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Employee's Perception Regarding the Implications of Cross Border Acquisitions with Reference to Indian IT Industry

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Abstract:
This study deals with analyzing the employee's perception about the implications of cross border acquisitions made by Indian IT companies. The research evaluated the changes experienced by the acquirer's employees of the acquiring firms due to the integration. Three IT companies in India were selected, and the employees were categorized as senior and junior level employees. Opinion survey method was conducted and the results suggest that the junior level employees experienced a positive change in infrastructure facility and technology upgradation and further majority of the senior employees agree the same. The study concluded that the impact of the acquisition on the acquirer's employees is minimal and recommended improvement in technology and infrastructure will reflect on comfortable working environment for employees; and proper training during the integration process will reduce employee attrition or switch over.

Keywords: Employee perception, cross- border acquisition, Indian IT industry.

1. Introduction

Employees being one among the stakeholders of Cross – border Mergers and Acquisitions, play a predominant role during as well as post- integration process. According to Jackson and Schuler (2003), "Human Resource Management refers to all the dedicated activity that an organization uses to affect the behaviors of all people who work for it". Compared to financial and strategic issues, human resource issues are neglected mostly or kept in marginal position during the integration process (Pikula, 1999); which has led to employee restlessness and anxiety. Organizational effectiveness greatly depends on the behaviors of employees, thus managing human resources is an important strategic challenge for all companies, and mainly for those going for cross border alliances. Merger and acquisition process creates insecurity for employees of both the acquirer as well as target firm; the outcome being absenteeism, stress, lower productivity, etc. Many researchers indicate that about two-thirds of merger failure is due to lack of concern towards employee interest. Since ambiguity, anxiety, uncertainty, and stress lead to mental distress during a merger, job is likely to become painful; thus depleting the overall efficiency of the organization's citizenship behavior (Bhaskarm and et al, 2012). A systematic HRM policy and practice leads a company to be financially successful (Becker and et al, 2001). Hence it is necessary to explore these human aspects during a deal process.

Though literature is replete with studies regarding this concept, only few studies have been done in India that too not industry specific. Software industry is in the midst of limelight for various reasons, though many studies have been conducted in this industry, the researcher has found good reason to study this industry in a various dimension. A vigilant economic environment and fact that big IT players are inclined towards consolidation of vendors have helped increase merger and acquisition movements in India. The mergers and acquisitions have been increasing in this sector ever since year 2000, but no research has been able to capture the crux of HR implications post-acquisition (Malhotra and Sharma, 2013). Though the HR functions in IT industry deals with high volume of people and most impacted, their voice is ignored. Despite the popularity of the concept in India, very few studies have been undertaken in the IT and ITES industry. Though we know there might be major changes in the acquired company, still the study is conducted because every company must be open to learn new things from even smaller companies and acquirers must be willing to improvise good things from their targets. Thus, this study focuses on the impact on the employees of the IT and ITES acquiring companies post-acquisition. Hence, the objective framed for this study is:

(1) To analyze the impact of cross border acquisitions on the employees of Indian Acquirers with respect to IT and ITES industry.

2. The Indian IT and ITES Industry

Evolution of Indian IT sector has its foot embossed prior to 1995. During its inception in the early 90's, US companies began to outsource work to India due to cheap labor and skilled talent pool. Between 1995 and 2000, the industry started to mature by increasing their investments in R&D and infrastructure and have been noticed as one among the product development destination. By 2005, firms grew in size and started offering services such as product management and go-to market strategies. Western firms started setting up a number of offices in India. After 2005, Indian firms became multinational companies making footprints worldwide (As of

2012, 580 delivery centers in 75 countries are estimated). Indian companies began to go for cross-border acquisitions. Currently, Indian IT sector is at an inflection point, traversing from enterprise servicing to enterprise solutions.

According to the NASSCOM'S Strategic Review Report, the revenue earned by the Indian IT/ITeS industry is US$ 118 bn in 2014 compared to US$ 108 bn in 2013. NASSCOM has coated the Indian IT-BPM industry as resilient, growing and evolving.

3. Review of Literature

Faulkner and et al (2003) in their paper discussed how the acquisitions made by USA, Japan, Germany and France in UK have achieved control over communication and strategic philosophy.

M&A Report (2004) deals with the employee issues (level of HR involvement in M&A deal and workforce impact of recent deals) in the first three to six months of integration. Survey was conducted in US and Canada and the result suggest that HR executives reported better results than employees in several key areas including productivity and motivation.

McDonald and et al (2005) found that there was an apparent association between the company and its M&A strategic objective, but each company had a varied projection individually. The results suggested diverse facts on the value of experience, with better outcome using a flexible agenda of evaluation.

Ullrich and Dick (2007) in their paper reviewed merger and acquisition research encouraged by the SIA and estimated three common lessons namely; (i) Recognition after merger is significant for M&A integration and success, (ii) M&As pretend risk for the company's recognition, and (iii) if you have to merger – merge right.

Weber and Dori (2008) developed a model which states that "the theory of psychological contract is adapted to explain different individual expectations in domestic versus international mergers and acquisitions. It is proposed that expectations on the part of both parties to the merger can act to moderate the effects of culture clash in M&As on acquired management attitudes and behavior, and thereby influence post-merger turnover and integration success."

KPMG (2011) listed the people and organization related implications on M&As, such as the various risks related in HR due diligence, development of a merged team, tackle change after amalgamation, and managing important leadership challenges. The study also includes some risk related variables such as talent risk, people risk, engagement risk, etc.

Weber and Rachman (2012) through their research suggest the absence of a best practice to handle the conflict situation and improve M&A performance.

3.1. Indian Studies

Bhaskar and et al (2012) tried to recognize how strategic amalgamation and communication of HR issues enhances the probability of deal success; and concluded that suitable changes in performance management, good compensation structure and a planned employee communication leads to a successful amalgamation.

Malhotra and Sharma (2013) analyzed the review of literature so far in the IT industry connected to the impact of M&As on HR practices in India and found out that the Indian viewpoint is absent in this issue. Though a very high volume of M&A is seen in India – very few research highlights the HR issues related to M&As. There has been no focus on IT industry based in India. The mergers and acquisition has been increasing in this sector ever since 2000 – but no research has been able to catch the crux.

Though the review related to this dimension has various lineages such as communication during integration process, cultural integration post M&A, post M&A HR issues, and employee's emotional response; this study is restricted to the variables required to measure employee satisfaction post-acquisition.

4. Research Methodology

4.1. Sample Description

 The sample consists of the top three IT companies according to NASSCOMs ranking. TCS, WIPRO, and HCL Technologies are the companies selected. Regional preference is Chennai which makes up to 7% of IT- BPM Companies in India.

Simple random sampling is the sampling technique used to select respondents. The respondents include senior level employees (HR Group head & Senior delivery managers) and junior level employees (Programmers, Senior programmers and Architects). The population defined for this study is 1, 70, 000 employees among which approximately 28% consists of senior level employees i.e., 47, 300. The sample size is determined using Krejcie and Morgan formula; which says for population more than 75000, the sample size is 384. Out of which senior level employees make up to 108(≈28% of total sample) and junior level employees make up to 276. But the valid response rate sums up to 33.33% of senior level employees (i.e., 36 respondents) & and 51.81% of junior level employees (i.e., 143 respondents). The employees taken for study belong to the acquirer companies.

4.2. Methodology

The data for this study is collected through questionnaire survey method. Two questionnaires are prepared separately for senior and junior employees and the respondents were asked about their opinion regarding the changes due to acquisition. After explicit reviewing, the variables used in the questionnaire were selected to analyze the experience of the employees after acquisition by their firms. The variables selected fall into various categories such as change in work culture, change in integration terms, redesigning organization structure, change in people cost, talent retention, and post-acquisition integration. The variables are listed in table 1 below separately for senior level employees and junior level employees. In total 16 variables were selected.

Sl. No	Senior level management	Junior level management
1.	Corporate culture	Infrastructure facility
2.	Employee retention	Technology Updation
3.	Employee attrition	Salary
4.	Recruitment of employees	Compensation
5.	Compensation system	Reward system
6.	HR Policy	Rules & regulations
7.	Infrastructure facility	Termination/ Firing
8.	Technology Updation	Work culture

Table 1: Classification of Variables

Six open ended questions were asked to senior level employees pertaining to general information regarding their company and its cross border acquisition. Questions regarding organizational changes are measured on five point Likert scale ranging from strongly agree to strongly disagree (Strongly agree – 5, Agree – 4, No Change – 3, Disagree – 2, Strongly Disagree - 1). The Business Dictionary explains Likert scale as "a method used to ascribe the quantitative value to qualitative data, to make it feasible for statistical analysis. A numerical value is assigned to each potential choice and a mean figure for all the response is computed at the end of the evaluation or survey". Percentage analysis is carried out to analyze the data. MS EXCEL 2007 is the software used to calculate and graphically represent the results. The percentage analysis is presented graphically variable wise based on their percentages.

4.3. Analysis and Empirical Results
The data collected through opinion survey method is represented in percentages and the results are presented separately for senior and junior level employees.

<u>4.3.1. Opinion of Senior Level Employee's</u>
The employees remembered only the recent acquisitions made by their companies. The acquisitions quoted are; WIPRO's acquisition of ATCO IT Services in July 2014, acquisition of Alti SA France by TCS in July 2013, and HCL's acquisition of AXON in December 2008. None of them gave any reasons for delay in negotiations. They have specified the year of establishment for the companies as; 1945 for WIPRO, 1976 for HCL and 1968 for TCS.

Figure 1 given below indicates that the senior level employees expirienced a major change in technology upgradation (86.1% strongly agree and 13.9% agree) after acquisition followed by Infrastructure facility (80.6% strongly agree and 19.4% agree). More number of employees experienced positive change after the acquisition in recruitment of employees (77.8% agree and 22.2% expirience no change), attrition (61.1% agree and 38.9% expirience no change), retention (38.9% agree and 61.1% expirience no change), and corporate culture (13.9% agree and 86.1% expirience no change). The senior level employees experienced only a slight positive change post-acquisition in their corporate culture and employee retention.
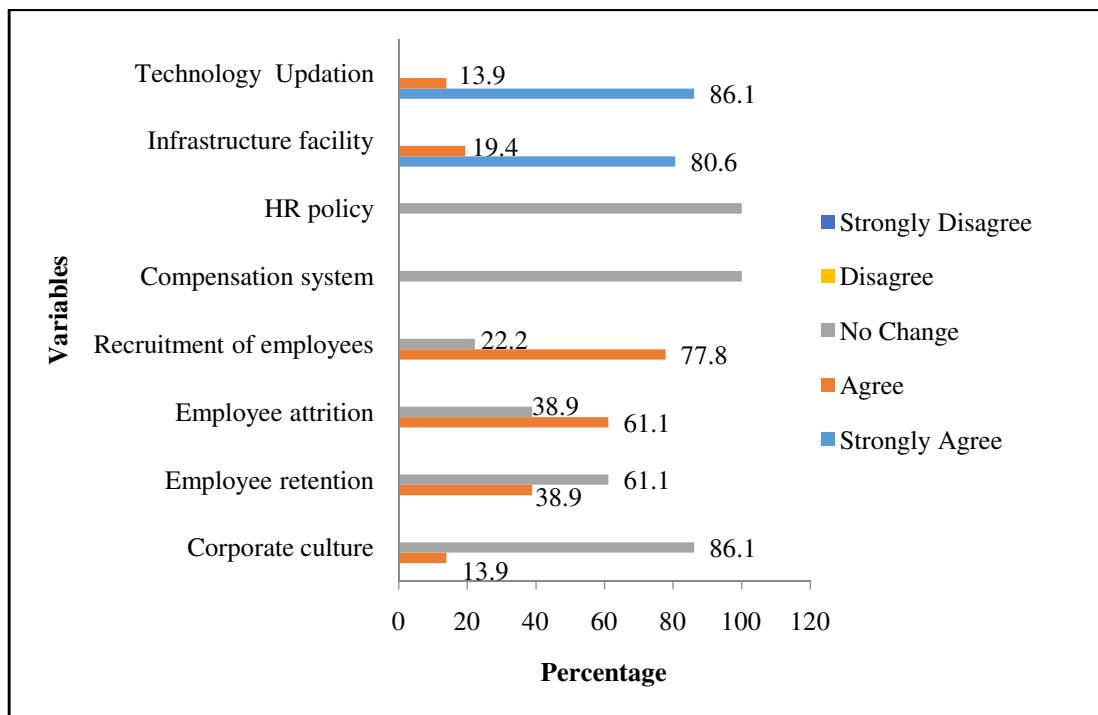

Figure 1: Opinion of Senior Employees

4.3.2. Opinion of Junior Level Employee's

The opinion of junior level employees is rated in Figure 2, which details that the employees did not experience any change in the variables taken except for technology updation (81.8% strongly agree and 18.2% agree) and infrastructure facility (30.8% strongly agree, 60.1% agree and 9.1% say no change). The survey conveys that Technology updation has a high positive change after acquisition followed by Infrastructure facility.
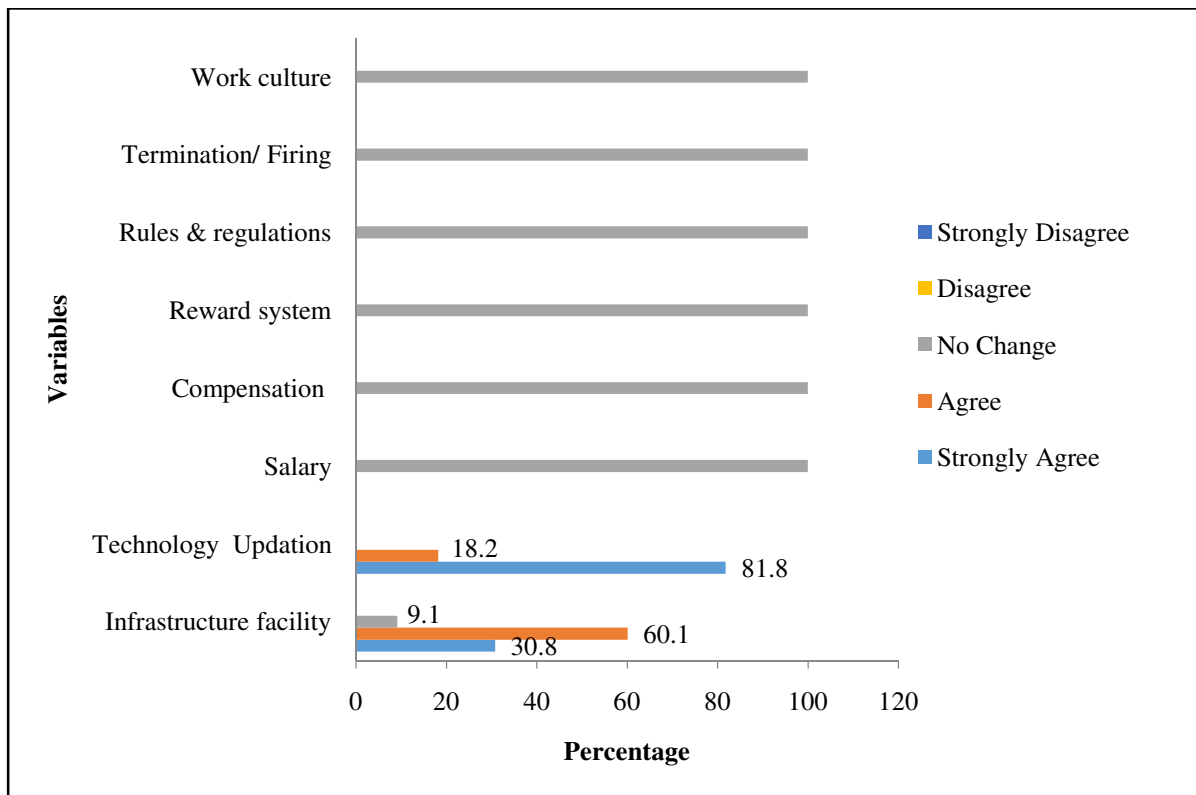

Figure 2: Opinion of Senior Employees

Thus from the survey conducted, the results conclude that both the senior as well as the junior level employees accept the occurrence of positive change in infrastructure facility and technology updation after acquisition.

5. Summary of Findings
- ➤ Out of 143 respondents surveyed 80% of junior level employees' felt the positive change in infrastructure facility and technology updation after acquisition.
- ➤ Further majority of the senior employees (86%) agree the same and they said not much change was experienced in corporate culture. Due to these changes attrition rate has increased.

6. Limitations
- • The survey pertains to Chennai and selected organizations only. Therefore, the results may differ in other parts of the country.

7. Conclusion and Recommendations

Updation in technology and infrastructure facility is the major priority of Indian acquirer's in the IT & ITES sector to go for cross-border acquisitions. It is concluded that the impact of the acquisition on the acquirer's employees is minimal. The improvement in technology and infrastructure, as a whole will reflect on comfortable working environment for employees; and proper training during the integration process will reduce employee attrition or switch over.

8. Abbreviations
- • HR – Human Resource
- • HRM - Human Resource Management
- • M&A – Merger and Acquisition
- • M&A's - Merger and Acquisitions
- • IT – Information Technology
- • ITES - Information Technology Enabled Services

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