Challenges in Retaining Talent Post Merger & Acquisition in India: A Literature Review

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ABSTRACT: India is considered as growing economy where organizations are diversifying their portfolio either by acquiring or merging with similar entities. Despite the fact that organizations look merger and acquisition as a growth strategy model but the reality is that most the employees view such strategy as a threat for their career progression. The purpose of this research is to highlight the challenges in retaining talent post-Merger & Acquisition in India. During the M&A, it is one of the key objectives is to retain talent of an organization. One of the most critical issues facing organizations today is how to retain the talents they want to keep. Considering the criticality of M&A as a strategic tool, the methodology used for this research was to study the research conducted by firms as well as researchers in the line of talent retention post M&A. The literature review method was aimed at examine the perspective of HRs in terms of retaining talent of their organization post M&A. From the study conducted, it was found that the major challenges faced in retaining talent post-merger and acquisition are lack of employee motivation, lack of shared vision, misaligned structures, management leadership clash, cultural mismatch, poor communication and poor change management. The limitation of this research paper is that the challenges faced by organizations post-merger and acquisition are focused to talent retention only. According to our extensive research and understanding, various factors are identified which exhibit a holistic viewpoint on the challenges faced in retaining talent and research findings in this report will help to enlighten the company’s leaders about effective human management program centred on key talent, ultimately leading to successful retention of their niche talents post M&A in India.

KEYWORDS: Talent Retention; mergers and acquisitions, Employee Motivation, Cultural Mismatch

I. INTRODUCTION

Mergers and acquisitions (M&A) present both challenges and opportunities for the leadership group who is responsible for driving the companies through these executions. M&A exercises drive remarkable change inside company and can generate complex circumstances, particularly with regards to administering staff transition. After all, sustaining it right with organizations’ most valuable resource — Talent (Employee) — is always a critical element to most of the associations.

The decision making process of merger and acquisition deals are intense and critical for both the parties. The due diligence group is emphasized around investigating financials, negotiating various terms, and plotting techniques. It is alluring to mitigate one of the greatest prospect areas — (HR) — into a data crunching activity concentrated on determining potential risks related to finance and synergy opportunities, for example, increasing headcount, reductions to produce benefit and compensation saving. Talent retention strategies and costs must be considered into the policy. Staffs with critical information and abilities must be recognized and strategies produced for retaining them on long term basis. Otherwise, you may lose key talent exactly when you require them most.

In one of the business conferences, Prabir Jha (Global Chief People officer, Cipla) said that Quality of talent is a key part of M&A diligence. Various bench strength of talent drives the future prospect for a synergized association. If any organization has an extensive talent erosion risk, a lot of the assets can be dissolved overnight. Such key individuals’ issues are getting annoyed in a very competitive deal environment highlighting truncated courses of events, less access to data and progressively activist shareholders.
A. OVERVIEW OF LARGE SCALE M&AS IN INDIA:
A recent trend of Indian organizations acquiring overseas organizations was a strategic move in business world however the present circumstances are different. The circumstance about Indian organizations wandering abroad and acquiring foreign organizations has turned out to be very common. Some of the remarkable deals which have made India position among top player in the global front was the merger of Tata Steel with Corus Group, merger of Hindalco with Novelis which is a metal giant, Videocon and Daewoo Electronics Corporation. In recent years, various famous M&As such as Flipkart-Myntra, Asian Paints- EssEss Bathroom Products, RIL- Network 18 Media, Merck- Sigma Deal, Ranbaxy- Sun Pharmaceuticals, TCS- CMC and many more. The pharmaceutical sector has also shown a number of big M&A deal in India such as Dr. Reddys Labs acquired Betapharm from Germany. The famous M&A origination from India itself has valuation of close to $21.500 million. While during 2015, the valuation of M&A was $26.3 billion while in year 2014 it was around USD 29.4 billion.

B. OBJECTIVES:
- To highlight the challenges in retaining talent post-merger & acquisition in India.
- To provide recommendations on how to deal with organizational human resources and retaining talent during corporate restructuring
- To examine various HR challenges during the process of mergers and acquisitions

II. REVIEW OF LITERATURE

Researchers have tried to investigate various aspects of M&A in India (Nishith¹, 2010). As for predicting the targets of M&A and identifying the motives, the literature is scarce. Few papers have tried to predict the targets and determine the characteristics of acquiring firms like on manufacturing industries, financial sectors and (Gubbi², 2010). All these papers have adopted theories and models from west into Indian context directly to validate their hypothesis.

Siddharth³ and Gopi³ (2009) examine the effect of centralization of possession on firm performance and productivity. From one viewpoint, grouping of possession that, in turn, moves management control in the hands of a key financial specialist, reductions of organization issues connected with distributed ownership. While on the other side, it might prompt entrenchment of senior management which might be conflicting with the goal of profit maximization. Their paper focuses at the effect of M&A on profitability of organizations in India, where the corporate scene is overwhelmed by family-claimed and aggregate associated organizations.

Eilen⁴ and John⁴ (2004) talk about the qualities of both the acquirer and the target organizations in India between the years 1993-2004. Utilizing logic regression model, they reasoned that the acquirer firms have higher income, higher PE proportions, higher book value, higher fluid resources, and lower debt to total resources proportion which are measurable critical when compared with the target organizations. The acquired firms were smaller in revenue, had lower PE proportions, lower profits payout, and lower development in deals and resources. The acquirers had higher cash flows and lower influence which, on a basic level, run with the organization philosophy.

Mohibullah⁵ (2009) in his paper, "Effect of culture on mergers and acquisitions: A hypothetical structure" has talked about four principle issues identified with cultural conflicts are highlighted: ambivalent and cultural issues inside the consolidated element, legitimate management of social incorporation, securing and hierarchical society and improper cultural integration process among the merged firms. The result of his paper was that associations need to build up a framework before mix, which must support appropriate correspondence among representatives from top to downwards. This methodology will prompt reducing the gravity of ambiguities found among the staffs amid the merger procedure.

Daniel⁶ (2010) in her paper discussing about corporate's duty to staffs during a merger: organizational value and staff loyalty. She has talked about that how staff perspectives of the merged firm vary by their pre-merger foundation and to describe the effect of the inadequately perceived organizational goodness on staff's value, emotional reaction to the merged firm including fulfillment, psychological contract, job stability and integrity. She has observed that view of organizational empathy; warmth and uprightness were emphatically related with worker loyalty, job stability, satisfaction and emotional attachment.
Most of the article has added to distinguishing what successful organizations with M&A experience are doing in their top management of individuals. Likewise to distinguish key HR Practices that separate top performing from non-top performing organizations with full combination three years after acquisition. The study has affirmed that fundamentally different strategic HRM practices are embraced by effective organizations. Taking care of HR issues during the integration procedure is a hard and critical task that can improve HR Practices and contribute decidedly to the organization’s outcomes (Sammer15 and Miller15, 2005). Human resource experts can play a critical role during the due diligence process required in an M&A process. Apart from their transactional role as a contributor in the survey, assessment and integration of staff benefit policies; they can likewise help with the planning of workforce needs as far as talent pool and their role, in the evaluation and administration of legal liabilities. Strategic planning and early inclusion of HR teams during the M&A procedure can move toward boosting the potential for achievement (Linda27, 2000).

A. M & A PERFORMANCE EVALUATION:
The performance of merger and acquisition has been analysed from the data collection of various sources. Out of that most data belongs from the financial functions. The primary emphasis is on a definitive impact of a merger on the stockholders of the acquiring and target organization, and available offer, profitability, profits or price-cost margins. As indicated by Paul13 (2001) in one of his paper that one basic strategy for looking at the impacts of a merger or acquisition is the stock market's response to the event.

The paper by Fischer10 (2008) reviewed the post-merger functioning performance synergies of acquiring organizations during the time period 1999-2002 in India. It was found that the post-merger growth, resources turnover and dissolvability of the acquiring organizations, overall, demonstrated no change when equated and pre-merger values. It was seen that the acquirer’s industry adjusted profitability declined from the third year of acquisition. Results also indicated that the post-merger operating efficiency of companies, on average, was lower than that of the industry average. Each merger, acquisition, or strategic organization together ensures to make value from some sort of synergy, yet measurements demonstrate that the advantages that look so great on paper frequently don’t materialize (Gupta20 and Gerchak20 2002). The question in this way is presently activated what causes such disappointments as mergers aren’t generally fruitful nor do they understand quality or synergy. The following are highlights the explanations behind disappointment in mergers and acquisitions. It highlights the neglect of HR issues particularly at the integration process.

B. REASONS OF MERGER FAILURES:
A study done by Bailey26 (2001) found that the HR experts were excluded in the mergers and acquisitions group. The group just contained workers from the account, IT and different orders. Associations while choosing to combine or get acquire the money related and legal aspects, yet they by one means or another neglect to investigate the HR part of the associations. Many organizations are exercising merger and acquisition process to acquire the talent battle, as they seek to accumulate and strengthen their talent pool. Yet, while talent-focused acquisitions may look great on paper they are often daunting to execute. Retaining, managing, and developing the talent that comes with an acquisition can create different management challenges that may frustrate new employees, integrated organizations and, very possibly, customers. Talent development is particularly relevant given the pace at which the technology industry evolves and the fact that innovation is a key driver of many workforce challenges and trends. Large investments in new technology, products and applications may make the difference between achieving cutting-edge margins or huge losses. This innovation imperative can create enormous “right skills at the right time” pressure on workforce recruiting and skills development.

III. CHALLENGES IN RETAINING TALENT POST-MERGER AND ACQUISITION

The employee perception of post-merger HR interventions into the various issues arising out of mergers or acquisitions was ascertained through the multiple talent retention survey and articles. After thorough analysis of various reports, following challenges are listed down in retaining talent post M&A:-
A. LACK OF SHARED VISION:
The integration of organizations vision is significant from M&A point of view. It is not as simple as to design any module. An M&A with a refined objective and pragmatic vision lead to successful integration process in terms of high return of shareholder value. New vision should be comprises of strategic growth for both the organization as well as high retention of talent which would be future leaders for the firm. Visions are borne from competent objectives, usually enhanced by visionary executives in multiple discussions and meetings. The issue is that several concepts look encouraging at the primary level, yet turn out to be futile later on. During the process of M&A, Two different organizations with unique vision integrate which result in ambiguous direction for the talent. In these situations, it is really challenging for the employee to scrutinize the actual vision of the firms and it takes a very long time figure out the revised shared vision of new firm. A synergistic approach is persistently co-composed with the business leader and proper partners to adjust to the necessities and timing of the association. Every association has its own mantra and must build up its own particular Shared Vision, mission, values, sustaining strategy and procedures – Its own particular Corporate Identity.

B. MANAGEMENT LEADERSHIP CLASH:
Several management gurus have persistently on the significance of how executives can successfully oversee and inspire talent during merger and acquisition (Moffat & McLean, 2010). Therefore, it is important for the executives that they play the role of leader when it has just been publically announced about the merger and acquisition of their organization. He has concluded in one of his paper that a strategy based model is always crucial while dealing with any such integration process. Their model highlights on the stage of M&A that they characterize as the most difficult one for executives. That stage is the first in an M&A procedure and it is described by lack of data, mostly because of the requirement for approvals of management, ambiguity and uncertainty. This phase also influences both executives and employees. Officials of the acquired firm are dealt with as though they had been overwhelmed, making them feel humble and experience lost social positioning.

C. CULTURAL MISMATCH:
Cultures are usually considered as essential part of a company. Few research scholars propose that culture is to an association what personality is to an individual. As such, they recommend that cultures serve as bonding between organizational members, creating a feeling of union. Culture development is neither a phenomenon nor a planned activity. It does only depend on the thought, vision and ideas of the leaders or current executives, yet it is, to a remarkable degree, an inward response to outside goals (Pikula, 1999). Organizations involved in the merger process have different culture and it is crucial for the both entities to manage their culture which leads to either success of the merger or the failure of the merger. A firm’s culture is constituted of shared convictions and values that enable the people of the firm to get the meaning and allocate them with the guidelines for the way they behave in their firm (Davis, 1994). The value of culture is not by and large perceived inside the firms, because keys preferences and assumptions parameter and decision lead to operate at a primitive phase.

D. MISALIGNED STRUCTURES:
It refers to the process that how restructuring process was accepted by both the organization post-merger and acquisition. The future of talent is highly dependent on the restructuring model adopted by the firm. Most of the organization has not been able to realign themselves according to the pre decided strategies which result in attrition of talent from their team as well as organization. Restructuring process not only limited to change in the policies but it also involve change in reporting managers, change in clients and many more. As we all know that, a change is never desired and always feared to accept. It is the last things that an HR wants to anticipate in their organization.

E. EMPLOYEE EMOTIONAL CHANGE:
Most of the psychologists have analysed the different phase of employee emotional change pre and post M&A process. The emotional changes begin from confusion, bargaining, focus, enthusiasm, exhaustion, letting Go, crystallization and integration. Below mentioned graph has been plotted between emotional responses of the employee during the course of integration to the time period of 12 months. The initial information about M&A leads to confusion and later on disengages the staffs which results, top performers are the first who leave the organization. When talent become disengage, it takes less time for consumers and shareholders to lose the brand value and switch to other product.
F. POOR COMMUNICATION:
During the process of mergers, staffs are usually kept oblivious about the buy or sale of the enterprise. They often get the information about merger and acquisition on a less than timely basis, through the corporate grapevine or through the media communication. This can lead to a misrepresented or distorted picture of the merger's repercussions and to counterproductive exercises by staffs, which might be on edge about possible employment losses. Therefore, wherever possible, companies should aim to notify all staffs in the meantime and talk about their concerns and positive emotions likewise minimize the anxiety. This thing can built the cooperation and mutual trust among staffs furthermore gives them confidence that the new management is prepared to listen their concerns and feelings (Johnson 28, 2000).

G. POOR CHANGE MANAGEMENT:
In an M&A deal, change management is a core C-suite responsibility—from creating urgency and building buy-in with the board of directors to communicating with employees to reassuring shareholders and, of course, customers. It should be the prime responsibility of the executives to consider change management as a critical issue and design a roadmap for their team members and for the organization as well. With introducing the change management analysis in the pre-merger phase which comprises of target identification, due diligence and development strategy of the acquisition process can increase the success rate of merger or acquisition process for their organizations. There are various techniques and methods for change management, but they all address the same basic questions: What kind of specific change and organization is trying to bring and reason behind that? Who is affected by the change? How does the organization manage the change to realize the desired business benefits? Tailored communications, targeted training, and leadership engagement (both at the senior and middle-management levels) are the instruments required for managing a successful change.

IV. WAY TO RETAIN TALENT POST-MERGER AND ACQUISITION

According to the studies, it has been found that organizational change process is a challenging time for the management. Retention of talent during disruptive phase of transition has been handled by giving financial incentives to executives, high performer, and front end employee. There are various other methods by which companies can retain their talent pool regardless of any such change in the business process.

A. FINDING THE “TALENT” IN THE WORKFORCE:
During the process of M&A, it is the responsibility of the functional as well as HR manager to identify those “talent” whose retention is critical for the organization. Those “talent” may be identified anywhere in the organization: for instance, the manager of product development team in an acquired firm's R&D business unit who is nearing retirement age and no more on the organization's list of “high performers”— yet who is essential to establishing a strong product pipeline or an accountant from finance department who accountable for reinforcing the acquired firm's finance reports. Regardless of the facts that there are some employees whose performance and potential are unique. Some others are whose business knowledge, client relationships, or technical knowledge can make their retention important for the organization. When HR and functional managers have created an insightful and more comprehensive lists of key players (normally 30 to 45 percent of all staffs), they can initiate to organize teams and people for intended retention strategies—in their experience, 5 to 10 percent of the manpower.

B. BUILD EMPLOYEES’ TRUST:
Trust plays an important role in the employee retention strategies. Most of the organization designs post-merger integration process but they failed to understand that one-size retention packages don’t fit for diverse group of workforce. Rather, organizations ought to tailor retention methods to deal with the trust, mentalities and inspirations of specific staffs. In Indian organization, when senior management looked to psychology of their workforce. They have got to know that apart from incentives the next thing matters to the employee is the “trust”. It is the retention policy designed by the executives who ensure the trust and faith of the organization on their workforce. The other important parameter which helps in building trust in the organization is the “one-on-one communication”- such kind of discussions with the employees in the people oriented group, managers discussed particular concerns and talked about how the organization could add to the measures as of now set up to improve the probability of retaining these people. Few of the strategies are a revise in base pay, help with discovering schools and kindergartens for their kids, profession
guiding for their families and substitute work assignments so peoples could work at home or drive as opposed to organization change.

C. SHIFTING THROUGH THE TALENT AND MERGING THEM AS ONE:
In the process of merger and acquisition, it is obvious that there are certain overlap of the job position and roles. Multiples employee are doing the same work, now as the organizations have become single entity, there needs to be single position for one employee. A lot of organization has done the integration process with the help of job and competency based mapping where they have map the individual based on their skills, knowledge, competencies and after that align those set of skills with job requirement. During the restructuring process, some of the employees need to reshuffle their position and department also. Thus, we have to consider each employee carefully before letting one go. Prepare a checklist and thorough analysis of different steps starting from job evaluation, performance evaluations and recommendations from previous managers or employers.

D. TRAIN NEW EMPLOYEES:
When an organization merge or acquire any other firm, they not only acquire their resources but also new employees. Such employees need certain amount of counselling or training to match up their speed, environment and workflow with new firm. Investing in these talents will not only develop their knowledge and skills but also convey a message that this organization is committed about the professional growth of their workforce. These strategies build a sense of belongingness amongst the new as well as old employees also result in higher growth of new organization. According to the survey conducted by McKinsey in 2009, it was found that managers, senior executives and middle management rated five different types of non-financial incentives amongst the 6 most worthwhile motivators when the prime goal of the process is retaining talent. Best-training methods help on continuous knowledge building exercise and clear communication in each phase of the process to help peoples make perceive of the organic change in organizational.

V. CONCLUSION AND RECOMMENDATIONS

The objective of the study was to explore the role of HR post mergers and acquisitions. For those HR professionals who have never done 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 at other organisations and complete their framework and knowledge for future reference. 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. 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.

A. ESTABLISH A CAREER ARCHITECTURE THAT CLEARLY ILLUSTRATES CAREER PROGRESSION:
The blend of distinct career progression structures from legacy companies causes some predictable challenges. More than likely, employees are exposed to new management, new colleagues, and the natural paths for promotion become less clear. Consequently, it is very important to establish a career architecture that illuminates those paths and demonstrates clear opportunities for progression. The career architecture once established can then be used in discovery sessions with department leaders to understand the roles that fall within their respective organizations. Some of the examples are new career architecture, with five distinct career bands representing vertical progression through the organization. Likewise, horizontal progression of development opportunities can be defined with this model.

B. Retention Incentive Plan:
During M&A process, retention incentives scheme has been marked as an antidote for the attrition of talent. Most of the organization use financial models in which they consider a talent retention scheme and the cost for such scheme is get included as a part of the "valuation of the M&A deal". Organizations need to accept that giving such incentives to stay with the new entity is adequate to make talents stay. But, the reality is that retention incentives can only a preliminary step to strengthen the bonding to re-establishing the trust between people and new firm. Money related compensation alone won't revamp long term people faith.

C. ORGANIZATIONAL SUPPORT:
The distinguished organisational view is guided by the rule that most people’s need to feel that their company regards and reinforce them keeping in mind to stay faithful and committed, contented by their employments, and willing to put full effort. In like manner, peoples create worldwide convictions concerning the degree to which their firms merit their commitments and think about their prosperity. Companies ought to proactively make information sharing procedures that use compelling organisational communication exercises.

The literature on post-merger integration gave a lot of insights on what are the HR challenges to be handled post mergers. Though the different models on integration had a lot of similarities; there was no specific model or answer on how horizontal post-merger and acquisition integration has to be handled. Each type of merger and acquisitions is unique as it involves different degree of integration. Selecting one approach or model is difficult as there are different variables to be applied in each. The study is not benchmarking any models, however as mentioned, one of its objective is to provide a road map or checklist for the HR professionals who would be handling a merger or an acquisition in the future.

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BIOGRAPHY

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Dr. Jaya Chitranshi received her Masters and Ph.D. degree in Organizational Psychology with an MBA in Human Resource Management from the University of Lucknow, Lucknow (India). She was a UGC-Fellow and received the prestigious Kali Prasad Memorial Award for her doctoral work in the year 2005. Presently she is working as an Associate Professor in the area of HR and OB, in Symbiosis Institute of Management Studies; Pune (a constituent of SIU). Her research interests include organizational empowerment, mentorship, and new generations of organizational workforce.