



# Human Resource Management in International Mergers & Acquisitions

N. Nandini<sup>1</sup>

## Abstract

International Mergers & Acquisitions are otherwise known as cross border mergers & acquisitions. Human resource is an important aspect to be kept in mind when a company goes in for merging with a company or acquiring another company. The rules laid down are complex and gains more importance when it is happening between companies in two different countries. Due to this reason many companies wanting to go in for mergers or acquisitions entail the services of a consulting firm. A Human Resource consultancy firm plays an important role in addressing risks and challenges relating to human resource. This paper is an attempt to study on the concept of cross border mergers and acquisitions and the various aspects the Human Resource Consultancy firms need to focus on in such situations.

## Keywords

Cross border Mergers, Human resource management, Cultural integration.

<sup>1</sup>Department of Bank Management, Ethiraj College for Women, Chennai-600008, Tamil Nadu, India.

Article History: Received 01 November 2020; Accepted 10 January 2021

©2021 MJM.

## Contents

1	Introduction .....	64
2	Literature review.....	65
	References .....	66

## 1. Introduction

A cross border merger is an arrangement between an Indian and a foreign company. In India only inbound mergers were allowed. It was only in 2013 that outbound mergers were allowed after the enactment of the new law, Companies Act, 2013, with certain restrictions. The ministry also brought into force the Companies Amendment Rules, 2017, for regulating the cross-border mergers framework. In 2017, the Reserve Bank of India, issued draft regulations to govern cross-border mergers. This exercise brought about the establishment of the Foreign Exchange Management (Cross Border Merger) Regulations, 2018. The new regulations reduced uncertainty and has simplified business in India. Such a move helped in diversifying, restructuring and consolidation. It provides Indian companies access to foreign markets.

According to Society of Human Resource Management, 70 to 90 percent of the mergers and acquisitions fail, though they are financial in nature, it is largely due to HR related activities. The society has listed out the various factors which are as follows

- Incompatible Cultures
- Management Styles
- Poor Motivation
- Loss of Key Talent
- Loss of Trust
- Uncertainty

Thus human resource department plays an important role in making the merger or acquisition work. The Society of Human Resource Management has stated that there are few factors that needs to be focussed on during a merger or acquisition, which are

- Creation of new policies to guide the new organization
- Retention of key employees
- Employee selection and downsizing
- Development of compensation strategies
- Creation of a comprehensive employee benefits program

Therefore the HR department of both the companies should formulate a strategy for the smooth processing of the merger.

## 2. Literature review

Siddhartha S Brahma and Kailash B L Srivastava (2007) conducted a study on five Indian acquisitions to understand the role of communication, executive retention and employee stress on acquisition performance. The authors identified that communication and executive retention had a positive impact, but employee stress had a negative impact on acquisition performance. The authors also found out that integration moderated communication and executive retention, whereas the relationship between employee stress and performance was not moderated by the degree of integration.

Julia R. Galosy (1990) in her article emphasizes on the importance of managing people in a merger. According to the author, people are a big part of the process and opines that HRD has an important role to play in helping employees adjust. The author in her article lists out the losses that employees face when companies merge. The author also discusses about the strategy adopted when two giant companies merged. She finally concludes the article by stating that most of the time the human aspect is overlooked when employees are dealt with, which needs to be looked into. She mentions human factor as one of the leading causes of failure in a merger or acquisition and that the HRD function can make a great contribution to the process and to a successful combination from both a human and a business perspective.

Laura Empson (1994) has given an extended review on the books written by Haspeslagh, Phillippe C. and Jemison, David B., and Buono, Anthony F. and Bowditch, James L. The author opines that Haspeslagh and Jemison's basic ideas on acquisitions are very simple and powerful. She states that their approach is structured and very original. She discusses about the authors argument that an acquisition's primary purpose should be to create value by enhancing the strategic capabilities of the target and or the acquiring firm. She also discusses about the authors secondary theme in their book which is about having clear motives for the acquisition which will determine the appropriate form of post-acquisition combination. She finally states the drawbacks to be the authors failure to reflect the variety of individual experience within organizations and the overly structured writing. The writer opines that the book gives a false impression of certainty. The writer then goes on to compare the book written by Buono and Bowditch with the book written by Haspeslagh and Jemison. The writer feels that Buono and Bowditch have avoided the mistakes the other two authors have done in their book. She states that Buono and Bowditch book scope is narrower but they too emphasize the process of acquisition. The authors in their book opine that by neglecting the human dimension, managers can destroy the value of the acquired firm.

The authors further state that the degree of stress depends on the interpretation of the situation by the individual and each individual can perceive differently. Thus managers should identify workable strategies according to the situation. The writer states that Buono and Bowditch's ideas are powerful, but their research is not exhaustive. The writer further opines

that the authors have only tried to illustrate their theories through the limited studies conducted rather than prove them. The writer finally concludes by stating that in both the books the authors emphasize the fact that human resource function is neglected by senior managers involved in acquisitions. And further states that the insights provided by the authors in their books should not be confined within human resource departments or business schools if we need to see a high success rate in this area.

Ruthe V. Aguilera and John C. Dencker(2004) in their paper examine how cross-border mergers and acquisitions have become a dominant mode to attain growth and competitive advantage. The authors in this paper try to address the neglected human side of mergers and acquisitions by providing a strategy for linking the mergers and acquisitions strategy and human resource management strategy. The authors further examine the contingencies in national contexts that influence outcomes in the merger process. Further based on empirical evidence the authors try to highlight the role of human resource management in terms of resources, processes and values which are big influencers in the integration stage of cross-border merger and acquisitions.

Yijun Xing and Yipeng Liu(2016) in their paper have concentrated on Chinese mergers and acquisitions. They have examined the sociocultural integration in merger and acquisitions and human resource management involvement in the acquisition of state owned enterprises by privately owned enterprises in China. They have used qualitative data from three merger and acquisition case studies. They have studied on issues relating to firm ownership structure, party committee, leadership and value orientation. A comparative study has been done to highlight the role of various factors in shaping the sociocultural integration process in merger and acquisitions. Identity theory has been used to explain the leader's identity work in linking human resource management activities, existing or emerging, that are important for the integration process. The authors identify that leadership alone is not enough to achieve sociocultural integration but mergers and acquisitions require a combination of leader's identity work and appropriate human resource management activities to enable and facilitate the process and integration.

The above studies clearly indicate the importance of human resource in successful mergers and acquisitions. It gains more importance when the integration is between two different cultures, which is the case in a cross border merger and acquisition. In such a scenario the role of HR professionals is more challenging. HR professionals are often involved in the process as advisors to the management, gathering relevant data, identify conflicts or HR challenges between the merging companies, device termination packages, integration of company cultures etc.

Mergers and acquisition process goes through various stages like identifying buyers, securing third party services, preparing for the transaction, negotiation, valuation and final agreement and finally the implementation. The HR profes-



sional role becomes very important in the implementation stage. A lot of uncertainty exists amongst the work force when two different companies are integrating. The longer the period of uncertainty, sure is the failure of the integration process. At this stage in most of the cases the best and brightest leave the organization. This can be disastrous in terms of value erosion for the acquiring firm. Thus it becomes imperative to involve the HR professional before the deal is finalized. He needs to analyze the policies, plans and programs to ensure compliance with prevailing employment laws and regulations.

Thus it becomes all the more imperative to involve an HR consulting firm who can address HR related risks and challenges in an organization undergoing mergers and acquisitions. The various aspects over which a HR consulting firm should focus during the integration process are

- Due diligence
- Current organizational culture and post-merger cultural assessment
- Cultural organizational structure
- Alignment of leaders and leadership styles in the organization
- Structuring of leadership teams
- Designing staffing models
- HR planning as per legal requirements of new country
- Planning and implementing techniques for change management
- Benchmark retention

Merger and acquisition activity is going to continue all over the world. There is scope for significant positive contribution to be made by HR and its professionals along with the managers and employees. Care needs to be taken in identifying whether a merger or acquisition is essential and if yes it should be beneficial to the employees, shareowners, communities, suppliers and customers involved in the merger or acquisition activity.

## References

- [1] Fred Bereskin, Seong K. Byun, Micah S. Officer, and Jong-Min Oh, The Effect of Cultural Similarity on Mergers and Acquisitions: Evidence from Corporate Social Responsibility, *Journal of Financial and Quantitative Analysis*, 53(2018), 1995-2039.
- [2] John W. Hunt and Stephen Downing, Mergers, acquisitions and human resource management, *International journal of Human Resource Management*, EBSCO.
- [3] Jose-Luis Rodriguez-Sanchez, Eva-Maria Mora-Valentin and Mara Ortiz-de-Urbina-Criado, *Successful Human Resources Management Factors in International Mergers and Acquisitions*, Administrative Sciences, MDPI, 2018.

- [4] Julia R. Galosy, *The Human Factor in Mergers and Acquisitions, Training & Development Journal*, 1990, copyright 2003 EBSCO Publishing
- [5] Kanika, Nancy, Cross Border Mergers and Acquisitions by Indian firms – An Analysis of Pre and Post Merger Performance, *International Journal of Management & Information Technology*, 4(2)(2013).
- [6] Laura Empson, Extended review: human resource management implications of mergers and acquisitions, *The International Journal of Human Resource Management*, 5(3)(1994).
- [7] Raghu Bommaraju, Michael Ahearne, Zachary R. Hall, Seshadri Tirunillai, and Son K. Lam, The Impact of Mergers and Acquisitions on the Sales Force, *Journal of Marketing Research*, LV(2018), 254-264
- [8] Randall S. Schuler and Susan E. Jackson, HR issues, activities and responsibilities in mergers and acquisitions, HR issues, Management and Corporate Citizenship programme, *Job Creation and Enterprise Development Department, International Labour Office*, Geneva
- [9] Ruth V. Aguilera and John C. Dencker, The role of human resource management in cross border mergers and acquisitions, *International Journal of Human Resource Management*, 15(8)(2004), 1355-1370.
- [10] SHRM, *Managing Human Resources in Mergers and Acquisitions*, 19, 2016.
- [11] Siddhartha S Brahma and Kailash B L Srivastava, *Communication, Executive Retention and Employee Stress as Predictors of Acquisition Performance: An Empirical Evidence*, The ICFAI University Press, 2007.
- [12] Timothy Kiessling and Michael Harvey, The human resource management issues during an acquisition: the target firm's top management team and key managers, *International Journal of Human Resource Management*, 17(7)(2006), 1307-1320.
- [13] Yijun Xing and Yipeng Liu, Linking leader's identity work and human resource management involvement: the case of sociocultural integration in Chinese mergers and acquisitions, *The International Journal of Human Resource Management*, 27(20)(2016), 2550-2557.

\*\*\*\*\*

ISSN(P):2319 – 3786

Malaya Journal of Matematik

ISSN(O):2321 – 5666

\*\*\*\*\*

