
IMPACT OF MERGER ON HRM POLICIES AND PRACTICES-A CASE STUDY

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Abstract

An entrepreneurial organization may grow its business either by internal expansion or by external expansion. In the case of internal expansion, a firm grows gradually over time in the normal course of the business, through replacement of the technologically obsolete equipments and the establishment of new lines of products. But in external expansion, a firm acquires a running business and grows overnight through a variety of corporate combinations. These combinations are in the form of mergers & acquisitions, tender offers, asset acquisition, joint venture and have now become important features of corporate restructuring. Human Resource Management (HRM), being a vital part of management, has potential to make strategic contributions to the growth and development of organizations. It is concerned with the most effective planning, acquisition, motivation and utilization of human resources for the attainment of organizational goals and the continued viability and success of the organization. In the present paper an attempt has been made to analyze the impact of merger on HRM Policies and Practices of selected five Indian companies through Non-parametric Kruskal - Wallis H Test by applying SPSS Software.

Key Words: Acquisitions, Corporate Restructuring, Kruskal -Wallis H Test, Mergers.

Introduction

The financial crises of the late 1990s devastated emerging market economies and presented

considerable obstacles to achieve a sustainable recovery. Companies started to consolidate themselves in areas of their core competence and divest those businesses where they do not have any competitive advantage. It led to an era of corporate restructuring through mergers and acquisitions. India in the recent years has witnessed tremendous growth in the M&A deals. It has been actively playing in all industrial sectors. It is widely spreading far across the stretches of all industrial verticals and on all business platforms. As per Section 2(IB) the Income Tax Act 1961, generally merger means fusion of two or more companies through the direct acquisition by one of the net assets of the other or others to form a new company. When the shareholder of more than one company, usually two decides to pull the resources of the company under the common entity, merger is the result. Accordingly in a merger two or more companies combine into a single unit and lose their separate identity. This study has critically examined the implications of mergers from the perspective of HRM. In our framework of analysis; Culture, HRM Policies and Practices and the Probable reasons for merger have been considered as the three main dimensions for measuring the impact of merger from HR perspective.

Literature Review

For this purpose we have divided the past studies into two parts: the studies done abroad & the studies done in India.

Randall Schuler, Susan Jackson (2001) have examined a three-stage model of mergers and acquisitions that systematically identified several human resource issues and activities. They concluded with the role and importance of HR both at company level and HR level.

Keisha Chambers & Andrew Honeycutt (2009) have examined the impact on employee morale and turnover intention related to a mega merger between two telecommunications conglomerates. They concluded that the merger and acquisition had the greatest impact on low morale and high turnover intentions. They also found out that employee's perceptions of work related issues are also important to the organization in reducing turnover and retaining employees.

Mohibullah (2009) has studied the reasons about failure of mergers and acquisitions. Four main issues relating to the culture clashes are highlighted in this paper. Ambiguity and communication problems within the merged entity, proper management of cultural integration, the acquisitions and organizational culture, and improper acculturation process among the merged organizations are the four main issues highlighted here. The factors in this paper are based on previous literature.

Arora Ekta (2010) has examined the role of HR professionals in Mergers and Acquisitions. He concluded that it is of utmost importance to involve HR Professionals in mergers and acquisitions discussions as it has an impact on key people issues and they can play an active role in the change process by offering interventions that will help ensure a successful merger. From the above survey of literature, it is clear that few research work has been done in this area. **Thus, we observe, the area is still uncultivated and there is a gap of knowledge. Hence, bearing in mind the research gap, we have taken up our present study.**

Database and Methodology

For the second part of the study relating to the measurement of managerial performance of our sample companies in the area of HRM, primary data were collected on the important aspects of HRM by survey method based on Likert's 5 point Scale. The Likert-type scale begins with a series of statements, each of which expresses an attitude that is either clearly favourable or clearly unfavourable. We have selected Culture, HRM Policies & Practices and Probable Reasons for mergers as the major dimensions for the survey. We have taken 5 dimensions under cultural dimension namely i) Cultural differences pose a big problem in mergers ii) Adjusting with the needs of new culture and work practices is a difficult process for the employees iii) Company has to develop a proactive strategy to assimilate diverse cultures resulting from mergers iv) The cultural problem becomes more difficult in the case of cross border merger v) Development of a new culture in a post merger scenario is a long term process. Similarly our 5 statements under HRM Policies & Practices dimension are: i) Mergers lead to change in jobs with new roles and assignments ii) To cope with the new job demands retraining of the employees is necessary iii) The company should work out a scheme of planned change & development iv) There is no need for recruitment in the foreseeable future for the company undergoing mergers v) Downsizing is necessary for long term survival. We have taken the following reasons for mergers namely a) For the sake of survival b) Horizontal integration for market dominance c) Economies of Vertical integration for channel control d) Strategic benefit e) To adopt good technology f) To gain core competence and g) For financial gain and personnel power. The responses from the HR people of 5 sample companies have been expressed in terms of the following five categories: strongly agree (SA), agree (A), undecided (U), disagree (D), and strongly disagree (SD). To score the scale, the response options are credited 5, 4, 3, 2, or 1 from the favorable to the unfavorable end. For example, "strongly agree" with an extreme favourable statement would receive a score of 5, while "strongly disagree" with an extremely unfavourable statement would earn a score of

1.

Data Analysis relating to the impact of merger on HRM Policies and Practices

Human Resource Management (HRM), being a vital part of management, has potential to make strategic contributions to the growth and development of organizations. It is concerned with the most effective planning, acquisition, motivation and utilization of human resources for the attainment of organizational goals and the continued viability and success of the organization. Here, we have tried to find out the impact of mergers on HRM Policies and Practices. Here, we have presented the analytical part with the help of selected tools and techniques and presented interpretation on the basis of the results obtained. In our framework of analysis; Culture, HRM Policies and Practices and the Probable reasons for merger have been considered as the three main dimensions for measuring the impact of merger from HR perspective.

Table: 1

HR DATA OF MANAGERIAL IMPACT OF MERGERS																	
Com Cod	C1	C2	C3	C4	C5	HR1	HR2	HR3	HR4	HR5	Ra	Rb	Rc	Rd	R e	Rf	Rg
1	5	4	4	4	4	4	4	5	3	4	4	4	5	5	4	4	4
2	4	4	5	4	4	5	5	4	4	4	4	5	4	5	4	4	4
3	4	4	5	5	5	5	5	5	4	4	4	4	5	5	5	5	5
4	4	5	5	3	4	5	5	4	3	3	4	5	4	5	4	4	4
5	5	3	5	5	5	4	4	4	3	3	5	5	5	4	4	4	4

Source: Self generated data

Thus from the above table it is clear that all the responses have been marked in a 5 point scale against each statement company wise. 5 indicates strongly agree (SA); 4 means agree (A); 3 indicates undecided (U); 2 means disagree (D) and 1 indicates strongly disagree. In our study there are five companies marked through the company codes as 1, 2-----5 and there are three dimensions namely culture, HRM Policies and Practices and the probable reasons of mergers. Each dimension consists of 5 statements ranging from C1- C5 under cultural dimension, HR1-HR5 under the HRM Policies and Practices Dimension, Ra-Rg under the probable reasons for mergers dimension. Code 1 represents BPCL, Code 2 as OCL India Ltd, Code 3 as TCS, Code 4 as Indian Hotel, Code 5 as Sesa Goa.

Data Analysis of the 'Cultural' dimension

Now, in order to see whether all the statements (C1, C2, C3, C4 & C5) under the 'Cultural' dimension mentioned in the table 1 are equally important or not, we have used Non-parametric Kruskal -Wallis H Test by applying SPSS Software. For that purpose we are analyzing the data mentioned under C1-C5 against the company codes 1-5 in the said table.

Our hypotheses is-

H0: All the statements of 'Cultural' Dimension have equal effect i.e. they are equally important.

Ha: All the statements of 'Cultural Dimension' do not have equal effect i.e. they are not equally important.

Our significance Level is $\alpha = 0.05$

So, the Null Hypotheses will be rejected if $p\text{-value} \leq 0.05$ [i.e. if $H > 9.488$, the value of $\chi^2_{0.05}$ for 4 degrees of freedom].

H is given by the formula below

$$H = \frac{12}{n(n+1)} \sum \frac{R_i}{n_i} - 3(n+1)$$

where H is the Kruskal Wallis Test; n is the number of measurements; R_i is the sum or addition of the ranks; n_i is the number of experiments in a row.

Table:2

Test Statistic Table on Analysis of the 'Cultural' dimension

Test Statistics ^{a,b}	
Test Statistics ^{a,b}	
Chi-square	3.213
df	4
Asymp Sig	0.523

- a. Kruskal Wallis Test
b. Grouping Variable: Culture

Source: Generated by applying SPSS Software

The Test Statistics table presents the Chi-square value (Kruskal-Wallis H), the degrees of freedom and the significance level.

Since p value .523 > 0.05, and here H (3.213) < 9.488, so we are accepting the Null Hypotheses.

Therefore, we can report that there is no statistically significant differences between the different statements of 'Cultural' Dimensions (H (4) = 3.213, $p = .0523$).

So, at the 0.05 level of significance, there exists enough evidence to conclude that **all the statements under the Cultural Dimension are equally important**. In other words the respondents have given equal importance for all the statements of cultural dimension.

Data Analysis of the 'HRM Policies and Practices' dimension

Similarly, in order to see whether all the statements (HR1, HR2, HR3, HR4 and HR5) mentioned under 'HRM Policies and Practices' dimension in table 11 are equally important or not, we have used Kruskal -Wallis H Test by applying SPSS Software. For that purpose we are analyzing the data mentioned under HR1-HR5 against the company codes 1-5 in the said table.

Our hypotheses is-

H0: All the statements under 'HRM Policies and Practices' dimension are equally important

Ha: All the statements under 'HRM Policies and Practices' dimension are not equally important

Our significance Level is $\alpha = 0.05$

So, the Null Hypotheses will be rejected if $p\text{-value} \leq 0.05$. [i.e. if $H > 9.488$, the value of 0.05 for 4 degrees of freedom,

where H is the Kruskal Wallis Test]

The Test Statistic Table derived through SPSS Software is presented below:

Table 3

Test Statistic Table on Analysis of the 'HRM Policies and Practices' dimension

Test Statistics ^{a,b}	
	Score
Chi – square	11.680
df	4
Asymp. Sig	0.020

a. Kruskal Wallis Test

b. Grouping Variable: HRM

Source: Generated by applying SPSS Software

The Test Statistics table presents the Chi-square value (Kruskal-Wallis H), the degrees of freedom and the significance level.

Since p value, $0.020 < 0.05$, and $H (11.680) > 9.488$, we reject the Null Hypotheses and accepting the alternative hypotheses.

Therefore we can report that there is statistically significant differences between the different statements under HRM Policies and Practices dimensions ($H (4) = 11.680, p = 0.020$). In other words at $\alpha = 0.05$ level of significance, there exists enough evidence to conclude that **all the statements under HRM Policies and Practices Dimensions are not equally important**

i.e. the respondents have not given equal importance to all the statements under 'HRM Policies and Practices' dimension.

Data Analysis of the 'Reasons for mergers' dimension

Also, in order to see whether the statements (Ra, Rb, Rc, Rd, Re, Rf and Rg) under Reasons for Mergers' Dimensions are equally important or not, we have used Kruskal -Wallis H Test by applying SPSS Software. For that purpose we are analyzing the data mentioned under Ra-Rg against the company codes 1-5 in the said table.

Our hypotheses is-

H0: All the 'Reasons for mergers' are equally important

Ha: All the 'Reasons for mergers' are not equally important

Our significance Level is $\alpha = 0.05$

So, the Null Hypotheses will be rejected if $p\text{-value} \leq 0.05$. [i.e. if $H > 12.592$ the value of 0.05 for 6 degrees of freedom, where H is the Kruskal Wallis Test]

The Test Statistic Table as obtained by applying SPSS Software is presented below:

Table 4

Test Statistic Table on Analysis of the 'Reasons for mergers' dimension

Test Statistics^{a,b}

	Score
Chi –Square	18.768
df	6
Asymp. Sig	0.005

- a. Kruskal Wallis Test
b. Grouping Variable: Reasons

Source: Generated by applying SPSS Software

The Test Statistics table presents the Chi-square value (Kruskal-Wallis H), the degrees of freedom and the significance level.

Since $p\text{ value} = 0.005 < 0.05 = \alpha$, and $H (18.768) > 12.592$ we reject the Null Hypotheses.

Therefore we can report that there is statistically significant differences between the different 'Reasons for mergers' ($H (6) 18.768, p = 0.005$). In other words, at $\alpha = 0.05$ level of significance, there exists enough evidence to conclude that the

'Reasons for mergers' are not equally important i.e. the respondents did not give equal importance to all the reasons mentioned under this dimension.

Calculation of median, mean absolute deviation around median and relative measure of dispersion

Thus, we have seen that all the statements relating to HRM Policies and Practices are not equally important for the respondents. This is also similar for the Reasons of mergers. Now, in order to see that which statement has got maximum importance by the respondents, we have calculated Median, Mean Absolute Deviation around Median and Relative Measure of Dispersion by taking the data of 'HRM Policies and Practices' and 'Probable reasons' for Mergers. This has been displayed in table 5.

Table:5

HR DATA OF MANAGERIAL IMPORTANCE OF MERGERS ON 'HRM POLICIES AND PRACTICES' AND 'PROBABLE REASONS FOR MERGERS'												
Company Code	HR1	HR2	HR3	HR4	HR5	Ra	Rb	Rc	Rd	Re	Rf	Rg
1	4	5	5	3	4	4	4	5	5	4	4	4
2	5	4	4	4	4	4	5	4	5	4	4	4
3	5	5	5	4	4	4	4	5	5	5	5	5
4	5	4	4	3	3	4	5	4	5	4	4	4
5	4	4	4	3	3	5	5	4	4	4	4	4
Median	5	4	4	3	4	4	5	5	5	4	4	4
Mean Absolute deviation around median	0.2	0.0	0.0	0.4	-0.4	0.2	-0.4	-0.4	0.2	0.2	0.2	0.2
Relative measure of dispersion (in %)	4	0	0	13.33	-10	5	-8	-8	-4	5	5	5

Source: Self generated data

Where Relative measure of dispersion= (Mean Absolute deviation around median/ Median) x100

From the above, it is clear that the highest median value (here 5) is attributed by the statement HR1 (HR1: Mergers lead to change in jobs with new roles and assignments) among the HRM Policies and Practices dimension which indicate that the respondents have agreed upon these statements. While most of the respondents have given importance on the second (Rb: Horizontal integration for market dominance) third (Rc: Vertical integration for channel control) and fourth (Rd: Strategic Benefit) probable reasons for mergers as is evident from the highest median value (here 5) thus indicating that the respondents have strongly agreed upon. The lowest relative measure of dispersion of -10% of HR5 (HR5: Downsizing is necessary for long term survival) among the HRM Policies and Practices dimension and -8% of Rb (Rb: Horizontal integration for market dominance) and Rc (Rc: Vertical integration for channel control) for the probable reasons of mergers clearly indicates that the degree of dispersion among the respondents relating to these particular statements is very less. In other words most of the respondents have agreed upon these two statements. With the median values and relative measure of dispersion of HRM Policies and Practices, we have prepared the following table with the bar diagram.

Table: 6**Table showing median value and relative measure of dispersion for HRM Policies and Practices**

STATEMENTS ON HRM POLICIES & PRACTICES	MEDIAN VALUE	Relative Measure of Dispersion
HR1	5	4
HR2	4	0.00
HR3	4	0.00
HR4	3	13.33
HR5	4	-10
TOTAL	20	7.33

Source: Self generated data

HR1: Mergers lead to change in jobs with new roles and assignments.

HR2: To cope with the new job demands retraining of the employees is necessary.

HR3: The company should work out a scheme of planned change & development.

HR4: There is no need for recruitment in the foreseeable future for the company undergoing Mergers.

HR5: Downsizing is necessary for long term survival.

From the above it is also evident that the statement HR1 is having the highest median and the lowest median is contributed by HR4. Again, **HR5 is having the lowest relative measure of dispersion which indicates that there is least degree of dispersion among the respondents against this statement i.e. most of the respondents have strongly agreed upon this**

statement (HR5: 'Downsizing is necessary for long term survival.)

Table: 7**Table showing median value and relative measure of dispersion on factors responsible for mergers.**

FACTORS	MEDIAN VALUE	Relative Measure of Dispersion
The sake of survival(Ra)	4	5
Horizontal integration for market dominance(Rb)	5	-8
Vertical integration for channel control(Rc)	5	-8
Strategic Benefit(Rd)	5	-4

To adopt good technology(Re)	4	5
To gain core competence(Rf)	4	5
Financial gain and personnel power(Rg)	4	5
Total	31	0.00

Source: Self generated data

From the above it is evident that the statements Rb (Horizontal integration for market dominance) and Rc (Vertical integration for channel control) are having the highest median value and lowest relative measure of dispersion.

CONCLUSION

The present paper has established that all the statements under the 'Cultural Dimension' have equal effect or impact on mergers. While regarding the HRM Policies and Practices' Dimension we have seen there are statistically significant differences. This is true also for 'Probable Reasons for Mergers' which indicate that they have unequal effects on mergers.

The study thus suggested the underlying rationales for merger activity and evaluated merger as one possible strategic option for restructuring of a company. It is surfaced that merger could be one appropriate method to gain the focus needed and to improve the profit and value generation capabilities of a firm. Nevertheless, the study established that merger is a move which changes the company as a whole. Companies can sail successfully getting the corporate wind in their favour through merger.

ANNEXURE -1**List of Selected Merged Companies and Corresponding Control Companies**

SL.NO	Merged Company	Target Company	Control Companies	Industry	Year of Merger
1.	BPCL	Kochi Refineries Ltd(merged)	HPCL	Oil Refining	2006-07
2.	OCL India Ltd	Dalmia Cement (Meghalaya) Ltd	Madras Cement Ltd	Cement	2007-08
3.	TCS	Tata Infotech Ltd(merged)	Infosys Technologies Ltd	Information Technology	2005-06
4.	Indian Hotel	Indian Resort Hotels Ltd(merged)	EIH Ltd	Hotel	2006-07
5.	Sesa Goa	Sesa Industries Ltd	Coal India	Coal	2005-06

Source: Self-Generated Data

ANNEXURE: 2**IMPACT OF MERGERS ON HRM POLICIES AND PRACTICES****OPINIONNAIRE**

Name of the organization-----

Designation of the executive responding to the opinionnaire-----

Please indicate the relevance of each of the following items mentioned below according to the course of action pursued by your esteemed organization. A description of each of the items is given in parenthesis.

5:Stronglyagree(SA),4:Agree(A),3:Undecided(U),2:Disagree(D),1:Strongly disagree(SD)

Dimensions	5	4	3	2	1
CULTURE					
i) Cultural differences pose a big problem in mergers					
ii) Adjusting with the needs of new culture and work practices is a difficult process for the employees.					
iii) Company has to develop a proactive strategy to assimilate diverse cultures resulting from mergers.					
iv) The cultural problem becomes more difficult in the case of cross border merger.					
v) Development of a new culture in a post Merger scenario is a long term process.					
HRM Policies & Practices					
i) Mergers lead to change in jobs with new roles and assignments.					
ii) To cope with the new job demands retraining of the employees is necessary.					
iii) The company should work out a scheme of planned change & development.					
iv) There is no need for recruitment in the foreseeable future for the company undergoing mergers.					
v) Downsizing is necessary for long term survival.					

The probable reasons relevant to your company for merger is/are

(Please give √ Mark):-

a) For the sake of survival

b) Horizontal integration for market dominance

c) Economies of Vertical integration for channel control

d) Strategic benefit

- e) To adopt good technology
- f) To gain core competence
- g) For financial gain and personnel power

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