



## Mergers & Acquisitions: A Study of Factors Associated With Talent Retention

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**Abstract:** Mergers & Acquisitions (M&As) are the common events that firms go for to realize their strategic goals and to grow in the competitive business world. In spite of the empirical evidence/s which establishes the facts that a significant number of such ventures fail to realize the expected objectives, **and** further, not paying enough attention to **people issues** is found to be an important etiological factor for the firms in failing to get the desired outcome. The present study aims at understanding factors/strategies/initiatives of management (as perceived by the employees) in retaining talent during the period/s of execution of the deals of M&A. Two hundred and thirty-one employees of three acquired and one merged manufacturing firms have been administered a questionnaire. The results indicate that factors like congenial working environment, a well-documented and employee-friendly exit policy, emotional support to those who remain with the organization are positively related to talent retention. Employees are found to be more in favour of quality of work life rather than according importance to monetary aspects alone.

**Keywords:** Employee Exit, HR Professional, Talent Retention, Merger & Acquisition.

### Introduction

Mergers & Acquisitions (M&As) are important as well as common events that represent transactions outside the normal course of business. Such attempts of corporate restructuring requires a process to follow which involves buying/selling or integrating different firms with the prominent objectives of making them large, improving opportunities for growth, withstanding with a greater level of performance in the business market, and earning higher financial returns on investment.

The events of Mergers & Acquisitions refer to the combinations of two or more firms to achieve strategic business goals. This kind of restructuring is good not only for the parties involved, but also beneficial for all

stakeholders and the events involve a process to follow in order to make them successful. But there is no certainty that all such attempts would succeed. Companies may perform either better or worse in terms of the expected positive outcome after M&A. In spite of uncertainty about the positive outcome, the number of such attempts of M&As are on the increase both vertically and also in terms of value. When organizations go for major changes like Mergers & Acquisitions, it is the workforce which is likely to be affected the most. The employees, often feel anxious, stressed, and insecure. This in turn would impact the productivity adversely, satisfaction and commitment of employees to the organization.

The reactions of employees to such events may differ. While some



provide support, others resist change. They may express feelings ranging from fear, anxiety and panic to enthusiastic support (Kurian, 2012). Hence, the most crucial issues that need expertize and informed choice of HR professionals include - issues concerned with the workforce with regard to their retention, replacement, and reduction on the basis of objective assessment.

A definite process is involved in Mergers & Acquisitions and lot of human issues are to be dealt with from the phase of negotiation of the deal till the stage of integration, and even beyond. Tepedino and Muriel (2010) have mentioned that the immediate goal of Mergers or Acquisitions is to improve the value of such an attempt and not just to become big in size. Further, such a venture should not only be culture-fit but also talent-fit. The authors have stressed the need for considering the positive impact of talent and recommended measures for retaining the talent.

A study of talent loss and its retention is the priority choice of HR researchers. This is more so in situations like Mergers & Acquisitions. People have reasons to stay on the job or even to leave the same. Top management/s must always look for retaining highly performing assets like talented employees to derive the benefits from any venture of Merger & Acquisition.

#### **Review of Literature**

Talent is the most prominent issue of literature on Mergers & Acquisitions. Larsson and Finkelstein (1999) have arrived at the inference on the basis of empirical evidence that employees of acquired company usually react to M&A in an unfavorable manner. The reason is of **We versus They** antagonism. There exists a Merger syndrome referred to as **Mourn a**

**Corporate Death** by employees of the acquired firm and one has to deal with the worst case of rumors, various stress reactions, and constricted communication. Mergers & Acquisitions can severely affect employees in terms of layoffs, relocation and loss of employment.

On the basis of review of past research studies, Birkman Fink (2009) has indicated that three-quarter of the deals of Mergers & Acquisitions fail to deliver the expected financial returns and operating synergies. One reason is that of conventional due diligence which is too narrow and mainly throw light on tax considerations, financial, and legal issues. Failing to accord importance to human issues may result in unforeseen expenses, higher operating costs, loss of key talent, decline in the quality of services, loss of market share, and in worst situation a failure of the venture itself. Retaining the talent of the acquired entity which made the company attractive and enabling them to perform at the highest level would make Acquisition work. The author has offered five suggestions to make that possible – 1) Define the parameters, 2) Make an initial assessment, 3) Establish communication, 4) Set reasonable goals, **and** 5) Be flexible.

From four cases, Garrow (2003) has explained vividly the reasons for drop in the performance of employees after a Merger/Acquisition as a result of serious breach of psychological contract between employees and employers. Usually, post-Merger workload of employees increases and if they get nothing back in turn, the balance of the deal soon looks not attractive. Sometimes this may result-in employees deliberately putting less efforts on the job, spreading rumors, taking sick days and even resorting to



theft. In extreme cases, they may leave the organization or resort to sabotage.

From the existing literature including case studies, it can be made explicit that the involvement of a HR professional in the M&A execution process is not found to the extent expected. But attempts are made to explain the functions of HR personnel in the events of M&As. According to Wells (2004), the life of M&A comprises of four stages – Pre-deal, Due-diligence, Integration, and Implementation. The author has narrated the prominent issues of concern for HR professionals. The primary responsibility of a HR professional is – to offer advice to the top management of the acquirer on all HR issues. To be more precise, a thorough due-diligence is to be undertaken which includes assessment of the culture, talent, compensation and benefits. Further, the HR professional needs to - propose cost-saving measures, manage communication system, and define a new business strategy. The union of two set of employees and pay structures can ultimately influence the successful outcome of the Merger and its returns on investment. The most important functions of HR professionals are – identify the talent of the target company that would fill the gaps where such talent is not available in the acquirer company, evolve uniform compensation package for the employees of both the acquirer and acquired companies, and retain talent by offering additional incentives and by providing reassurance. To ease tensions, insecurity, uncertainties, and fears quell rumors after the announcement of M&A, a prompt, and straight forward communication strategy is critical.

Retaining the talent in a corporate restructuring attempt is well emphasized. Johnson (2007) has

indicated the need for retaining the talent in acquisitions. The competitors, taking advantage of the situation may make attempts to poach the talent. At the end, this would undervalue the worth of acquisition. It is necessary that acquisitions are to be taken up in a friendly and cordial manner and any aggressive approach may end up with people walking out and the organization is left with nothing. Hence, the management has to evolve measures to make them feel that this is the best place to work.

The literature highlights that retaining talent should be the priority issue for any HR professional in situation like M&As. Hence, it is proposed to identify the issues conducive for talent retention.

#### RESEARCH METHODOLOGY

The present study is intended to understand the factors/strategies/initiatives of management (as perceived by the employees) in retaining talent during the period of execution of the deal of M&A.

The following null-hypothesis is proposed.

**Null Hypothesis (Ho):** Paying attention to monetary issues and retention of talent are independent.

**Alternate Hypothesis (Ha):** Monetary issues do influence retention of talent in post-Merger and Acquisition situation.

#### Tool of Data Collection

To know the issues associated with talent retention in the past (before Merger/Acquisition) and present (after Merger/Acquisition), a questionnaire has been prepared covering different statements/issues. The response of the employee is sought for every statement/issue either as **Yes** or as **No**



and is requested to respond to each statement/issue keeping in view the prevailing situation both before the **event** of Merger/Acquisition as well as the present time. For clarity, and clear understanding, the statements/issues are prepared in unidirectional (positive) manner.

In terms of qualitative aspects, the responses are presented as **No** before and **Yes** after the **event** of Merger/Acquisition; **Yes** before and also **Yes** after the **event** of Merger/Acquisition, **No** before and **No** after the **event** of Merger/Acquisition, and **Yes** before and **No** after the **event** of Merger/Acquisition.

Highest weightage (prominence) is accorded to **No** before and **Yes** after, followed by **Yes** before and also **Yes** after; **No** before and **No** after; and **Yes** before and **No** after. The explanation for each combination is detailed below:

- **No-Yes:** The issue stated has been **either** initiated now to bring positive change in the existing system **or** revised the existing measure in such a way that it is more attractive to the employee.
- **Yes-Yes:** The issue stated has been considered positive in the past (before the **event**) **and** continued to be positive after the **event** has taken place.
- **No-No:** The issue stated has not been **considered positive or not present** before the **event** and the same has been continued after the **event** period.
- **Yes-No:** The issue stated has been **considered positive or present** before the **event** but that issue has not been accorded **the same amount of positive impression or not present** in the post-**event** period.

The instrument is prepared on the assumption that each statement/issue

reflects the opinion/response of the subjects on the statement (issue) in question based on personal experience or re-call of the past instances/experiences of others. All statements/issues are considered to have equal weightage and the same are developed to explore the opinion/response about each issue in varying degrees. Care is taken to ascertain that all statements/issues are linked to each other and equally to the main theme. The respondent is asked to select a response which she/he thinks the best that describes the opinion/version.

**Guidelines to the subjects:** The guidelines for responding to the statements/issues are given below:

“Every organization comprises of knowledge workers categorized into ‘A’ Players, ‘B’ Players and ‘C’ Players based on the Competency, Knowledge, Skill and Abilities in the role assigned. The issue of retention of ‘A’ Players or high performers must be on the top of the agenda when the deal of M&A is proposed and executed.

In fact, the basis for M&A and its price is proposed on many monetary and non-monetary factors and effective human capital is the priority choice of the latter. In the backdrop of this, the company has to evolve strategies/measures to retain the talent and thus, derive the fruits of the attempt. Some issues which are being practiced in the past (before M&A) and present (after M&A) are mentioned. We request you to respond to each one for both past and present either with a ‘yes’ or ‘no’ (mark ‘ ’ in the appropriate box)”.

To find out whether the instrument would elicit the intended response on the basis of the proposed objective, care is taken to ensure that there is proper flow of language, the words used are clear and with no



ambiguity, and there is sequence in the arrangements of statements/issues.

The researcher has developed the tool in wide consultation with subject experts. Further, consultations with professional colleagues and domain experts have helped to know the shortcomings in the tool, and necessary modifications are made tentatively.

Pre-testing of the tool is done primarily to ascertain that the instrument would elicit the required data in the direction of the objective. Further, it is to know whether the content of the tool is adequate, and language and presentation are proper. Accordingly, the tool was administered on ten subjects drawn from the population similar to the proposed firms. Based on the findings of the pre-testing, the researcher had modified the tool with necessary corrections which include deletions, additions, and changes in both the content and coherence in the presentation. A re-test of the same was done on select subjects from the above mentioned population, and thus, finalized the tool of the study (see Annexure).

#### **Subjects of the Study**

The study has been undertaken in four manufacturing firms (three cases of Acquisition and one case of Merger) that went for restructuring in the recent past either in the form of Merger or Acquisition and have their operations in India.

After obtaining the consent for the study from the top management, a list of employees of Merged/Acquired firms who have fulfilled the following inclusion criteria from each of the firms has been proposed:

- Those who are on the roll at the time of the **event**,

- Those holding middle and higher levels of managerial positions at the **event-time**,
- Those familiar with **event** and have experienced/have been experiencing the impact of the **event**, and
- Those who are articulate and are willing to serve as respondents for the study.

A list consisting of 317 employees, who fulfilled the above inclusion criteria, has been prepared. The questionnaire has been administered on all the 317 employees with a request to fill-up the same. At the end, as many as 231 (72.9%) questionnaires completed in all respects, have been used for the study.

#### **Method of Data Collection**

The tool mentioned above has been administered in the form of a questionnaire on all the subjects. The questionnaire also included a pro-forma to obtain personal and occupational details. The data have been collected during the leisure time of the employees. All ethical issues, especially of informed consent, have been adopted in carrying out the study.

#### **Characteristics of the Respondents**

Personal and occupational details are presented in Table 1. Of 231 employees, 84 (36.4%) are aged 35 years & below, 43 (18.6%) are in the age group of 36-45 years, and 104 (45%) are aged 46 years & above. The mean age of employees is 41 years. Male representation is predominant (94.8%) than female representation. As many as 121 (52.4%) have a Degree/Diploma Certificate in technical education like engineering and the rest are without any technical background.



Most of the employees i.e., 213 (92.2%) are married and the remaining (18/231 or 7.8%) are unmarried. As many as 175 (75.8%) have put-in service of 10 years and above and 56 (24.2%) have put in less than 10 years of experience in the same organization. The average duration of experience of the respondents is 12.6 years (Table 1). The respondents mostly belong to middle age group with technical education background, married and have had more than 10 years of work experience. In terms of personal and occupational background, it can be mentioned that the respondents are mature enough both in personal and social life to assess their work/life and bring a balance between the two.

#### Results and Discussion

Retaining the key-talent is an important function of HR professionals in the events of M&As. Rizvi (2011) has studied 19 HR heads of 19 target mid-sized service sector organizations which have been merged or acquired with a purpose to identify the importance of human capital development in M&As. The objective of all 19 attempts of M&A is to increase market share by becoming a bigger force. Primary data have been collected through interviews with senior HR team. It is found that human capital development received the highest focus in the process of M&A in service sector industry.

Retaining the most precious human resource is necessary for the development of the organization. Many factors are simultaneously in operation which would influence the retention of talent and the most important issues that pave the way for the positive outcome of M&A process are Employee Communication, Retention of Talent and Culture integration (Taneja and Saxena 2014).

The present attempt is intended to understand the factors/strategies/initiatives of management (as perceived by the employees) in retaining the talent during the period of execution of the deals of M&A.

Table 2 presents to the factors associated with talent retention. The highlights are presented in the pattern mentioned below:

- A) Combining the responses of **No-Yes** and **Yes-Yes** as both speak of the sum of positive impression of employees about the concerned statement/issue,
- B) Taking only **No-Yes** responses,
- C) Taking **No-No** responses, and
- D) Taking **Yes-No** responses.

**A)** A pleasant and cordial work environment coupled with informal relations among employees is found to be the most important factor for the talent to stay back in the same organization. When the environment is pleasant, employees feel like staying with the firm for a long-time with a positive feeling that they are an integral part of the organization and their relations with others are more informal and are harmonious (Statement 1). In the present days, it is not uncommon to observe that employees look for quality work as an opportunity for learning and do not shirk from accepting work responsibility. This is possible as employees feel that work is to their liking and a feeling persists that work is an experience of learning and sharpening one's competencies.

The firms do not restrict persons from moving out, if employees want to quit for any reason. The process involved in the exit is employee-centered and to the advantage of the growth of the organization. Further, the approach is



more professional in nature (Statement 2).

A proactive approach is being followed in providing emotional support to those who remain with the organization, as-well-as in taking up confidence-building measures that send a clear message to the employees that this organization is the best place to work with. The firms have a good policy of exit for employees and at the same time provide support to those who wish to stay back. The message which goes well to the employees is that there is no more fireworks and no more cuts in manpower.

A professional approach is being adopted in the exit of employees. The approach is not meant for retaining the person but to correct the genuine grievances if any, for organizational development. Those employees willing to stay after M&A are given emotional support and their needs are attended to. Counselling services have been offered to them by responsible persons (Statement 3).

**B)** There are certain issues that have been **either** initiated now to bring positive change in the existing system **or** revised the existing measures in such a way that they are more attractive to the employee (No-Yes). The most prominent issues/aspects are as follows:

1) Every role is seen as a unique one with value addition. Employees feel that they have greater role to play in the well-being of the firm (Statement 8; 51.9%).

2) The compensation, which is in tune with market standards, has assured employees to feel that they are properly taken care of and the compensation is attractive (Statement 15; 51.1%).

3) There is enough opportunity for vertical growth in position with higher level of responsibilities, challenges, and of course with an enhanced package of

compensation and benefits (Statement 13; 50.2%).

The general trend is found to be that policies and programmes are employee-centered after the **event** of Merger/Acquisition knowing very well that talent retention is more important than hiring new talent and to adopt the process of hiring new employees acquainted with work and organization. This can be noticed from the figures of **No-Yes**.

**C)** There are certain issues that have not been **considered positive or not present** before the **event** and the same have been continued after the **event** period (**No-No**). These include work/life balance of employees and rewards to individuals purely on the basis of objective performance (Statement 20 and 21; 18.2% and 18.2%).

**D)** There are certain issues that have been **considered positive or present** before the **event** but those issues have not been accorded **the same amount of positive impression or not present** in the post-event period (**Yes-No**) which include pay-fixation in accordance with skills, and rewards on the basis of performance. These issues have not influenced much in retaining the talent (Statement 16 and 21; 16% and 17.3%).

The crucial responsibility of a manager is not only to attract top class talent but also to develop and retain the same for global success. Different incentives which include support and opportunities for growth would facilitate in retaining the talent.

#### **Testing of Hypothesis**

**Null Hypothesis (Ho):** Paying attention to monetary issues and retention of talent are independent.

**Alternate Hypothesis (Ha):** Monetary issues do influence retention of talent in post-Merger and Acquisition situation.



## Result

The study reveals that the most preferred and observed factors for retaining talent, as expressed by the respondent employees, reflect the concern of the firm for human capital. Factors like congenial working environment, a well-documented and employee-friendly exit policy, emotional support to those who continued to be a part of the firm – are the most frequently expressed ones that have positively influenced the retention of talent in M&A situation compared to pre-Merger and Acquisition period. The null hypothesis, thus, is accepted.

It is to be noted that talent loss is observed to be within reasonable limits after the **event** (M&A) and the impact is minimal. The observation of high retention rate indicates that employees are satisfied with the working methods and practices. But retaining every key talent is important as the worth of a Merger/Acquisition depends to a marked extent on the effective human resource.

## Conclusion

Mergers & Acquisitions are the major causes of organizational change. In addition to paying attention on financial, economic and commercial aspects of the deal, importance is to be accorded to **people issues**. These attempts must be beneficial to both the firms and to the employees rather than

creating uncertainty and insecurity (Samal, 2011). The study is intended to understand the factors/strategies/initiatives of management (as perceived by the employees) in retaining talent during the period of execution of M&A deals. The subjects comprise of 231 employees of three acquired and one merged manufacturing firms. The results, obtained from the subjects by administering a questionnaire, reveal that congenial work environment, a well-documented and pro-employee exit policy and providing emotional support to those who remain with the firm are found to be the most frequently expressed factors that have favoured employees to be more loyal to the organization. The null hypothesis proposed – ‘Paying attention to monetary issues and retention of talent are independent’ – is found to be tenable. The employees are found to be more in favour of quality of work life rather than according importance to monetary aspects only.

The fact remains that employees who are contented with their work and constantly be motivated by others seldom leave the job/firm and look for other similar/higher assignment. Such motivators are intrinsic in nature and rarely external like money, promotion, incentives.

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**Table 1: Personal and Occupational Details of Employees**

	Personal and Occupational Details	No. of Employees N: 231	Percentage
<b>A</b>	<b>Gender</b>		
I	Male	219	94.8
ii	Female	12	5.2
<b>B</b>	<b>Age group</b>		
I	35 years and below	84	36.4
ii	36 to 45 years	43	18.6
iii	46 and above	104	45.0
	Mean: 41 years		
<b>C</b>	<b>Education</b>		
I	Technical	121	52.4
ii	Non-technical	110	47.6
<b>D</b>	<b>Marital status</b>		
I	Married	213	92.2
ii	Unmarried	18	7.8
<b>E</b>	<b>Work experience (present)</b>		
I	Below 10 years	56	24.2
ii	10 years and above	175	75.8
	Mean:12.6 years		



**Table 2: Talent Retention: Associated Factors**

Sl. No.	Statement/Issue No. and Description		No. of Employees N: 231				Total
			No-Yes	Yes-Yes	Yes-No	No-No	
1	1	The working environment is enjoyable	93 (40.3%)	120 (51.9%)	13 (5.6%)	5 (2.2%)	231(100%)
2	21	The organization has well documented exit policy with professional approach for employee and organisation development	86 (37.2%)	121 (52.4%)	7 (3.0%)	17 (7.4%)	231(100%)
3	20	Organisation motivates and provides emotional support for those who remain with the organization	93 (40.3%)	111 (48.1%)	15 (6.5%)	12 (5.2%)	231 (100%)
4	12	Organization is decentralized at every level and provides autonomy for employees to make decisions	95 (41.1%)	106 (45.9%)	12 (5.2%)	18 (7.8%)	231 (100%)
5	13	Organization has promotional guidelines based on which the advancement of individuals in the organization takes place.	106 (45.9%)	93 (40.3%)	14 (6.1%)	18 (7.8%)	231(100%)
6	14	Employees' voice is heard and their respective suggestions are taken into account, if they are found to be constructive.	113 (48.9%)	85 (36.8%)	13 (5.6%)	20 (8.7%)	231 (100%)
7	19	Organisation emphasizes on retraining employees rather than resorting to downsizing	100 (43.3%)	94 (40.7%)	17 (7.4%)	20 (8.6%)	231(100%)
8	2	The organization adds unique value to individual's role.	120 (51.9%)	72 (31.2%)	17 (7.4%)	22 (9.5%)	231 (100%)
9	11	Benefits given by the employer include Cash incentives for Best performer, Loans & Advances, ESOPs, Medical Insurance.	112 (48.5%)	79 (34.2%)	13 (5.6%)	27 (11.7%)	231 (100%)
10	15	Down/Rightsizing in the organization is taken as the last resort which is done objectively, scientifically and professionally with no/less emotional	105 (45.4%)	81 (35.1%)	14 (6.1%)	31 (13.4%)	231(100%)



		involvement					
11	18	The organization is proactive in taking the former employee/s back on the roll based on past performance and present requirement	98 (42.4%)	87 (37.7%)	22 (9.5%)	24 (10.4%)	231 (100%)
12	17	Organization motivates the employees at every level to harness the productivity.	98 (42.4%)	84 (36.4%)	19 (8.2%)	30 (13.0%)	231(100%)
13	3	Career progression in the organization can be achieved.	116 (50.2%)	66 (28.6%)	21 (9.1%)	28 (12.1%)	231(100%)
14	16	Employee involvement is encouraged. Frank discussion and adopting their effective suggestions are followed	102 (44.2%)	77 (33.3%)	23 (10.0%)	29 (12.5%)	231 (100%)
15	5	Compensation is on par with market standards.	118 (51.1%)	53 (22.9%)	31 (13.4%)	29 (12.6%)	231(100%)
16	4	Organization commensurates pay with skill.	105 (45.4%)	63 (27.3%)	37 (16.0%)	26 (11.3%)	231 (100%)
17	10	Change of location of work as desired by the employee is entertained.	114 (49.3%)	51 (22.1%)	29 (12.6%)	37 (16.0%)	231 (100%)
18	9	Organsiation provides ample opportunities to improve skills by regular training imparted based on gap analysis.	95 (41.1%)	64 (27.7%)	34 (14.7%)	38 (16.5%)	231(100%)
19	8	Organisation provides transparent appraisal mechanism from peers and supervisors	94 (40.7%)	64 (27.7%)	32 (13.9%)	41 (17.7%)	231 (100%)
20	6	Organisation provides work/life balance to employees like 'flexi-timings'	91 (39.4%)	62 (26.8%)	36 (15.6%)	42 (18.2%)	231 (100%)
21	7	Organisation rewards individuals purely based on objective performance.	101 (43.7%)	48 (20.8%)	40 (17.3%)	42 (18.2%)	231(100%)