ABSTRACT

HR INTEGRATION IN MERGERS AND ACQUISITIONS: A STUDY OF THE PROCESS AND ITS DETERMINANTS

Huge amount of capital involved in mergers and acquisition activity has raised the stakes of all the stakeholders involved. From the shareholders, senior management, employees and customers of merging, acquiring and acquired companies to investment banks and other parties involved, everyone anticipates substantial monetary/non monetary returns. Post-merger analysis reports, though, have not been very optimistic about results. Both- academicians and practitioners claim that more than fifty percent of deals fail to create value for their shareholders. Such high percentage of failure, considering the amounts involved, results in losses tantamounting to billions of dollars. Reasons for failure that have been identified range from economic/strategic factors like paying more than intrinsic value of the acquirer or overestimation of synergies to organizational behaviour/HR related factors like cultural incompatibility, insufficient communication, unnecessary changes in the acquired and non or inadequate involvement of leaders. It is probably dissatisfaction of employees that leads to value erosion in the wealth of shareholders.

Many authors like Allred, Boal and Holstein (2005), Marks and Mirvis (1998), Galosy (1990), Schweiger, Ivancevich and Power (1987), and Jemison and Sitkin (1986) identified factors like loss of hierarchical status, clash of cultures, arrogance of the acquiring firm, obsolescence of knowledge of parent firm, parting with trusted subordinates and colleagues, loss of compensation, change in job definition and career plans and relocation or transfer and loss of job for being major reasons for employees discontent after a merger or acquisition.

Due to presence of employee related issues and stress, role of human resource department becomes critical. Schweiger and DeNisi (1991), Pablo (1994), Hanson (2001) and Galpin and Herndon (2000) suggest early involvement of HR leaders in the merger process and interventions like timely communication, early establishment of new organization structure and removal of role and job related ambiguities. Despite all these suggestions and inputs, integration process is not known to be similar for any
two mergers or acquisitions, and organizations vary in the importance they pay to suggested HR interventions.

**Research Rationale**

Varied manner in which HR integration is carried after any merger or acquisition raises the question that whether there are factors, which may be organizations or their environment specific, that determine the integration strategy which in turn shapes the process of HR integration and determines HR interventions used. A few studies like those of Buono and Bowditch, (1999), Nahavandi & Malekzadeh, (1988) do insinuate towards impact of types of merger/acquisition, relative standing of organizations in terms of size and performance and cultures of combining organizations upon degree of integration, though they are silent on the impact of these factors on HR integration process. Recognizing this research gap, in this study, the attempt is to locate the determinants of the nature of integration process (along with those indicated by previous studies) and study the manner in which these factors shape the HR integration process.

**Research Objectives**

1. To identify, study and analyze already indicated factors like type and rationale of merger/acquisition, relative standing of two combining organizations and their cultures and leadership and locate new factors which impact the integration strategy.
2. To study major components of the integration strategy.
3. To study the manner in which these factors, (as identified in research objective one) through determining the integration strategy, shape the process of HR integration. Process of HR integration includes intervention made to integrate people as well combination of HR practices and policies.

**Research Methodology**

Within the domain of qualitative research, a multiple case study method is used. Gradually, but increasingly case study methodology is being found suitable for

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1 As leaders are known to form and develop the culture of an organization (Schein, 1985) here culture and leadership as a single determinant.
merger and acquisition research. Jeris, Johnson and Anthony (2002:6) support the use of case study in mergers and acquisition research when, ‘the research is focused on understanding the process’. As the focus here is on understanding the process of HR integration and its determinants, case study methodology was found to be most suitable. Two cases from within the banking sector, one where a new private sector bank was acquired by another new private sector bank and another where a public sector bank (PSB) acquired a financially distressed new private sector bank were studied. Process of merger and that of HR integration comprising of sub processes that are used to assimilate people and HR policies and practices formed the unit of analysis. Data was collected primarily through indepth interviews and analysis of relevant documents. Purposeful sampling was used to meet and interview the senior management and employees from across different levels of hierarchy of both acquiring and acquired organizations. People at the base and middle management level were met first to understand the process of integration- overall and that related to HR. Seniors were met subsequently to understand the integration strategy and identify factors that shaped it.

**Major Results**

Along with determinants like rationale of merger or acquisition and the circumstances under which it takes place, relative size and performance of combining organizations, and culture of acquiring and acquired organization and their leaders, three more factors of role of stakeholders, future goals of the acquiring bank and perception of each other, shape the integration strategy which in turn shapes the process of HR integration. Amongst these other than future goals of the acquiring bank, other factors are common to both the cases.

In case one, that is acquisition of Patiala Bank by Millennium Bank, type of merger was concentric as it helped south and west (of India) based Millennium to expand geographically in the north. Rationale for the merger was to reach the relatively prosperous customers of Punjab and deepen banking relations with them. Millennium Bank had itself witnessed change in management and was reviving from a period of poor performance. Patiala Bank’s performance had plummeted over years and it had made losses in the year of acquisition. Both the banks were similar in size and performance. Culturally, both the banks were new private sector banks that had a
young, malleable workforce ready to face challenges offered by the sector and willing
to capture rewards produced by performance oriented work and business
environment. There was a positive perception of each other and strengths of both
partners were recognized. Further, Millennium Bank wanted to grow inorganically;
this was the first acquisition that they were making so everything they did was likely
to be cited in later transactions. Role of stakeholders was limited- RBI did not
influence the acquisition decision or integration, there was no union, but customers’
faith in Patiala Bank and its employees refrained Millennium’s leaders to make
unnecessary changes at the branch level. Owing to concentric nature of merger,
integration was complete across various levels and functions. Transition structure was
laid, with fair representation from both sides and consultants were hired to facilitate
integration in different functional areas. Leaders were closely involved in the
combination process and new organization structure was announced immediately after
RBI’s approval. HR integration process seems to be largely consistent with the
integration strategy and no major anomaly was observed in the way both of them
shape. Any major change influencing integration strategy is followed by impact on
HR integration process also. Due to commitment of leaders and relatively same size
and performance level communication was focused upon and desirable cultural
aspects were retained. Necessary changes were brought with the help of
communication and training. As perception about acquired employees was positive
and Millennium Bank’s management wished to retain them, salaries were raised.
Employees of Patiala Bank also had a high opinion of the leadership of Millennium
Bank and thus were amenable to linkage of compensation to performance. Jobs were
re-graded taking into consideration experience in previous organization.

Determinants like rationale for the merger, culture of the acquirer (and to some extent
acquired), relative size and performance, perception of each other and involvement of
stakeholders especially RBI/government of India and union shaped the integration
strategy and HR integration process in case of acquisition of UAB by Nationalized
Bank (case two). The acquisition was largely believed to be a rescue attempt for UAB
that was initiated by RBI. UAB had suffered years of bad performance, compared to
consistently stable growth experienced by Nationalized Bank. UAB was also just a
small fraction of Nationalized Bank’s size. The banks were culturally very apart: one
was an old public sector bank with strictly followed hierarchical order and other a
new private one. Perception of each other was negative. Neither of the two sides saw any merit in the acquisition- each side perceived its bank to be the aggrieved party. Further RBI/government of India defined the scheme of amalgamation and participated in/consented all major decisions taken thereafter. Union and federation were strong and had a strong say in running of the bank. Integration strategy was influenced greatly, in the initial stages by the rationale for merger and leaders of Nationalized Bank than any other factor- UAB was kept as a separate SBU and focus of the management was on recoveries of bad debts. Later, however, factors of relative size and performance, perception of each other and union/federation’s role gained prominence and SBU was merged into Nationalized Bank. Process of HR integration was consistent with the integration strategy and was equally influenced by these determinants. At the initial stages there was some communication and not much cultural diffusion. Compensation of UAB employees was maintained at previous levels. After integration of SBU, changes in HR integration were also witnessed: employees were re-graded and their compensation aligned to new scales as per IBA guidelines. Culture and practices of Nationalized Bank prevailed in the combined bank.

Key conclusions drawn from the study are:

1. Owing to the determinants, no two combinations can be the same and there always will be a need for a different integration strategy for each acquisition. Different integration strategies will get translated into distinct HR integration processes comprising of interventions that will vary from case to case.

2. The determinants do not remain consistent in their impact throughout the integration process but their influence may also get firmer or laxer with time.

3. The determinants may also support or counterbalance each other’s influence.

4. HR, in either of the two cases did not play a discernible strategic role; all HR interventions were also initiated by leaders at the top. In future, one may need to find out circumstances or factors that may trigger a more active strategic involvement.

5. In case of combination of two very differently sized organizations with diverse cultures, probability of combining only vital support functions can be explored in order to realize long term value of acquisition.