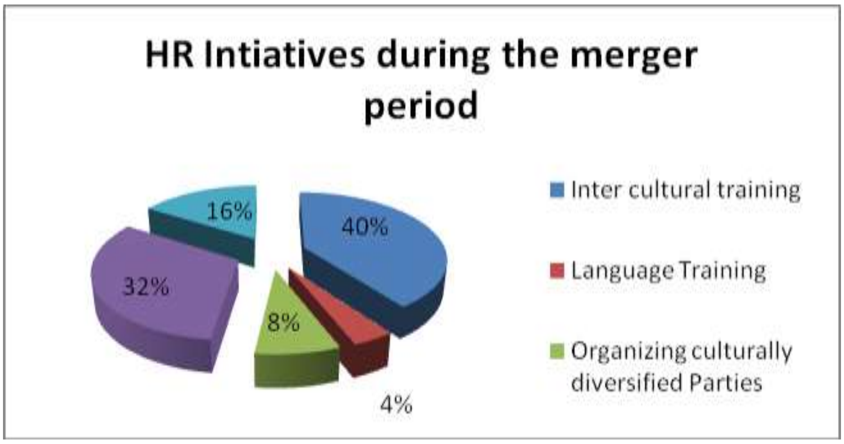
Data Interpretation: It was found during the survey that, 60 % of the respondents strongly agreed and felt the need for the cultural survey, while 20% agreed and only around 10 % disagreed for the need of cultural survey while going through the merger & acquisition process.

Research Objective 6: Hr initiatives taken by organization during the merger and acquisition:

Table No:6 HR Initiatives

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Inter cultural training	20	40.0	40.0	40.0
	Language Training	2	4.0	4.0	44.0
	Organizing culturally diversified Parties	4	8.0	8.0	52.0
	Cross cultural competencies training	16	32.0	32.0	84.0
	Information Campaign	8	16.0	16.0	100.0
	Total	50	100.0	100.0	

Chart No:3 HR Initiatives



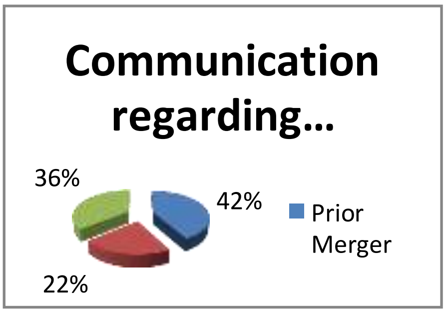
Data Interpretation: It was found during the survey that, around 40% of the respondents responded that, intercultural training was provided to them. while 32 % responded that cross –cultural competency training was provided, while 16 % responded that information campaign was conducted so that, the employees can meet the respective personnel and get the necessary details and also clarify their doubts, around 8 % responded that culturally diversified parties was arranged to wipe the differences and only 4 % responded language training was conducted.

Research Objective 7: To find out when Communication about merger is made by the organization to its employees

Table No:7 Communication about merger

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Prior Merger	21	42.0	42.0	42.0
	Immediately	11	22.0	22.0	64.0
	After a Month	18	36.0	36.0	100.0
	Total	50	100.0	100.0	

Chart No:4 Communication about merger



Data Interpretation:

It was found out during the survey that, 42 % responded that, the communication regarding merger was made prior to merger,22 % said it was made immediately after the merger , while 36 % said, it was communicated to them within 1 month of merger. Organization kept the employees well informed regarding the merger which actually preparing them well for the merger.

4. FINDINGS:

- The Pearson chi-square value is .129. Which is greater than level of significance (α = 0.05).Thus, we fail to reject the null hypothesis. Hence, it is concluded, that Need for cultural survey is independent of fact gender.
- The Pearson chi-square value is .198. Which is greater than level of significance (α = 0.05).Thus, we fail to reject the null hypothesis. Hence, it is concluded, that there is no association between the stress level and change in reporting structure among the employees of the merged organization.
- The Pearson chi-square value is .039. Which is lesser than level of significance (α = 0.05).Thus, we accept the null hypothesis. Hence, it is concluded, that there is association between the gender and the reaction towards the merger in the organization.
- From the frequency analysis, it was found that majority were against the merger.
- It was found during the survey that 54 % of the respondents felt stressed out during the merger & acquisition period.
- It was found during the survey that, 60 % of the respondents strongly agreed and felt the need for the cultural survey, while 20% agreed and only around 10 % disagreed for the need of cultural survey.
- It was found during the survey that, around 40% of the respondents responded that, intercultural training was provided to them. while 32 % responded that cross –cultural competency training was provided, while 16 % responded that information campaign was conducted so that, the employees can meet the respective personnel and get the necessary details and also clarify their doubts, around 8 % responded that culturally diversified parties was arranged to wipe the differences and only 4 % responded language training was conducted.
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