Chapter 6: Summary and Recommendations

The purpose of this study was to explore the role of HR in post mergers and acquisitions during the integration stage. The three main areas identified during the integration stage were: a) Structural changes post-merger b) Handling employee related issues and c) Changes in the processes and policies.

The study was carried out in 35 acquiring companies which had been into horizontal mergers or acquisitions between 2008 and 2009 and had either acquired or merged with another firm. It was carried out by interviewing HR professionals of the acquiring companies who had handled the merger or acquisition in their respective organisations. To get an insight into the employee’s perception of the various HR interventions adopted during the post-merger integration phase, an employee perception study was also done.

This chapter first summarises the contextual questions of the study. HR’s intervention in the three areas identified is briefly discussed along with employee perception regarding the same. After a summary of each issue, an attempt has been made to put forth certain recommendations for future research and for those organisations planning to merge or acquire in the future. These recommendations are based on consolidated feedback given by HR professionals during the study.

The issues differed within levels of employees of different organisations, with a specific issue being more prominent or relevant to a certain section of the employees than to others. The interventions, similarly, drew different kinds of reactions from different quarters of employees.
Throughout the study, communication emerged as a common theme impacting the effectiveness of interventions across all areas. The last section of the chapter deals with issues pertaining to communication.

Based on the literature, interviews of HR professionals and employees’ perceptions a ‘Communication Workbook’ was designed for the HR professionals (Annexure 1). This workbook is a check list of communication process which can be used by the HR professionals post mergers and acquisitions. It was validated by three HR professionals who had handled multiple mergers or acquisitions in the past.

6.1 Context of M&A and employee perception

The following section briefly summarizes the context in which M&A was carried out. It provides an overview of the relative importance given to internal processes at the time of a merger and the challenges faced by HR professionals.

a) Prior experience in mergers and acquisitions: It was found that majority of the acquiring companies (74%) had experienced a merger or an acquisition in the past, while the acquired companies were relatively less experienced in this regard (37%). Most of the HR professionals interviewed also had prior experience in handling a merger or acquisition in the past (63%).

b) Integration head and team: The integration process in most cases was headed by either the HR head (54%) of the organisation or a separate Integration Manager (43%). The composition of integration team varied from organisation to organisation.

c) Priority of business functions in the overall integration plan: It was found that organisations gave far greater importance to integration of business process such as customer service, marketing and sales (43%), finance (17%)
and organisational structural systems (20%) than linking functions such as MIS (3%), operations (6%) and HR (11%). In fact, in all the companies HR was a part of the Integration Team but in most of the companies (69%), HR involvement started only in the post-merger stage.

d) Integration time: Most of the organisations (77%) took between one to two years for integration.

e) CEO’s frequency of updates on the integration process: It was observed that in most of the cases the CEOs sought updates mostly on fortnightly or monthly basis (43% each).

f) Relative importance and urgency of issues in mergers and acquisitions: Organisations varied in assigning importance to various post-merger issues in terms of how quickly they must be dealt with. Issues such as communication (100%), changes in organisational structure (86%), cultural integration (82%) and retention (94%) were rated as critical by most of the organisations and were addressed (began addressing) within 30 days of the merger deal. Recruitment of new staff and performance management were both considered as not important by all the companies and all of them handled the issue after 100 days. Rest of the issues such as handling employee stress, harmonization of compensation, processes and policies realignment, managing employee careers etc. were rated as important issues by most of the organisations but were handled in different time-frames by each.

g) Reactions to mergers and acquisitions: It was observed that negative reactions of resentment and resistance were much higher, irrespective of the company being acquired or acquiring, at the top management level (74% and 86% respectively for the acquiring and the acquired companies); while the positive reactions (enthusiasm and acceptance) were the highest among the
lower level employees (82% and 92% respectively for the acquiring and the acquired companies).

**Employee Perception**

The overall employee satisfaction mean scores derived using the employee perception instrument corroborate the above findings by suggesting that the top level employees were not satisfied with interventions into the independent variables (mean score of 3.4). Lower level employees, on the other hand, appeared satisfied with the interventions into the independent variables (mean score of 3.8). In the Scheffe test it was found that there is no significant difference \((p<0.05)\) in the satisfaction levels of the senior level and middle level employees, however there was a significant difference in the satisfaction levels of the senior level and the line level employees \((p<0.05)\). There is also a significant difference in the satisfaction levels of the middle and line level employees \((p<0.05)\) (Tab. 5.2(b)). It was also found that there is no significant difference in the satisfaction levels of the acquired and acquiring companies \((p=.334)\) or the acquiring and the merged companies \((p=.293)\). However there was a significant difference in the satisfaction levels of the employees of the acquired and the merged entities \((p=.048)\) (Tab. 5.4 (b)).

**6.1.1 Recommendations**

Merger is a strategic process and strategy impacts the long term health of the organisation at the time of the merger. It is a little surprising that the updates in the integration process were sought by the CEOs after intervals as long as a month \((43\%)\) or a quarter \((6\%)\).
For future research

✓ The research could be extended to find out in which companies were the CEO / project teams more highly involved in the M&A integration process. What did the shareholders or the management teams do for them that led to their intensive involvement in the process? This could be a differentiating factor while dealing with M&A situation in the future.

✓ Further, research needs to explore this phenomenon more closely. What do CEOs take feedback on? What are the differences in communication patterns of CEOs who take feedback more frequently versus those who take it less frequently? A closer linkage between feedback frequency and merger outcome also needs to be established.

For practitioners

✓ Since integrating operation reviews with strategic reviews becomes critical, CEOs should seek updates more frequently.

6.2 HR challenges

Some of the challenges faced by the HR professionals were:-

a) Low HR involvement: One of the critical findings of the study was that the HR function’s role emerged primarily in the post-merger stage (100%). It was surprising to note that despite ample evidence to the contrary in both research and practitioner’s domain about the importance of managing people, HR played a relatively minor role during the pre-merger phase (31%).
b) **Difficulties encountered by the acquiring company post-merger:** It was seen that most of the acquired companies were reluctant to share the information regarding their process and policies (91%). This, together with lack of proper documentation (43%) and cultural differences (51%) constituted the top three difficulties for integration encountered by the HR professionals of the acquiring companies post-merger.

### 6.3 Role of HR post Integration

This section talks about the three areas in which HR played a lead role and employee perception regarding action and intervention in each area.

#### 6.3.1 Organisational Structure

Changes in organisational structure are inevitable following a merger or an acquisition exercise. Though all companies (100%) mentioned that handling structural issues were critical and most of them (86%) initiated action within 30 days of the merger, the structural changes were completed only after a period of least 6 months to a year post merger, so as not to rush the employees into a new working environment and provide them with sufficient time to adjust to the new set up.

a) **Issues:** Some of the common issues relating to organisational restructuring which were observed were:

i) **Redundancy:** With changes in organisational structure there were redundancy issues which were generally addressed either through termination or redeployment.
ii) **Employee termination**: Out of those terminated, majority of employees were from the lower level (65% of the total terminated employees). Also a bias against the acquired entity employees was clearly visible in this regard (95% of the terminated employees were from the acquired entity). Closure of departments and SBUs resulted in redundancy. In this case too, most of the employees who were affected were from the lower level (68%).

iii) **Changes in bands, designations and reporting relationships**: Major changes in bands, designations and reporting relationships affected the top and middle level employees. While changes in bands occurred in 86% of the companies, there were changes in reporting relationships in 71% of the companies. Many issues such as resistance by employees (72%), redundancy due to presence of two departmental heads (37%), incoherence in the designation-seniority (17%) and the seniority-pay structure relationships (6%) across the employees of the two entities, employee stress (11%) especially among the acquired employees (11%); emerged as a result of changes in bands, designations and reporting relationships.

iv) **Reactions due to structural changes**: As a result of changes in organisational structure which affected employees in the form of changes in bands, designations and reporting relationships, together with systems and processes/policies related issues; negative reactions of resentment or resistance (in 72% of the companies) were observed mostly among the top and the middle level employees. The lower level employees, on the other hand expressed positive reactions of acceptance and enthusiasm.

v) **Identification of Key-talent**: The most pertinent observation in this regard which emerged from the present study is the lack of effective assessment parameters and considerations to determine who the key talent is. Though organisations used different tools to identify key-talent such as assessment
centers (9%), psychometric tests (3%) and talent assessment forms (34%) combined with other methods based on top management’s perceptions or performance feedback from various sources, some of the HR professionals spoke about the lack of organisational knowledge in identifying key-talent.

vi) **Loss of talent:** Loss of talent emerged as a major source of concern for HR (in 91% of the companies). Exit of talent was visible only in the top and middle levels (47% and 53% of the total employees left respectively). In some cases top level employees had exited even before the announcement of the merger.

vii) **Retention Strategies:** The most important financial incentives and the non-financial retention strategies which emerged from the study were salary and benefit adjustments (effective in 91% of the cases) and appointment to key project teams or key leadership teams (effective in 74% of the cases). However, none of the companies except one tracked the impact of retention strategy on the key employees post-merger.

viii) **Issues with unions:** Issues with unions cropped up only in very few companies (11%).

b) **Interventions:** Some of the interventions to address the issues arising out of organisational restructuring included:

- Communication and counselling by CEO (49%), top leadership (37%) and HR professionals (34%)
- More power, higher authority and better compensation packages offered to certain top and middle level employees (11%).
- Re-structuring bonuses offered to certain top and middle level employees for inconvenience caused (3%)
• Promotions given to certain employees with nominal hike in salary (11%)
• Better designations offered to certain employees reflecting the jobs and responsibilities (14%)
• Lucrative VRS given to workers (11%)
• HR helped some displaced employees to get new jobs (17%).

c) Employee perception of interventions in case of organisational re-structuring

Results from the employee perception instrument regarding employees’ perception of the HR interventions reveal that the interventions adopted by the companies under study were fairly effective in bringing about a smooth organisational change in most of the cases. The statistical analysis showed that there is a high positive correlation between employee satisfaction post-merger and interventions related to organisational structure (r = .799, p< 0.05). The study concluded that the top level employees were least satisfied with interventions related to organisational structure (mean score 3.3) in comparison to the middle and lower level employees (mean scores 3.5 and 3.8 respectively). A major determinant of this observation, as explained before, could be that the changes in bands and reporting relationships impact the top level employees the most as they have a fear of losing their power or authority.

6.3.1 (a) Recommendations

Based on the findings and observations of the study, the following are the key recommendations regarding organisational restructuring process post-merger or acquisition.
For future research

- Changes in bands, designations and reporting relationships emerged as a major and highly sensitive issue for the employees in this study. These issues may have been responsible for loss of productivity. It is important to study the impact of productivity through a longitudinal study so that the effectiveness of these interventions can be judged accordingly.

For practitioners

- While there could be economic reasons to terminate people due to redundancy issues, adequate measures to ensure a smooth exit process should be taken. Practices such as outplacement services which help the terminated employees find alternate sources of employment should be looked into.
- Changes in bands and designations should be personally communicated to the employees.
- Structural changes are the most visible and tangible ones and thus should be carried out with utmost caution. Therefore structuring process should not be rushed. It should be done in a smooth phased out manner within a time-frame depending upon the complexities of issues to be handled.
- To identify key-talent in an organisation, the organisation should first define what it means by key talent. This was a major concern from the HR’s feedback. A well-structured formal assessment of key talent according to the established parameters in conjunction with informal feedbacks from multiple sources is recommended, unlike most of the organisations under study, which relied too heavily on informal and perceptional assessment of key-talent. The assessment can be carried out by the HR department in tandem with the line leadership.
✓ Involvement of top leadership like CEO and MD should be taken into consideration while retaining top level key talent.

6.3.2 Employee Related Issues

A number of issues were encountered by the HR professionals post integration. These issues have been presented under three broad categories- i) employee stress ii) managing cultural integration iii) evaluating integration success.

i) Employee stress, effects and interventions

Employee stress was driven mainly by the restructuring process which involved changes in bands, designations and reporting relationships as described above. The top three emotional reactions seen post-mergers and acquisitions were anxiety (80%) followed by fear (34%) and irritation (31%).

a) Issues: This resulted in reduction in productivity, with decreased job satisfaction (49%), decline in physical health (20%) and employee turnover.

b) Interventions: Some of the interventions used for reducing stress were voluntary stress management workshops (11%), counselling sessions with psychotherapists (6%), and communication based measures like one to one sessions (17%) and focussed groups meetings (11%).

c) Employee perception of interventions

Results based on the employee perception indicate that stress management was negatively correlated with employee satisfaction (r= -0.187, p<0.05), implying that employees felt less stressed during the integration process. The Scheffe test results showed that there is no significant difference (p<0.05) in the satisfaction levels of the senior and middle level employees, however, there
was a significant difference in the satisfaction levels of the senior and line level employees (p<0.05). There was also a significant difference in the satisfaction level of middle and line level employees (p<0.05).

ii) Cultural Integration

Most of the organisations strongly emphasized the need for cultural integration, rated it as one of the most critical issues to be addressed post-merger and started working on it virtually from the day after the deals were signed. However, it was surprising to see that a formal, structured pre-merger cultural audit was done by less than 50% of the organisations.

a) Issues relating to managing culture:- Two differences between the merged entities were management style and decision making (significantly different in 60% and 54% of the cases).

b) Interventions: Some of the interventions used to manage the cultural differences were:

- Workshops sharing best practices of both the organisations arranged by HR (17%).
- Training on team building activities (31%), 360 degree feedback (6%), including Johari window (3%).
- ‘Sensitization seminars’ conducted for employees of the acquired company (6%).
- Educating acquired employees about the company’s work processes, environment and employment practices (34%).

However, none of the above interventions addressed the two issues mentioned before.
c) **Employee perception of interventions**

Cultural integration had relatively lesser degree of correlation with employee satisfaction levels ($r = 0.579$, $p<0.05$) as compared to other variables. As discussed previously, this may be because in case of other interventions such as those related to structure, compensation, processes and policies etc., immediate results or outcomes can be observed. Cultural integration interventions take long time to manifest and thus have a high gestation period. Also, post-merger, employees tend to remain attached to their old organisation’s culture. Additionally, HR interventions for cultural integration may not be very salient to employees leading to poor feedback on the process. Thus, we would like to treat our findings in this regard as tentative.

**Time taken to integrate cultures of merged entities and Organisation culture post merger**

The study found that most of the companies took six months to a year, and even more (86%) to bring about cultural integration.

In majority of cases (91%), the culture of the acquiring company was adopted post-merger, while in rest of the cases either the acquired company’s culture was adopted or a merged culture of both the entities emerged.

**iii) Tracking post-merger progress**

It was found that the HR had adopted different measures to track the post-merger process such as joint working sessions (11%) and dashboards to monitor progress (14%). In addition, feedback gathering mechanisms were also put in place. Feedback surveys were also conducted between 6 months to a year in most of the companies (60%) from the date of merger. Informal chats and discussions (66%) besides questionnaires and focus groups (11% each) were the most common forms of feedback gathering.
6.3.2 (a) **Recommendations**

**For future research**

- The study found that interventions related to managing employee stress were well planned and executed by the HR function in most cases. Some of the interventions included counselling and stress management workshops. Future research should try to find out the differential effectiveness of these interventions.

**For practitioners**

- Though decision making and management style emerged as the critical area, the HR interventions were more broad based and did not directly address these issues. Special focus should be laid on them.
- A pre-merger formal cultural audit to assess the compatibility of the two merging entities should be carried out by the organisations before any merger. This has also been discussed in the literature review. Though it will not guarantee a hassle free process, a well-conceived formal cultural audit may significantly improve the chances of success. All the information thus collected would serve as an input for devising cultural interventions or designing fitment exercises post-merger.
- Given the fact that many of the HR professionals are heading the integration team, tracking mechanisms need to be looked at on an urgent basis because some of the HR professionals do not feel the need to have a formal system for monitoring integration effectiveness.
6.3.3 Processes and policies

The third broad aspect of changes following a merger or an acquisition was changes in processes and policies.

a) Differences in Processes, Policies and related issues

The study found varying amounts of differences in a number of policies and processes of the two organisations under study. The processes and policies which had differed most significantly were employee mobility (57%) and career management (51%). Compensation issues were perceived by the employees as highly significant and during the factor analysis, compensation loaded as a separate factor altogether. The study revealed that in more than half the number of organisations (51%) the compensation levels were higher in the acquiring entities. Some areas in which the acquired companies were better were car schemes (66%), housing limits (66%) and provident fund (954%). It was also found that only a few of the acquiring and the acquired companies had ESOPs for their employees (29%).

There were certain issues relating to redesigning the policies of the new organisation such as issues relating to i) leave policy ii) performance appraisal cycle, methods of appraisal and feedback mechanisms and iii) benefits given to ‘key employees’.

b) Integration of processes and policies and harmonisation of compensation (Interventions)

While integrating processes and policies of the two merging entities, four options were available: Companies could adopt the policies of i) the acquiring entities ii) the acquired entities iii) design new policies iv) retain their separate individual policies. For most of the administrative functioning such as
induction (74%), probation (71%), termination (57%) and resignation (56%), the merged entity tended to adopt the process of the acquiring company. However, for procedures and policies related to assessment and development functions (41%), it was found that even post-merger, most of the organisations kept these functions separate perhaps because of their individualistic nature and long term impact.

At the time of consolidation most of the companies either kept the compensation structure separate or adopted the structure of the acquirer with less than 10% of the organisations either adopting the structure of the acquired or adopting a new structure altogether. Continuance of certain special benefits for a period of 1 year for certain employees (Grandfather special benefits) was also seen in some companies (34%). In case of ESOPs the most common approach of resolution involved employees continuing to enjoy ESOPs for a year, after which it was reconciled (51%). It was observed that most of the organisations (91%) took a period of one to one and a half years to make the changes in their HR processes and policies including compensation.

c) Employee perception of policies, processes and compensation interventions

The results of the employee perception instrument show that there was a high positive correlation between interventions linked to processes and policies ($r=.864$, $p<0.05$), compensation and employee satisfaction ($r=.778$, $p<0.05$). The lower level employees were the most satisfied with interventions linked to process and policy integration (mean score of 3.9) as compared to middle and top level managers (mean scores of 3.5 and 3.4 respectively). Employees perceived the interventions made for integration of processes and policies including compensation to be highly effective.
6.3.3 (a) Recommendations

Changes in certain policies and processes like induction, recruitment, time of reporting, training and development etc. have limited impact on employees and it takes relatively less amount of time to adjust to them. It is easier to implement an immediate modification or realignment of such policies with good chances of their smooth adoption by all. However, policies and processes such as leave structure, performance management, compensation etc., have a long term impact on employees and an abrupt change post-merger may not be desirable. Reconciliation of such policies and processes could be made by continuing with the respective existing policies of the two entities for some time (say a year or so) after the merger, and then progressively moving towards changing them. This will provide time for the policy makers to gauge the satisfaction levels and trust factor of all particularly the acquired employees, while giving employees a chance to gradually adjust to the changes.

For future research

✓ Future research should explore the link between compensation increase as a part of the key-talent retention strategy and the retention benefits the company derived from these employees.

For practitioners

✓ Compensation is a very sensitive issue and therefore acquiring companies may allow new employees to keep their former benefits packages for a limited period of time.

✓ Acquiring organisations must communicate changes in benefits plans throughout the process, using channels such as one to one discussion in person, on-site meetings, newsletters, and electronic media. The role of HR in this respect is to make employees understand why certain
benefits have been discontinued and how other benefits would help them in the long run.

Following areas could be looked into by researchers for further studies

a) The same study should be replicated but with a narrower scope. The study should be either sector specific or should look at limited number of companies and analyse them in detail.

b) Although the role of HR post-merger and acquisition was studied through interviews, the quantitative nature of the study precluded capturing richness of the data that was available. A qualitative study would be better suited to capture the rich insights regarding what should be the role of HR post-merger and acquisitions.

c) Intervention specific feedback from employees of the organisations should be captured so that the impact of these interventions can be established in directly. The current study aggregates data across organisations and across employees to only give a tentative picture of rich interventions which were effective and led to employee satisfaction. This could be done in an industry specific or sector specific manner.

d) A longer duration study with researcher’s involvement at all the three stages would give a clear picture of the impact of certain interventions that were carried out by the organisations.

e) A study could be done considering vertical acquisitions or looking at the impact of size and other constructs.
6.3.4 Communication

As explained in the conceptual framework of the study communication was a 'ubiquitous' variable. Therefore in the employee perception questionnaire, all the HR issues identified had a communication aspect to it. Most of the organisations in the current study identified either a communication coordinator (63%) or a resource person (60%) who would be responsible to communicate to all the stakeholders.

Modes, barriers and interventions of communication

Personal face to face communication was the most preferred and most frequent mode of communication (77%). Lack of coordination emerged as the biggest barrier (54%). Also, the resistance of the top management towards the merger process reduced the effectiveness of communication process.

While designing, implementing and assessing the communication plans and processes the following persistent issues cropped up before the teams handling the post-merger integration process:

- Conflicting messages from different sources (51%)
- Lack of trust in the information from the management (20%)
- Lack of communication between functional areas (54%)

To address these barriers the HR professionals used certain interventions, some of them were

- Policy of “no-response on rumours”
- Acquiring and acquired company employees met regularly with senior management team.
- Joint workshops were organised with representatives from all functional teams to design improved communication processes.
• Controls and checkpoints were established to deal with problems in the implementation of the communication plan.

6.3.4 (a) Recommendations

An effective communication strategy should be omnipresent as the bedrock of any post-merger integration plan. Accurate, timely and effective dissemination of desired information to all the stakeholders to the deal and identifying and removing the barriers to communication is of paramount importance, especially from the point of view of the employees. An effective communication process, the study observed, can help reduce employee stress and boost satisfaction and thus productivity to a great extent. Professionals handling future mergers and acquisitions should not miss this relatively intangible but highly significant dimension of the integration strategy, for all the intricately planned interventions and plans may fail to materialise if not backed with proper communication.

The communication handbook (Appendix 1), which was prepared based on the literature survey and findings of the study, provides a checklist for HR professionals that would help them devise an effective and purposeful communication strategy while handling mergers and acquisitions in the future.

6.4 Integrative role of HR in managing change post M&As

The integration process in mergers and acquisitions is a change management initiative for both the organisations. Change management is largely regarded as a discipline that realigns operating companies so that they can deal with economic, technological and other market forces. Merger and acquisition is among the frequent responses to market based change. Whether a company’s strategy is to grow its existing markets, introduce new products, gain access to new customers, or expand its distribution systems, merger and acquisition
provides the means of executing this strategy quickly and effectively. As seen from the study, the two most frequently quoted reasons by the companies for going the mergers and acquisitions way were achieving competitive size and gaining market share. In short, integration presents a change management challenge unlike any other. Thus HR has to see a link between the mergers and acquisitions and the change management discipline (Galpin, Timothy J., 2000).

People resist change, and the degree of change involved in integrating two organisations is massive. The extent of the change often fosters resistance that may seem insurmountable and can destroy even the best planned merger. It is important to recognize that resistance is not necessarily an indication that something is going wrong with the integration. Rather, it may simply be a sign of people understanding that something big is happening. Managers who grasp this point may be more able to view employees’ resistance as a normal action to integration that is, as a reaction that does not necessarily require an equally forceful reaction from managers. Instead, during a major change, the HR should focus his or her efforts on those individuals or groups whose resistance is not so evident, for example, the people who are undecided about the changes taking place. These people are typically the larger groups in the organisation. They are management’s ‘swing vote’ and, most important, they are ultimately the ones who will or will not implement the desired changes effectively.

In any case, if the two companies are to be integrated successfully, then resistance to changes must not be allowed to remain a mystery to those managers. The HR should understand the reasons for resistance. The base level (not knowing) represents people’s lack of knowledge and information about the integration effort. The next are those (not able) who represent people’s lack of ability to perform the tasks made necessary by the merger. The final ones are those (not willing) who represent people’s personal
reluctance to make the effort to change. Though all levels require communication as the most important intervention, the base level requires the maximum communication, to keep people informed about the integration effort. At the middle level, what is required is training. At the top level, what is required is performance management.

Change management is an intangible intervention. The employee perception instrument revealed that the maximum correlation value ($r=0.967$, $p<0.05$) with employee satisfaction among all variables was that of change management. In such a change process, HR leadership is important in providing clear direction for the move into an uncertain future.

### 6.5 Hypotheses for future research

Based on the findings of the study the following hypotheses could be tested by future researchers:

i) If HR managers are involved in M&A strategic decision making from day one, the success of mergers and acquisitions in those companies would be higher as compared to those where they are not involved.

ii) Higher the involvement of the CEOs during integration, faster is the integration process.

iii) When members of the acquired organisation perceive the acquirer as attractive, integration of culture will be faster even when they value their own culture.

iv) Early involvement of HR into mergers and acquisitions process will lead to lower employee stress levels.

v) Town hall meetings as a method of communication may not prove effective for all levels of employees.