Chapter 1: Introduction

1.1 Background of Mergers and Acquisitions

1.1.1 Introduction to Mergers and Acquisitions

Globalization, competition and a dynamic market has brought about a significant change in the world economy and the way businesses operate. Trillions of dollars have been spent in the acquisition of thousands of firms (Gupta and Gerchak, 2002). In order to stay competitive, many companies around the world have merged with each other with a motive to expand into new markets, incorporate new technologies and/or enhance revenue (Harpe slagh & Jemison, 1991; Slusky & Caves, 1991; Galpin & Herndon, 1999). Mergers and acquisitions (M&As) continue to play an important role in shaping business activities worldwide. They have become an important business strategy to help improve organisational performance. M&As are undertaken on the assumption that the combined company will have a greater value than the two companies alone (Mirvis and Marks, 1992).

Mergers and Acquisitions

Mergers occur when two organisations willingly agree to collaborate with each other by joining their available assets, liabilities, and cultural values on a relatively equal basis across different businesses and industries. Indeed, “a merger is the joining and integration of two previously discrete entities” (Horwitz et al., 2002). In a sense, mergers can be viewed as the consolidation of two separate firms into a new entity (Schraeder & Self, 2003).

In contrast, acquisitions occur when one organisation buys and takes over the operations of another organisation. Horwitz et al. (2002) state that an
acquisition occurs when one firm acquires sufficient shares to increase the level of control and gain ownership of another organisation. Acquisitions are characterized by the actual takeover of one firm by another where the buyer obtains the ownership and maintains control over the new organisation (Schraeder & Self, 2003).

For the purpose of this study, the terms Mergers and Acquisitions are used interchangeably because the result is the same – one company takes control over another (Halperin & Bell, 1992), thus the firm’s activity is sometimes referred to as Merger and Acquisition (M&A) (Forbes Financial Glossary; Entrepreneurs Glossary, CNN Money Glossary 2011).

1.1.2 Global Scenario of Mergers and Acquisitions in the Last Decade

Mergers and Acquisitions (M&A) have received a lot of public attention during the past decade as several major M&A transactions have been affected (Sabrautzki, 2010). The decade saw some of the biggest Mergers & Acquisitions in history with multiple players vying for with another in an attempt at global domination. In order to understand the importance of M&A to the world of business, this section presents the panning out of M&A activity in the last decade - both in terms of value and geography.¹,²

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Fig. 1 Mergers and Acquisitions (worldwide) in the last decade
(Source: www.wilmerhale.com)

<table>
<thead>
<tr>
<th>Year</th>
<th>Deal Size (in billion $)</th>
<th>Deal Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>2506</td>
<td>25907</td>
</tr>
<tr>
<td>2001</td>
<td>1227</td>
<td>22907</td>
</tr>
<tr>
<td>2002</td>
<td>877</td>
<td>21580</td>
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<tr>
<td>2003</td>
<td>940</td>
<td>23482</td>
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<td>2004</td>
<td>1422</td>
<td>29576</td>
</tr>
<tr>
<td>2005</td>
<td>1886</td>
<td>32511</td>
</tr>
<tr>
<td>2006</td>
<td>2490</td>
<td>31281</td>
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<tr>
<td>2007</td>
<td>2686</td>
<td>31833</td>
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<tr>
<td>2008</td>
<td>1541</td>
<td>23589</td>
</tr>
<tr>
<td>2009</td>
<td>1178</td>
<td>19127</td>
</tr>
<tr>
<td>2010</td>
<td>2025</td>
<td>27460</td>
</tr>
<tr>
<td>2011</td>
<td>2275</td>
<td>27720</td>
</tr>
</tbody>
</table>

The above figure depicts two major periods of downturn in the last decade’s history of mergers and acquisitions. The first dip was caused by 9/11 and

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second was caused by the collapse of Lehman Brothers. But this decade also saw revivals and high volume deals—both in terms of values and numbers.

**Deal Values**

The beginning of the decade saw one of the biggest deals ever between AOL and Time Warner. AOL, the dial-up provider that introduced America to the World Wide Web, announced its takeover of Time Warner in a $164 billion deal. Through the deal, it became the world’s largest media company combining AOL’s online services with Time Warner’s vast media and cable assets. The technology boom sent global deal volume skyrocketing, reaching a record-breaking $1200 billion in completed deal volume during the second quarter of 2000.4

The subsequent technology bust affected the US and global economies. This turmoil was compounded when the events of September 11, 2001 sent markets into turmoil, tanking global deal volume by more than 60% versus the highs of the prior year5.

The global economy began to rebuild, and in 2003 deal activity began to pick up. The year 2003 witnessed the acquisition of Pharmacia Corporation by Pfizer—the world’s leading research-based pharmaceutical company for $55 billion. The deal was carried out in order to expand the product base and develop new medicines6.

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5 Ibid

6 Ibid
Global merger and acquisition volumes increased 38% to $2900 billion in 2005 from a year earlier, with Procter & Gamble Co.'s $60.8 billion acquisition of Gillette, the largest deal of that year. Announced M&A volume in the U.S. and Europe reached $1100 billion, the highest levels for both regions since 2000. Asia-Pacific M&A volume hit a record $474.3 billion, up 46% from $324.5 billion in 2004. Indian M&A more than tripled to a record $18.4 billion from 2004. Goldman Sachs led investment banks in estimated M&A revenue in 2005 at $1.4bn, followed by Morgan Stanley at $1.1bn, JP Morgan Chase at $1.1bn and Citigroup at $1bn. (Global M&A Figures, 2005). The year 2006 saw the re-emergence of the megadeals due to cheap accessible debt. The acquisition of Guidant Corp. by Boston Scientific Corporation for $27.2 billion, Banca Intesa SpA and Sanpaolo IMI SpA (Italy's second and third largest banks) merger for $37.54 billion, Mittal Steel Co. and Arcelor SA merger for $22.7 billion and many such mergers contributed to this wave of megadeals. This momentum continued to build through 2007 until it peaked during the fourth quarter of the year. M&A deals reached a record $4400 billion worldwide in 2007, up almost 20% from $3800 billion in 2006. The bankruptcy of Lehman Brothers in September 2008 strongly affected M&A markets and a significant decline in activity occurred in the final quarter of that year. The table below describes the fall and subsequent rise of deal values and numbers in the latter part of the decade.


8 Ibid
Tab. 1.2 Global Deal Values for the Period 2007-2011\textsuperscript{9,10}

<table>
<thead>
<tr>
<th>Year</th>
<th>Deal Value (in billion dollars)</th>
<th>No. of transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$2685.6 billion</td>
<td>31,833</td>
</tr>
<tr>
<td>2008</td>
<td>$1541.3 billion</td>
<td>23,589</td>
</tr>
<tr>
<td>2009</td>
<td>$1177.7 billion</td>
<td>19,127</td>
</tr>
<tr>
<td>2010</td>
<td>$2025.3 billion</td>
<td>27,460</td>
</tr>
<tr>
<td>2011</td>
<td>$2274.8 billion</td>
<td>27,720</td>
</tr>
</tbody>
</table>

It can be seen that M&A activity rebounded significantly in the year 2010, ending the decline that began in 2008 and continued through 2009. Global M&A deal volume rose from 19,127 transactions in 2009 to 27,460 in 2010, a 44% increase. Although showing a marked improvement over the 2008 and 2009 numbers, M&A activity has yet to return to the record setting level of 2007, which boasted of 31,883 transactions. The year 2011 had a marginal increase of 260 transactions as compared to the year 2010.

In 2012, M&A volumes fell by 11% year-on-year with the corresponding total of announced deal value falling by 9%. 2012 figures were also slightly lower than 2010 figures, by 2% and 6% for volumes and value respectively. Dave Murray, Ernst & Young’s Europe, Middle East, India and Africa Transaction Advisory Services Markets Leader comments:\textsuperscript{11} “This year has seen activity levels fluctuate quarter to quarter, but concern over the Eurozone crisis and US fiscal cliff subdued deal making in 2012, despite a last minute uptick. Executives continue to take a cautious and watchful approach, until longer


term resolutions are agreed to stabilize the global economy and confidence in it. Management teams are instead turning inwards, focusing more on optimizing internal operations to drive margins and put businesses in a stronger position for when confidence returns.”

In Q4 2012 there has been a significant increase in the average value of transactions announced in most markets. Globally, average value rose by 20% from $0.302 billion in Q3 2012 to $0.364 billion in Q4 2012. The average deal value of completed bids is also increasing, currently at $0.231 billion, up by 9% from Q3 2012’s $0.211 billion. “The increase in average announced deal value could well be an indicator that confidence in M&A is potentially returning, with larger deals now back in the headlines as we have all seen”, says Murray.

Geography

In addition to tracking deals in terms of their value and number of transactions, it is also important to understand the dominant players in this area in terms of geography. This understanding would provide us with insights into countries/regions having greater experience at managing M&As. Fig. 2 depicts the geographical dispersion of M&A in the last decade.

The figure clearly shows that USA takes the lead in Mergers and Acquisitions, both in numbers and value. It is followed by China which is quite a far way off. India has relatively less volumes of mergers and acquisitions. But as the next section shows, M&A are clearly on a sharp rise in India. This trend will bring with it its own opportunities and challenges. The subsequent section will discuss the impact of M&A in terms of these opportunities and problems.
In the United States, the volume of M&A activity dropped by 27.4% from 13,279 transactions in 2000 to 9,634 in 2011 while deal value reduced by around 41% from $1500.1 billion in 2000 to $879.9 billion in 2010.

In Europe, both deal volume and deal value increased even more dramatically from 2009 levels. Volumes in 2000 and 2011 were nearly the same with a 0.007% increase, while total deal value dropped by 36%, from $1311.4 billion to $839.04 billion.

The Asia-Pacific region also experienced significant growth in deal volume and value. The number of Asia-Pacific deals increased 231.15%, from 2091 transactions in 2000 to 6,939 in 2011, while aggregate deal value jumped 103%, from $193.4 billion to $393 billion (M&A Report, 2011)\(^\text{14}\)


\(^{13}\) IMAA - Institute of Mergers, Acquisitions and Alliances. (2009).


Fig. 2 Worldwide Deal Count and Deal Size for the year 2011\(^\text{12,13}\)
1.1.3 Indian Scenario of Mergers and Acquisitions

The Indian market in the recent years has shown tremendous growth in M&A activity. It has had an active presence in all industrial sectors. It is spreading across all industrial verticals and on all business platforms. Fig. 3 depicts the number of deals and the deal size in India for the period 2000 – 2011.

The deal volumes during the years 2000 and 2011 were nearly the same with ups and downs intermittently during the 10 year period. The deal size has increased to $38.54 billion in the year 2011 as against the deal size of $11.1 billion in 2000. The volume of M&A transactions in India has tripled to about $67.2 billion in 2010 from $21.3 billion in 2009. With respect to large M&A transactions, 2011 saw 9 deals valued at over a billion plus.

![Fig. 3 Deal Count and Deal Size in India for the Period 2000 – 2011](http://www.wilmerhale.com/files/upload/2011_Corporate_MA_Report.pdf)

(Source: about.bloomberg.com)

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16 Global Legal advisory-mergers and acquisition, Bloomberg.(2011).
The largest deals were in the Oil & Gas sector signifying that global players are eagerly exploring opportunities to participate in the Indian growth story in this sector. The recent mergers and acquisitions in 2010 and 2011 made by Indian companies worldwide are an indication of M&A prospects.

The value of M&A deals involving India rose 12% to $43.4 billion in the calendar year 2012 with the largest volume coming in the fourth quarter and the average deal size amounting to $0.091 billion.

Data compiled by Thomson Reuters shows that Indian acquisitions overseas rose 12% with deals amounting to $11.6 billion while foreign firms acquiring Indian companies have declined 23% to $15.3 billion. Domestic M&A deals stood at $12.3 billion, up 69% over year 2011. Total cross border deals stood at US $26.9 billion down 11.6% over previous year.\(^\text{18}\)

Some of the Top Outbound and Inbound Indian Mergers during the past decade are as follows:-

**Outbound Deals by Indian Companies:**

- Tata Motors acquisition of the luxury car maker Jaguar Land Rover for $2.3 billion in 2008.
- ONGC’s acquisition of Russia based Imperial Energy for $2.8 billion. This marked the turnaround of India’s hunt for natural reserves to compete with China in 2008.
- Bennett Coleman & Co, India’s largest media group and the holding company of the Times of India group, bought Virgin Radio in the UK in a $53.2 million deal with SMG Plc. in 2008.


\(^{18}\) Online edition of The Economic Times, Reuters, January 4, 2013
➢ Tata Steel’s mega takeover of European steel major Corus for $12.2 billion in 2007. The biggest ever for an Indian company. This is the first big thing which marked the arrival of India Inc on the global stage.

➢ Japan’s Mitsui Sumitomo Insurance Company Ltd. acquired 26% stake in Max New York Life Insurance Company Ltd for $ 530 million, marking the exit of USA’s New York Life Insurance Company from the joint venture.

➢ UK based PE firm Advent International invested $ 105 million in Hyderabad-based hospital chain Care Hospitals Pvt. Ltd. by acquiring shares from some existing investors and injecting additional capital into the business.

**Inbound deals by Indian Companies:**

➢ Ranbaxy’s sale to Japan’s Daiichi for $4.5 billion in 2008.

➢ Abbott labs acquired Primal healthcare solution-domestic formulations business for $3720 million, in 2010.

➢ Huaneng group acquired InterGen NV (from GMR) for $ 1232 million, in 2010.

➢ Essar Steel acquired Assets & Steel Business of Shree Precoated Steels Ltd. for $ 266.67 million, 100% stake, in 2009.


➢ Merger of Sesa Goa, a 55%-owned unit of Vedanta Resources, with Sterlite Industries in a deal valued at $ 3.9 billion, the largest M&A transaction involving India in 2012.
Merger outlook for 2013\textsuperscript{19}

In FY13 we perceive M&A activity to be opportunist and we may see an uptick in the M&A activity, driven by inbound acquisitions and heightened PE exits. The ongoing crisis has prompted many companies to accumulate cash on their books, which can be deployed for inorganic growth. Outbound interest is expected to continue in natural resources, especially coal, iron ore and shale gas. On the domestic front, we may witness a consolidation in segments such as media and entertainment (regional media and multi system operators), retail and consumer products (FMCGs and e-commerce), and financial services (asset management and brokerage).

The weak Indian rupee has made Indian businesses attractive, which is likely to lead to an increase in inbound transactions. Also, due to the inactive IPO market, many private equity investors are likely to exit their Indian investments through M&A. From a regulatory standpoint, if the Government of India decides to open up the multi-brand retail sector to FDI, and raise FDI cap in aviation and insurance sectors, we may witness a wave of inbound acquisitions in FY13.

India’s low GDP growth, the slowdown witnessed in reforms, inadequate industrial output (0.1\% y-o-y in April 2012), as well as high inflation and the current account deficit in the country, are likely to pose challenges for the M&A activity in FY13. This has been exacerbated by the Eurozone crisis and the slow recovery of the US economy. Cash-rich companies are waiting for the uncertainty in the domestic and global economies to abate before making acquisitions. Those with insufficient funds for M&As are faced with concerns relating to the weak rupee, high borrowing costs and dormant stock markets.

\textsuperscript{19} Transactions 2012 - Maturing M&A markets by Ernst & Young (www.ey.com/India), accessed on 11 January, 2013
However, there is a silver lining in this dark cloud of economic woes. The weak rupee has made Indian businesses attractive and is likely to prompt an increase in inbound acquisitions. Furthermore, due to dormant equity markets, several PE investors are likely to take the M&A route to exit their investments. Some Indian companies with strong balance sheets are expected to make outbound acquisitions, since valuations in developed markets are relatively low due to the global economic slowdown.

On the domestic front, the Government’s ability to deal with the macroeconomic issues mentioned in this newsletter, as well as its policies, are likely to drive the next wave of M&As. Moreover, opening up of multi-brand retail for FDI, raising of the FDI cap on aviation and insurance, resolution of retrospective tax amendments, mining laws and a large number of other regulatory decisions are keenly anticipated by investors worldwide.

1.1.4 Mergers and acquisitions- Success, failure and its impact

Evidence regarding the outcome of mergers as success or failure comes to us from many different sources and perspectives. The success or failure of a merger or acquisition is usually evaluated based on accounting/financial parameters (Hoskisson et al., 1994) or the achievement of strategic objectives (Clarke, 1987). Larsson and Finkelstein (1999) presented additional functional perspectives to assess the outcome of a merger. Strategic management measures success or failure in terms of achieving strategic objectives, economics mostly uses accounting based measures, finance uses stock market based measures, organisational research focuses on the post combination integration process and human resource management looks at psychological and other issues such as effective communication and career planning. Each of these perspectives represents the preferences of a dominant stakeholder. The
study has not used any stakeholder’s perspective but the words success or failure have been used depending on the usage in existing literature, which may represent an amalgamated meaning of the above mentioned success or failure parameters.


The main focus is on the immediate effect of a merger on the stockholders of the acquiring and target company, and on the market share, productivity, profits or price-cost margins in the long term. “Event studies” which talk about the stock market's reaction to the event (Paul, 2001) utilize the assumption of efficient financial markets to assess the perceived consequences of mergers and acquisitions. Target firm stockholders realize significant positive abnormal returns upon the announcement of a takeover offer even if the takeover does not go through (Bradley, Desai and Kim, 1983; Healy, Palepu and Ruback, 1992). The authors concluded that these gains are primarily due to stock market anticipation of a future successful acquisition bid for the target. Thus acquirers often realize positive performance outcomes or at least do not perform poorly than their non-acquiring counterparts without any action being taken.

However, Dodd (1980) in his study found that stockholders of target firms earned large positive abnormal returns from the announcement of merger proposals i.e. approximately 13% at the announcement of the offer and 33.96% average over the duration of the merger proposal (10 days before and 10 days after the announcement). The stock holders of bidder firms in both completed and cancelled merger proposals experienced negative abnormal
return of -7.22% and -5.50%, over a period of time. Other studies (Healy et al., 1999; Kaplan, 1993; Ravenscraft & Pascoe, 1989) have found a weak correlation between the stock markets and the profitability or the cash flows of the merged company in the long run. Thus M&As do not necessarily increase shareholder value significantly but many a times actually lead to a loss of value (Datta et al., 1992; Gadiesh and Ormiston, 2002; King et al., 2004).

Rather than using abnormal stock market price movements around the time of an event as predictors of future actual performance, certain researchers have examined the abnormal stock market performance of merging firms over a long period of time (a few months to a few years) following the merger. Moeller, Schlingemann, and Stulz (2004) analyzed the performance of acquiring firms through the two major merger waves that occurred during that period. They found that over the period 1998 through 2001 shareholders in bidders lost $240 billion. They also found that even when the target shareholder benefits were taken into account, the net effects were still negative $134 billion. Schoenberg (2006) reported that considering four common performance criteria, only 44% to 56% of a sample of British cross-border acquisitions could be called successful.

Companies invest billions of dollars in M&As and then end up divesting deals that have not worked out or have gone sour (Rosenbush, 2007).

The corporate leadership council M&A survey (2000) revealed that 12% of organisations report significant success in M&A, while 34% report no success in M&A transaction. Furthermore 77% of M&A do not achieve their original purpose. 50% to 80% of mergers and acquisitions never produce anticipated benefits. According to a McKinsey and Company survey (2001) almost 70% of the mergers fail to achieve revenue synergies and nearly a quarter of the anticipated cost synergies are overestimated by at least 25%.
In addition to failing to create value, mergers and acquisitions have been found to have a negative impact on the employees. It increases stress among employees, decreases employee satisfaction, commitment and loyalty and the perceptions of the organisation’s trustworthiness comes down (Ivancevich et al., 1987; Marks and Mirvis, 1985; Schweiger and Denisi, 1991; Wishard, 1985). A study on the impact of mergers and acquisitions on employment in UK, (Conyon et al, 2002), found that merger activity is followed by ‘substantial and significant employment and output falls.’ Thus any rumor or announcement of impending merger triggers extreme reactions amongst employees of the target giving rise to the ‘merger syndrome.’

Merger syndrome has been described as a primary cause of the disappointing outcome of a well planned merger (Marks and Mirvis, 1998). The merger syndrome is characterized by a change of identity, higher centralization of decision making, coping with high levels of stress, formalization of communications on the one side and the starting of rumour mills on the other, moving into a crisis-management mode, power games, a loss of identity, motivation and commitment, decreased productivity, feelings of insecurity anxiety and mistrust (Appelbaum et al., 2000b; Bruckman and Peters, 1987; Marks and Mirvis, 1986). Employees start worrying how the new situation and the changes in structure, transfers, benefits and compensation, new working relationships will affect them. These negative attitudes manifest in active (e.g. voice, voluntary exits and sabotage) and passive opposition (e.g. absenteeism, disobedience) amongst the employees. Conversely, Larsson and Finkelstein (1999) found that employee resistance after an acquisition was negatively related to synergy realization.
1.2. Statement of Problem

Mergers and Acquisitions are undertaken on the assumption that the combined entity will have a greater value than the two companies alone. Despite companies stating that their mergers have been successful they have not been able to derive the kind of benefits that were expected (Mirvis and Marks, 1993). Mirvis and Marks further point out that the mergers and acquisitions have a major impact on employees. This triggers the moot question: what is stopping these companies from achieving complete success? If companies continue to use M&As as their primary long-term growth strategy then why do these M&As fail?

Research by Accenture (2006) stated that though business case for mergers and acquisitions may rest on realizing competitive size, cost saving and increasing market share, its success factors equally depend on bringing people skills and its intellectual capital together.

Using questionnaires & interviews from British case studies, Haspeaslagh and Jeminsons (2004) in their research across twenty companies have drawn together the elements of HR issues from the entire spectrum of merger literature. They argue that acquisition managers choose to focus on quantifiable financial issues and ignore the messy human dimension. As a result, managers over simplify key issues and fail to develop creative solutions.

According to Hunt (2003) in one third of the mergers and acquisitions which he studied, the company management failed to acknowledge the HR functions and role, which actually caused a merger to fail.

Cartwright and Cooper (1992) explain that one of the important reasons behind the success or failure of an acquisition is organisational culture and people management practices. Apikula (2005) highlighted importance of
considering and strategically addressing human resource issues with financial issues before, during and after mergers and acquisition. Hewitt survey in 2002 indicated that 70% of M&As fail as people or HR issues are often considered secondary.

Thus surveys by various consulting firms (Hewitt, 2002; Accenture, 2006) and researchers (Apikula, 2005; Cartwright & Cooper, 1992) have put the failure rate of mergers and acquisitions anywhere between 30-70%. The reasons behind these failures are manifold. Among the reasons, one of the most significant reasons is a lack of understanding of people issues involved. Watson Wyatt research (2005) believes that the figure of failure in M&As may be as high as 75% due to HR issues.

Ajjarapu (2004) reported that companies which have failed to recognize the importance of human resources in their organisations and their role in the success of integration have failed to reach success. Research shows that the opportunity for mergers to fail is greatest during the integration process (Simpson 2000). Integration fails because of improper managing and strategy, cultural differences, delays in communication and lack of clear vision. There are many other reasons that will be dealt with comprehensively during the literature review.

Integration refers to the managerial actions taken to combine two previously separate firms (Haspeslagh and Jemison, 1991; Pablo, 1994) and is a key determinant of acquisition performance (Larsson and Lubatkin, 2001). The role of HR in the integration stage is to use proper interventions addressing key strategic leadership and cultural issues to smoothen the post-merger process.

The process by which the two companies integrate depends mainly on integration strategies adopted by the HR of the acquirer (Meschi 1997). Fisher (1994) asserted that the successful mergers were those where both the
acquiring and acquired companies took time to thoroughly understand the way in which the integration interventions would be carried out and how each process will be handled so as to understand what both the companies were getting into. The study by Simpson (2000) has found that, though top management is intimately involved in negotiating a transaction, many a times their focus shifts away from the transaction once the deal is sealed. In reality, the integration phase is the time to focus on the relentless identification and capture of value - something that demands top management attention. Instead integration often becomes the responsibility of middle management, who may not necessarily be empowered to commission the proper resources or make critical decisions.

In spite of the mounting dilemmas and difficulties in managing post-M&A integration processes, the past academic research on M&A has been too limited and fragmented to provide a comprehensive and integrative explanation of what are the sources of problems faced by HR in post-M&A integration processes and how to manage the problems in timely and effective ways.

Some organisations have designed their own models and best practices after a significant experience of mergers and acquisitions. For example, GE Capital had an experience of over 100 acquisitions during a five year period in the 1990s. To capitalize on the lessons learnt post-merger and design a structured process, Ashkenas et al designed the Pathfinder model for GE Capital (Ashkenas et al, 1998). The model divides the process into four “action stages” starting with the work that goes on before the acquisition is completed – that is, before the deal closes and goes on until assimilation.

Similarly, Vester (2002) after studying the acquisition of Xerox with Tektronix’s Printer Division in the year 1999 designed the FIDESS Model. This includes six lesson categories and 26 related integration best practices.
FIDESS stands for: “Focus, Innovation, Discipline, Excellence, Speed, and Simplicity”.

The three layer management model (M3 model) designed by Lynch and Lind (2002) was designed after studying 25 acquisitions between 1980 to 1999. The M3 stemmed from a combination of disparity and goodwill. Disparity referred to the degree of similarity between combining companies. Goodwill was the excess amount above book value paid for a company and represented the expected added value of a merger or an acquisition.

However, it remains to be seen whether the studies which have been conducted internationally and models created would also work in the Indian context of Mergers and Acquisitions.

A summary of the questions that emerged from the above were:

- What is the role of HR of the acquiring company in post-merger integration stage?
- What are the interventions used by HR of the acquiring company?
- What is the impact of mergers and acquisitions on different employees and how do employees of different organisations perceive the interventions used by HR?
- Are there any HR practices at the integration stage which are worth being replicated? (recommended to other organisations)
1.3 Purpose of the study

Most studies conducted in the area of M&A rely on information collected from specific companies and relating to specific aspects of Human Resource issues in organisations in the post M&A scenario. Also, not many researchers have studied the role of HR in a post-merger integration process. Independent studies have been conducted to study the impact of culture, integration of compensation and benefits, Talent Management and so on in the post M&A scenario (Bligh & Michelle, 2001; Ron Cornwell, 2001; Corporate Leadership Council, July 2000; Marie & Neal, 2006; Micheal & Peter, 2009; O'Reilly & Charles, 2000; Aggarwal, Upasana, et al., 2007; Buchanan & Agnes, 2002). Ashkenas, Lawrence et al (1997) researched GE’s strategy for acquisitions and the impact it had on their business. In addition to this, there were other studies also conducted for Xerox Corporation (Vester, 2002), Unilever (Geoffrey et al, 2007) and so on. However, there have not been many studies conducted which take into consideration the impact of the series of interconnected events in an organisation post-merger and acquisition on employees in the merged entity. For example, the change in policies post-merger could affect the culture of the merged entity. Changes in the organisational structure would have downsizing, retention and attrition issues which would be all interlinked. These all have to be handled by HR post-merger. The role of HR becomes very crucial in this scenario. Also, not many studies have been conducted which span across organisations in India.

This study, therefore, focuses on HR interventions that are adapted to deal with the gamut of issues that may arise in the integration phase of M&A and the reaction of employees to these interventions. The purpose of this study would be to explore the role played by the HR professionals in a post-merger scenario and the interventions used by the HR of the acquiring organisation.
1.4 Framework of the study

The research is focused on Horizontal Mergers as they require the greatest degree of integration and typically involve all types of integration – including procedural, physical, managerial, and socio-cultural integrations – as former competitors try to eliminate redundant functions (Shrivastava, 1986).

a) The study focuses on HR professionals of the acquiring company who are responsible for making the changes post-merger using different HR interventions.

b) The affected organisational variables under study are organisational structure, talent management, communication, HR policies, performance management, compensation, culture, stress and emotions.

c) For the purpose of the study, the above mentioned variables are grouped into three broad areas that the HR needs to look into – organisational structure, integrating and aligning HR policies & processes including cultural integration and managing employee related issues.

d) Communication is an integral variable as it affects the success of other variables and impacts employee perception. Thus the communication aspect of all other variables has been given due prominence.

e) The study, therefore, aims at ascertaining employee perceptions of HR interventions and in the end makes some recommendations for HR professionals to handle M&A in future.
Fig. 4 Framework of the Study
1.5 Significance of the study

The study will have the following significance:

a) This study will have implications for HR professionals who would be dealing with mergers and acquisitions in their own organisations. For those HR professionals who have never experienced/handled a merger before, this study would be insightful in terms of what typically happens during the merger integration process. For those who have gone through a merger integration process, it can benchmark their previous work with what happened in other organisations and complete their framework and knowledge for future reference.

b) It will describe different challenges that HR professionals would have to face while dealing with critical people related issues post mergers. It will highlight HR interventions which could be used to make mergers more successful.

c) HR is multidisciplinary by nature and thus this study would provide a broader perspective to the phenomenon of the mergers and acquisitions which would benefit HR in the integration phase of merger and acquisition.

d) The study provides HR professionals with a systematic planned change process to support organisation’s transition toward the change and to reduce resistance to change post-merger and acquisition.

e) With the help of this study, HR will be able to navigate through the integration phase and pinpoint potential problems and also provide better solutions.
f) Given the importance of post-merger and post-acquisition integration to the outcomes of corporate combinations, the findings from this study would add significant value to the industry by providing new insights that can positively impact the success rates and performance of mergers and acquisitions.

g) Overall the study will also help CEOs of the companies who take the decision on mergers and acquisitions.

1.6 Objectives

1. To study the role of HR post mergers and acquisitions in relation to organisational interventions in the areas of:-
   a. Organisational structure
   b. Talent management
   c. Managing employee emotions, anxiety, stress and personal assistance.
   d. Culture
   e. Training policies
   f. HR policies and processes
   g. Performance management
   h. Compensation
   i. Communication

2. To study employee perception of the effect of HR interventions in areas specified in objective one.

3. To make recommendations for the role of HR and their interventions post-merger.
1.7 Operational Definitions of Terms

1) **Strategic Stake:** Investment made by a strategic investor with the intention of having a presence in its business and not for the purpose of acquiring management control of the company. (Subramanyam, 2008)

   Strategic stakeholders do not normally look for majority stakes or to dislodge the existing management of the company in which stake is acquired but sometimes retain certain important management rights to protect their minority rights. (Subramanyam, 2008)

2) **Minority Stake:** A shareholding of less than 50 per cent of a company's equity capital which is not a controlling stake. A parent company that has less than 100 per cent ownership of a subsidiary must deduct the earnings (or losses) attributable to minority shareholders (called minority interests) in its profit and loss account. (Financial Times - Lexicon)\(^{20}\)

3) **Majority stake or Majority interest:** A shareholding of more than 50 per cent of a company's equity capital. (Financial Times - Lexicon)\(^{21}\)

4) **Controlling Stake/Interest:** In most cases, ownership of more than 50 per cent of a company's voting stock, though a controlling interest can be less than 50 per cent if there are many other shareholders and all their stakes are relatively small. (Financial Times-Lexicon)\(^{22}\)


\(^{21}\) ibid

\(^{22}\) ibid
5) **Acquisition:** Acquisition refers to a situation where one firm acquires another and the latter ceases to exist. An acquisition occurs when one company takes controlling interest in another firm or its legal subsidiary or selected assets of another firm. (Machiraju, 2003)

6) **Merger:** Merger is a broad term and it denotes the combination of two or more companies in such a way that only one survives and the other is dissolved. (Machiraju, 2003)

7) **Takeover:** In a takeover, seller’s management may oppose the acquisition involving two willing parties or merger but buyer makes a direct bid to seller’s shareholders to acquire seller’s shares and thus gain control of the seller’s company. (Machiraju, 2003)

8) **Cross-border Acquisition:** Cross border acquisitions denote transactions where a company in one country acquires, either directly or indirectly, a controlling interest in a company in another country. (Financial Times-Lexicon)

9) **Domestic Acquisition:** The acquisition in which headquarters of the acquired and acquiring firm are in the same country. (Shimizu, A., Vaidyanath, & Pisano, 2004)

10) **Inbound Deals:** Deals where foreign company acquires an Indian company. (Vardhan, 2007)

11) **Outbound Deals:** Deals where Indian company acquires foreign company. (Vardhan, 2007)

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23 ibid
12) **Horizontal Merger:** Combination of two firms that produce the same type of goods/services. (Besley & Brigham, 2008)

13) **Vertical Merger:** A merger between a firm and one of its suppliers or customers. (Besley & Brigham, 2008)

14) **Congeneric Merger:** A merger of firms in the same general industry but for which no customer or supplier relations exist. (Besley & Brigham, 2008)

15) **Conglomerate Merger:** A merger of companies in totally different industries. (Besley & Brigham, 2008)

16) **HR:** The policies and practices involved in carrying out the “people” or human resource aspects of a management position, including recruiting, screening, training, rewarding, and appraising. (Dessler, 2008)

17) **HR Interventions:** The set of procedures, policies and activities enacted or carried out to address human resources related issues or changes in the system.

18) **Post-merger Integration:** The making of changes in the functional activity arrangements, organisational structures and systems, and cultures of combining organisations to facilitate their consolidation into a functioning whole (Pablo, 1994).

19) **Merger waves:** Historical periods of increased merger or acquisition activity (Marks & Mirvis, 1998).

20) **Top-Level Management:** The first level of management is called top-level management. Top management is made up of senior-level executives of an organisation, or those positions that hold the most
responsibility. These top managers are responsible for setting the overall direction of a company and making sure that major organisational objectives are achieved.  

21) *Middle-Level Management:* The second layer of management is called middle-level management. This level of managers report to top management and serve as the head of major departments and their specialized units. Middle managers serve as a liaison between top managers and the rest of the organisation from a very unique standpoint.  

22) *Bottom-Level Management:* The third and final layer of management is called bottom-level management. Bottom-level managers work most closely with the greater workforce and hold a much more interpersonal role than any of the other levels of management. Bottom level management are also called Line-management. In the management cadre they have the lowest levels of experience.  

### 1.8 Assumptions

There were two assumptions in this study:

(a) The first assumption addressed the definition and use of the terms merger and acquisition. Both transactions involve purchasing businesses. In acquisitions, one company purchases and owns another company, while mergers combine firms on a relatively co-equal basis. In reality, true mergers are rare, and the terms tend to appear interchangeably in

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25 ibid

26 ibid
literature. For the purposes of this study, the terms merger and acquisition were treated synonymously (Cartwright & Cooper, 2001).

(b) The terms ‘bottom level employees’ and ‘line level employees’ were used by companies interchangeably. The same has been followed here.

(c) Only those companies which had acquired more than 51% stake in the company were taken. This assumes that the acquiring firm has the power to change the management style and compensation structures in any way the acquiring firm’s shareholders wish.

1.9 Limitations of the Study

1. This study may be limited by the small size of the available population of human resource professionals among the companies which have undergone mergers and acquisitions in the year 2008 and 2009. Thus, a longitudinal study with a larger population size needs to be conducted for future study.

2. A second limitation was the participants’ level and degree of cooperation. Not all Senior HR Professionals with direct post-merger and post-acquisition integration experience in 2008-2009 were able or willing to disclose their complete insights or experience. Independent of the protections provided, some participants perceived their knowledge as proprietary. There were also ethical, legal, and other conflict of interest perceptions that caused some participants not to disclose all they knew or share their full feelings about the post-merger scenario.
3. Historical Memory: As the study was retrospective in nature, in many cases considerable amount of time had passed between the date of merger and the time of data collection due to which HR professionals may have failed to recollect all the past events associated with mergers and acquisitions. Similarly during the interval employee perceptions of HR interventions may have undergone significant changes as compared to their initial reactions.

4. The employee perception instrument was designed to gauge the level of employee satisfaction with HR interventions in general into various issues that crop up as a result of change accompanied with M&A. One of the limitations was the study’s inability to link employee perception to a specific intervention.