Employees' Struggles During Mergers and Acquisitions

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Abstract

Merger and Acquisition is the most effective ways to accelerate the growth implementation plan of companies. All industries have been using M&A as an aggressive strategy for growth. Merger and acquisition in is not a new concept and burst in M&A has given further space to companies to look for integration for their growth, market coverage or any other strategic requirement. In today's globalized economy, competitiveness and competitive advantages have become the buzzwords, for corporate around the world. Corporate restructuring has gained considerable importance all over the world because of intense competition, globalization and technological changes and in this context mergers and acquisitions (M&A) are being increasingly used the world over, for improving competitiveness of companies through gaining greater market share, broadening the portfolio to reduce business risk, for entering new markets and geographies, and capitalizing on economies of scale etc. Mergers are important corporate strategy actions that, among other things, aid the firm in external growth and provide it competitive advantage. This area has spawned a vast amount of literature over the past half a century, especially in the developed economies of the world. India too has been seeing a growth in the number of mergers over the past one-and-a-half decades since economic liberalization and financial reforms were introduced in 1991.

Keywords- Merger & Acquisition, Stress, Emotional impact, HR, Culture, Communication

Introduction

The decision to invest in a new asset would mean internal expansion for the firm. The new asset would generate returns raising the value of the corporation. Mergers offer an additional means of expansion, which is external, i.e. the productive operation is not within the corporation itself. For firms with limited investment opportunities, mergers can provide new areas for expansion. In addition to this benefit, the combination of two or more firms can offer several other advantages to each of the corporations such as operating economies, risk reduction and tax advantage. Today mergers, acquisitions and other types of strategic alliances are on the agenda of most industrial groups intending to have an edge over competitors. Stress is now being made on the larger and bigger conglomerates to avail the economies of scale and diversification. Different companies in India are expanding by merger etc. In fact, there has emerged a phenomenon called merger wave. (Soni, 2016)

The terms merger, amalgamations, take-over and acquisitions are often used interchangeably to refer to a situation where two or more firms come together and combine into one to avail the benefits of such combinations and re-structuring in the form of merger etc., have been attempted to face the challenge of increasing competition and to achieve synergy in business operations.

In M&A acquired company deliberately delivers its Assets and Liabilities in the hands of acquiring company. Many companies choose to select integration with another entity to safeguard its business from downfall. Moving forward with M&A with successful similar business is a winning strategy. 10 The combined M&A synergy of two companies is most suitable for the demand of the market and its stakeholders. The impact on shareholder may be negative or positive. M&A's provide tremendous opportunities for companies to grow and add value to stake holder's wealth. M&A's increase value and efficiency and thereby increase holders value. M&A's is a generic term used to represent many different types of corporate restructuring exercises Corporate executives foresee an acceleration of Merger and Acquisition activity in 2018 Technology and digital strategy being considered as an important factor for deals being pursued (Ansari & M.Mustafa, 2018)

Companies come and go. Chief Executive Rise and fall, Industry Sector Wax and Wane, but an outstanding feature of the past decade has been the rise of business combinations, which may take forms of mergers, acquisitions, amalgamation and takeovers are the important features of corporate restructure changes. They have played an important role in the external growth of a number of leading companies world over. Globally mergers and acquisitions have become a major way of corporate restructuring and the financial services industry has also experienced merger waves leading to the emergence of very large banks and financial institutions. The key driving force for merger activity is severe competition among firms of the same industry which puts focus on economies of scale, cost efficiency and productivity. (Gandhi, Chhajer, & Mehta, 2018)

Mergers and acquisitions

To give a basic understanding of the issues and concepts that relate to M&A's, this paper presents a brief overview of some concepts related to mergers and acquisitions that we get to hear in media every day

Merger

A merger is a combination of two or more businesses into one business which may or may not lead to the emergence of a new entity. Thus, a merger can take place by the way of absorption or by the way of consolidation. Merger by the way of absorption means coming together of two or more organizations where one of the organization loses its identity and the other survives, with their combined assets, liabilities, loans, and businesses. Amalgamation is the term used for consolidation in India. Consolidation involves the creation of a new organization by coming together of two or more organizations where the merging organizations lose their identity to form an entirely new organization with their combined assets, liabilities, loans, and businesses (Godbole, 2013). Coming together of Holcim and Lafarge to form LafargeHolcim, a global cement giant is the best example of the merger by consolidation. The terms merger and acquisition are used as synonyms in literature but there is a thin line of difference between the two.

Acquisition

The acquisition is a process through which the acquiring company gets a controlling interest in the share capital of the acquired company. In acquisitions, there is a change in management of the acquired firm but both the firms retain their separate legal identity (Godbole, 2013). Acquisitions can be friendly as well as hostile. Hostile acquisitions are termed as takeovers. Acquisitions usually take place within firms of different sizes. Usually, big firms are said to have acquired small firms. But Tata Steel created a history by acquiring Corus Group of USA which was almost ten times in size as compared to Tata Steel.

Theories/ideologies in merger and acquisition literature

Over time, various theories have been developed for mergers and acquisitions. Trautwein (1990), has summarized seven major theories of mergers and acquisitions (refer Table 1). Out of these theories first four are in the favor of the shareholders of the acquirer company. The next, i.e. Empire building theory, relates to the managers of the acquirer organization. Process theory considers a merger to be an outcome of processes and disturbance theory considers a merger to be a macroeconomic phenomenon. Mergers can also be grouped as per the motives as mergers by rational choice.

- **Monopoly Theory:** This theory explains that M&A's are undertaken to achieve greater market share and market power and this can be achieved through horizontal mergers and acquisitions.
- **Efficiency Theory:** This theory revolves around synergic effect. It is assumed that pooling of resources will help both, acquiring as well as acquired company to achieve financial synergy, operating synergy and management synergy.
- **Raider Theory:** This theory is followed by unlisted companies. It fulfills the requirement of cash-needy companies and the acquirers get the controlling stake at a much lower valuation.

• **Valuation Theory:** This theory considers merger as an investment plan for the acquirer. It is perceived that acquirer has better information about the target as compared to the stock market and such information will be reflected in target's bid.

• **Empire Building Theory:** This theory is in favor of the expansion of empire rather than creating wealth for the shareholders. According to this theory, the focus of managers is to maximize their own utility.

• **Process Theory:** This theory considers a merger to be an outcome of processes and not to be an outcome of rational choices. The processes are considered to be governed by organizational routines, political powers and the information processing capabilities of the organization.

•**Disturbance Theory:** According to this theory, mergers are caused by economic disturbances and result in merger waves

Types/Kinds of merger:

- **Horizontal Mergers**:- Also referred to as a 'horizontal integration', this kind of merger takes place between entities engaged in competing businesses which are at the same stage of the industrial process. A horizontal merger takes a company a step closer towards monopoly by eliminating a competitor and establishing a stronger presence in the market. The other benefits of this form of merger are the advantages of economies of scale and economies of scope.
- **Vertical Mergers:-** Vertical mergers refer to the combination of two entities at different stages of the industrial or production process. For example, the merger of a company engaged in the construction business with a company engaged in production of brick or steel would lead to vertical integration. Companies stand to gain on account of lower transaction costs and synchronization of demand and supply. Moreover, vertical integration helps a company move towards greater independence and self-sufficiency. The downside of a vertical merger involves large investments in technology in order to compete effectively.
- **Congeneric Mergers:-** These are mergers between entities engaged in the same general industry and somewhat interrelated, but having no common customer-supplier relationship. A company uses this type of merger in order to use the resulting ability to use the same sales and distribution channels to reach the customers of both businesses. (V, 2000)
- **Conglomerate Mergers:-** A conglomerate merger is a merger between two entities in unrelated industries. The principal reason for a conglomerate merger is utilization of financial resources, enlargement of debt capacity, and increase in the value of outstanding shares by

increased leverage and earnings per share, and by lowering the average cost of capital. (Mantravadi, 2008). A merger with a diverse business also helps the company to foray into varied businesses without having to incur large start-up costs normally associated with a new business.

- **Cash Merger:-** In a typical merger, the merged entity combines the assets of the two companies and grants the shareholders of each original company shares in the new company based on the relative valuations of the two original companies. However, in the case of a 'cash merger', also known as a 'cash-out merger', the shareholders of one entity receive cash in place of shares in the merged entity. This is a common practice in cases where the shareholders of one of the merging entities do not want to be a part of the merged entity.

Types/kinds of acquisitions

Friendly takeover. Also commonly referred to as 'negotiated takeover', a friendly takeover involves an acquisition of the target company through negotiations between the existing promoters and prospective investors. This kind of takeover is resorted to further some common objectives of both the parties.

Hostile Takeover: - A hostile takeover can happen by way of any of the following actions: if the board rejects the offer, but the bidder continues to pursue it or the bidder makes the offer without informing the board beforehand.

Leveraged Buyouts: - These are a form of takeovers where the acquisition is funded by borrowed money. Often the assets of the target company are used as collateral for the loan. This is a common structure when acquirers wish to make large acquisitions without having to commit too much capital, and hope to make the acquired business service the debt so raised.

Bailout Takeovers: - Another form of takeover is a 'bail out takeover' in which a profit making company acquires a sick company. This kind of takeover is usually pursuant to a scheme of reconstruction/rehabilitation with the approval of lender banks/financial institutions. One of the primary motives for a profit making company to acquire a sick/loss making company would be to set off of the losses of the sick company against the profits of the acquirer, thereby reducing the tax payable by the acquirer. This would be true in the case of a merger between such companies as well. (Monika, 2014)

Post-merger Integration

Mergers primarily result in organisational change. In some cases, the strategic focus of the merger is cost driven; in others, the anticipated benefits of the merger focus on growth expectations (Weber, Rachman-Moore and Tarba, 2011:97-192).

Issues after Merger and Acquisition

When organisations are integrated, the psychological impacts of change on individuals are not given sufficient thought. Insufficient communication all through the merger process. Employees are not kept informed amid the integration process. Even though individuals feel their occupations are in question they generally have minimal dependable data on which to base their choices (Weber et al., 2011:97-192). Representatives with various values and work styles are habitually required to cooperate with no structure for open dialogue (Weber et al., 2011:97-192). Whilst conflict is healthy, diversity of culture presents itself from different organisations of which the need for embracing such cultures is required.

Senior managers are regularly moderate in articulating the vision and mission of the new, combined organisation. In the wake of scaling down, staff are left to manage more work and have little direction in determining organisational priorities (Weber et al., 2011:99).

Ajjarapu (2004) explains that one of the fundamental reasons for the failure of a merger or acquisition is the exclusion of HR. Muncherji and Dhar (2009:415) report that human resource professionals are not included in the merger and acquisition team, which normally includes individuals from finance, IT, and other disciplines which are seen to be fundamental in making the deal work. Organisations which fail to recognise the significance of HR in their organisation and their part in the accomplishment of integration fail to achieve success (Weber et al., 2011:99).

Dixie and Nelson (2005:26) explain that low morale eventually depletes employee commitment, damages the product or service offered, and estranges the clients and customers that the business serves. Pokharna (2011) cited that "low morale goes viral in that it may begin with one disgruntled employee then extend towards a general condition, or spread from department to department and finally affect the entire organisation". Poor morale is, however, reversible (Pokharna, 2011).

Richards (2010:15) reports that mergers and acquisitions can have a detrimental impact on employee morale if the revamping of the business is not dealt with in a viable manner. Amid any merger or acquisition exercise, there are no less than two groups of employees involved, frequently originating from organisations with unmistakably extraordinary cultures and styles. Taking in another culture can be challenging, yet is particularly so when employees are confronted with instability about what the future may hold or feel that their occupations are in jeopardy. Pokharna (2011:20) further adds that amid a looming or a materialised merger and acquisition, the workforce may abruptly feel disengaged, bringing about absenteeism or employees stopping their occupations in these organisations. Such dissatisfaction adversely influences employee efficiency and yield level. Ineffective communication additionally strains the business representative relationship and decreases staff morale.

What has been noticed, by Holtom (2008:237) is that massive downsizing and layoffs occur during mergers and acquisitions, which leave a lasting impact on the workers that get fired, and a severe state of trauma for those left behind. Not only are there quantitative impacts associated with employee turnover, but the quality of personnel leaving an organisation is also important. According to Holtom, Mitchell, Lee and Eberly (2008:237), employee turnover represents more than a monetary loss. Often those employees who leave the organisation are the most esteemed workers. New employees must begin the learning process at the base of the quality and productivity curve, which thus directly affects the organisation's bottom line and its customer service, in particular.

Richards (2010:17) mentions that there are 3 areas that impact employees during mergers and acquisitions, namely: stress, fear of job loss, and competitiveness. Change is difficult for workers, globally, particularly if they are not part of the decision making processes. Mergers and acquisitions can influence troublesome environments within the workplace. Should this not be dealt with effectively, there could be uproars that could cause disturbances. Organisations are encouraged to share as much data about what is going on and how the progressions will influence singular workers, as they can.

Whenever at least two organisations combine, culture clash is unavoidable. Rarely do two associations have a similar culture. As these groups become acquainted with each other there will unavoidably conflict or misfortunes on both sides. Employees may fear losing their jobs or losing openings that they once in the past had. This fear can contrarily affect productivity and may even outcome in workers leaving the organisation to look for jobs somewhere else. It is vital for organisations and their directors and HR staff to recognise this and to provide opportunities employees to become more acquainted with each other, to openly address concerns, and to cooperate towards the creation of another culture that will combine the best of both worlds.

At the point when employees are worried about their own professional stability they will probably end up noticeably focused with others and this intensity can bring about conflict, sometimes even violence. During mergers and acquisitions, it is important for managers and Human resource experts to be aware of indications of negative rivalry and to guarantee that representatives are being kept informed about effects on their jobs and their prospects with the organisation. While some opposition is great, rivalry is bad when it creates strain and negative clash in the organisation.

Conclusion

Mergers and acquisitions are fast growing globally. Motive of this paper is to clarify basic concepts related to mergers and acquisitions. The leaders of mergers and acquisition must not focus on productivity to the extent that they do so at the expense of the employee. Change management principles must be applied to align employees to productivity. Leaders should endeavour to create a more culturally diverse environment that facilitates a more cohesive interaction between the managers and their workers and define a more strategic vision that encompasses evolutionary offerings towards future technologies rather than bringing the future in today.

Mergers and acquisition must incorporate the cultural elements of change management within the new establishment to ensure that the human elements of these mergers are catered for. In the merger discussed in this study, for example, teambuilding workshops, seminars, and even courses should have been facilitated so that the manager could get a better understanding of his team's capabilities and so that the team of employees could have had the opportunity to better understand their manager. Both parties in the merger need to work together to drive and maintain the business that they currently have, so as not to create doubts in the minds of their customers. This will help the new establishment to realise its strategic objectives. Managers of mergers ought to be aware of these impacts and work with their employees so as to minimise the exodus of employees. Mergers have been used by the organizations as one of a strategy to grow externally. But, it is a mistake to expect immediate positive results from a merger. Mergers may face hindrances from within as well as from outside the organization. Always care, caution, guidance, and direction at each level and moreover post-merger feedback and corrective action is the key to success. Due diligence is the ultimate key to success in mergers and acquisitions.

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