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HUMAN RESOURCES AND CULTURAL ISSUES IMPACTING POST MERGER CORPORATE OBJECTIVITY

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ABSTRACT
Corporate restructuring has become a tool of business integration and valuation strength across economies worldwide. Besides, financial implications there are other non-financial issues also having direct impact on the success of any corporate merger or acquisition. One of those issues is the human capital of any corporate body. Human capital is the human resources having cultural diversity within the corporate body. This study analyses the impact of human and cultural factors on the objectivity and success of any corporate restructuring exercise.

THE ISSUE AT STUDY

The merger is a period of great uncertainty for the employees of the merging organizations. The uncertainty relates to job security and status within the company leading to fear and hence low morale among the employees. It is natural for employees to fear the loss of their revenue or change in their status within the company after a merger since many of these employees literally invest their whole lives in their jobs. Hence the possibility of a change in their position is likely to be viewed with fear and resentment. The possibility of a change in compensation and benefits also creates a feeling of insecurity and unease. The influx of new employees into the organisation can create a sense of invasion at times and ultimately leads to resentment.

Further, the general chaos which follows any merger results in disorientation amongst employees due to ill defined role and responsibilities. This further leads to frustrations resulting into poor performance and low productivity since strategic and financial advantage is generally a motive for any merger. Top executives very often fail to give attention to the human aspects of mergers by neglecting to manage the partnership in human terms. By failing to give attention to the problems faced by their employees, they fail to fully develop their companies' collaborative advantage.

In such cases what is normally forgotten is the centrality of cultural integration. The issues of cultural integration and the issues of human behaviour need to be addressed simultaneously if not well before the issues of financial and legal integration are considered. Implementation of structural nature may be financially and legally successful. But if cultural issues are ignored, the success may only be transient.

Culture of an organisation means the sum total of things the people do and the things the people do not do. Behavioral patterns get set because of the culture. These patterns create mental blocks for the people in the organization. Pre-merger survey and summarization of varying cultures of different companies merging, needs to be carried out. People belonging to the each defined culture need to be acquainted with other cultures of other merging companies as well. They need to be mentally prepared to adopt the good points of other cultures and shed the blockades of their own cultures. Such an open approach will make the fusion of cultures and ethos easy and effective.

The successful merger demands that strategic planners are sensitive to the human issues of the organizations. For the purpose, following checks have to be made constantly to ensure that:

— sensitive areas of the company are pinpointed and personnel in these sections carefully monitored;

— serious efforts are made to retain key people;

— a replacement policy is ready to cope with inevitable personnel loss;

— records are kept of everyone who leaves, when, why and to where;

— employees are informed of what is going on, even bad news is systematically delivered. Uncertainty is more dangerous than the clear, logical presentation of unpleasant facts;

— training department is fully geared to provide short, medium and long term training strategy for both production and managerial staff;

— likely union reaction be assessed in advance;

— estimate cost of redundancy payments, early pensions and the like assets;

— comprehensive policies and procedures be maintained up for employee related issues such as office procedures, new reporting, compensation, recruitment and selection, performance, termination, disciplinary action etc.;

— new policies to be clearly communicated to the employees specially employees at the level of managers, supervisors and line manager to be briefed about the new responsibilities of those reporting to them;

— family gatherings and picnics be organized for the employees and their families of merging companies during the transition period to allow them to get off their inhibitions and breed familiarity.

CULTURAL FACTORS AND POST MERGER –CASE STUDY

1. ACQUISITION OF WELLCOME GROUP BY GLAXO.

The classic example of effective human resource management is the acquisition of Wellcome group by Glaxo. Wellcome and Glaxo were profoundly different companies, both structurally as well as culturally. Wellcome was more of an academic culture and Glaxo more of a commercial, business driven culture. Everything was different between the companies, from finance to information technology, the structure of sales representatives to legal side. Less diplomatic Glaxo staff saw Wellcome as an over-centralised organisation with employees who were unrealistic in their expectations for the business's financial success. Academia-like penny-pinching officials had saddled Wellcome with out-of-date information technology.

Wellcome staff, in contrast, saw Glaxo as overly commercial mercenaries assaulting their worthy enterprise and driven by cash. They argued, in its enthusiasm for the latest high-tech research gadgetry the Glaxo officials refused to study tropical diseases where sufferers could not afford western prices.

To try to combat such sentiments, management declared that both old companies were history and decreed that a new company was to be built in its place. But, the most difficult aspect of merger was to lay off staff both on account of closing down of certain manufacturing units as well as to cut down on excess costs. To overcome the difficulties, management offered a very lucrative package. The solution was expensive but unavoidable, given that Glaxo management was trying not to give the impression that it was steamrolling Wellcome.

In France, the company established an organisation called Competence Plus, comprising employees who had been made redundant. They were guaranteed up to 15 months on full salary and given training courses on everything from "networking" to new skills. They were also the first to be interviewed for any vacancies that arose within the new group during that period. Employees hired by other companies for trial periods had their salaries paid by Glaxo-Wellcome. For those who remained, there were improvements too. Glaxo staff worked a 39-hour week, whereas Wellcome did 37 hours. Now Glaxo-Wellcome people work 37 hours. "We were concerned not to make mistakes in the social sphere," said Mangeot, the Chairman of Glaxo-Wellcome, France.

2. HINDUSTAN LEVER LTD. (HLL) AND TOMCO MERGER

In Hindustan Lever Ltd. (HLL) and Tomco merger case, HLL had been known for its result oriented, systems driven work environment, where a strong emphasis is placed on performance. Accordingly, it always has/had and strives for a team of high performing and high profile executives, carefully selected from the best management institutes. Discussing product profitability and target achievement is the only language that its managers understand. The work culture is very demanding and only the best survive. In fact, about 100 managers at that time for Unilever group companies had quit their jobs, as they were unable to cope with the demanding work culture.

It was felt that the more difficult part would be the management of the two very different work cultures and ethos, after the merger. In TOMCO the employee productivity was only 60% of HLL. It was opined that HLL would have to rationalize TOMCO's work force. HLL itself had launched a voluntary retirement package, in order to get rid of about 500 workers, however only a few resigned. However TOMCO employees had been assured that their employment conditions were to be protected and service conditions would be honoured.

All the employees of TOMCO were to be absorbed as HLL employees. It is probably not an exaggeration to assert that most cross-border deals run into difficulties because of failures in the integration process. What is acquisition integration? First and foremost, it is the process of realizing the strategic benefits of a merger. In other words, it is everything merging companies must do to achieve synergies and position the new firm for growth. It requires effective interaction and coordination between merging firms to realize the strategic potential of the deal at the same time that it necessitates special attention to human resource concerns. Stated in this way, it is a tall order, and indeed seems absolutely critical to M&A success.

Differences among management and workers can sometimes spiral into broader community and political problems. Such was the case in the 1988 acquisition of Rowntree, headquartered in York, England by Nestle, the Swiss foods giant. Concerns about the future of Rowntree workers, facilities, and even the town of York itself created uproar in the UK, involving Members of Parliament, political parties, and the Archbishop of York. In the end, Nestle was forced to make several concessions to public opinion in its integration of Rowntree, including retaining York facilities and making certain guarantees with respect to the job security o Rowntree workers.

HUMAN FACTORS IN MEASURING POST-MERGER EFFICIENCY

The criterion to judge a successful merger differs in different conditions. Different factors may be considered for making value judgements such as growth in profit, dividend, company's history, increase in size, base for growth etc. Several studies suggest different parameters to assess the success of mergers:

(i) Successful merger creates a larger industrial organization than before, and provides a basis for growth [Edith Perirose].

(ii) In Arthur Dewing's study, three criteria were considered viz. (a) merger should give a larger net profit than before (b) merger should provide a higher return on total funds (c) there should be a sustained increase in earnings.

(iii) Earnings on capitalization and dividend records determine the success of merger [Shaw L.].

During the studies in late 1960s, two types of efficiency improvements were expected to result from mergers:

(1) improvements due to economies of large scale production (2) application of superior management skills to a larger organisation. Some other researches in the seventies and eighties, measure efficiency based on stock market measures, labour productivity or total factor productivity etc. These improvements pointed towards market dominance, but for gauging efficiency, resultant profitability was accepted as a benchmark.

In order to ensure progress, a conscious and concerted effort to keep track of several key elements isrequired, alongwith answers to the following questions:

1. What impact is the integration (merger/acquisition) having on key indicators of business performance? Whether synergies which were hypothesized during the valuation are being realized?

2. Are the activities and milestones developed with the integration process on target?

3. What are the major issues emerging during the integration, requiring considerable attention?

4. What important facts have emerged during the merger or acquisition that can be used to improve subsequent mergers or acquisition?

HUMAN FACTORS BASED KEY INDICATORS

The main purpose of a merger or acquisition is to deliver the expected financial results namely earnings and cash flow. However, there are certain other measures that serve as key indicators and they also need to be measured. The indicators may be grouped as:

(i) Financial outcomes.
(ii) (ii) Component measures of these outcomes namely revenues, costs, net working capital and capital investments.

(iii) Organisational indicators such as customers, employees and operations.

All the areas being integrated and both the acquirer and target, or in a merger, both partners, should be brought within the ambit of continuous appraisal. Also, the appraisal should be based on benchmarks to ensure that merger or acquisition are yielding the financial and strategic objective so intended and are not resulting in value leakage.

CONCLUSION AND FINDING OF THE STUDY

The discussed study witnesses the impact of the human and cultural factors over the post merger consolidation of the company. The study has also found a relation between the employee satisfaction and post merger effectiveness. There has also been found the co-relation between employee satisfaction and cultural orientation within and across the corporate units. The human capital has been identified as the driving force behind the post merger business as well as consolidated valuation.

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