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## A STUDY ON ROLE OF HUMAN RESOURCE POST ACQUISITION: A CASE STUDY OF SUN PHARMACEUTICALS AND RANBAXY LABORATORIES

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### ABSTRACT

*To keep head high in globalized economy one has to follow the path of growth and merger and acquisition is the primary growth and expansion strategy of present corporate world. But whenever a merger or any acquisition is announced in any sector of economy the first question comes to mind- is how much is the financial gain. There is no or little argument on the impact on the employees and relevant human resources related practices and issues. Companies do pay considerable attention to financial and strategic issues during merger and acquisition, but they frequently neglect human resource issues. In this study we have taken pharmaceutical sector of economy in which we consider a case of sun pharmaceuticals industries limited and Ranbaxy laboratories. In this case the role of HR\* is not favorable for Ranbaxy employees. The role of HR professionals is very important from the day one of merger and acquisition announced, but organizations had not given a seat to HR professionals on the table of merger process. Because of that 65% mergers and acquisitions are failed. It was therefore concluded that an organization must involve HR professionals in all phases of merger and acquisition. This research is a brief attempt to analyze the role of human resource in post-acquisition phase. This study is descriptive in nature. Secondary source of data and information has been used in this study. The scope of study is limited because study is based on secondary data. As per the requirement of the research data are taken from websites of companies, literature reviews, online documents and from journals. This research paper will be helpful for employers, employees, HR people, researchers and scholars.*

### KEYWORDS

mergers and acquisitions, human resource, pharmaceutical sector, role of human resource.

### INTRODUCTION

Today's business world is just like a global village, therefore external changes are the main requirement to maintain and improve the position of the business and it can be possible through mergers, acquisitions, amalgamations and takeovers activities. During the last decade, acquisitions have an increasing trend in pharmaceutical companies mainly due to high competition in this sector. Acquisition had four phases i.e. Pre-merger and acquisition phase, due diligence, integration and post-merger and acquisition phase. In this article we consider the post-acquisition phase which is the final and most crucial part of merger and acquisition. It can take months or sometimes even years based on organization size, geographical locations and the complexity in the agreement. There are large number of companies worldwide that believe in the philosophy of "growing through acquiring" but the success rate of these M & A\* is estimated to be mere 30-40%. Companies do announce that their mergers have been successful but they also accept they have not been able to earn expected benefits. Statistics shows that one of the major reasons behind failure of Merger & Acquisition is the human resource aspect. People issue is one of the most sensitive but often ignored issue in M & A scenario. When a decision is taken to merge or acquire, a company analyses the feasibility on the business, financial and legal fronts but fails to realize the importance attached to the human resources of the firms involved. Organizations fail to realize that people have the capability to make or break the alliance. Therefore, it is important for organizations on the verge of integration to analyze the feasibility of the integration on the human resource front. This is the responsibility of HR department to take care of the human resources in the merged entity in the post-acquisition phase.

\*M&As- Merger and Acquisitions

### CONCEPTUAL FRAMEWORK OF ACQUISITION

Acquisition in general sense is acquiring ownership in the property. It is the purchase by one company of controlling interest in share capital of another existing company. There are two types of acquisition i.e. friendly and hostile. In friendly acquisition the targeted firms want to be acquired willingly by another company and in hostile acquisition it allows bidder to take over the target company whose management is unwilling to agree to an acquisition

### COMPANY PROFILE AND ACQUISITION MOVEMENTS

In this study we consider a case of Sun Pharmaceutical and Ranbaxy Laboratories which is hostile acquisition. Sun Pharmaceutical was established by Mr. Dilip Shanghvi in 1983 in VAPI. It is a multinational pharmaceutical company headquartered in Mumbai (Maharashtra, India). Sun Pharma had made nearly 20 acquisitions since its inception in 1983. It is a Pharma research company and drug discover company. Sun Pharma has its own research center which is named as Sun Pharma Advanced Research Company Limited (SPARCL). It is formed in 2007 for research and innovation. Sun Pharma mainly focus on research and development to enhance the productivity of new generic and differentiated drugs for global market.

Ranbaxy was started by Ranbir Singh and Gurbax Singh in 1937 as a distributor for a Japanese company Shinogi. The name Ranbaxy is a portmanteau of the names of its first owners Ranbir and Gurbax. It is a multinational pharmaceutical company that was incorporated in India in 1961. The company went to public in 1973 but its big moment came in 1998 when it enters the United States the world's largest pharmaceutical market. Ranbaxy was the first foreign generic manufacturer to sell drugs in the US. In 2008 Daiichi Sankyo takeover the company from the Singh family by acquiring 63.92% stake in Ranbaxy in a deal worth \$4.6 billion.

In 2011 when Ranbaxy was struggling to improve its financial position then Daiichi Sankyo decided to sell the company because it had incurred a net loss and suffered a decline in net worth. It results in diminution in its value of its investments. On April 7, 2014 Sun Pharmaceuticals and Daiichi Sankyo jointly announced the sale of entire 63.4 % share to Sun Pharma in a \$4 billion all share deal. In this deal Sun Pharma agreed to pay their assuming \$800 million debt which is included in sale amount i.e. \$3.2 billion in stock and \$800 million debt. The swap ratio of the deal is 8:10 i.e. every shareholder of Ranbaxy to get eight shares of Sun Pharma in against ten shares of Ranbaxy.



>150 markets served	45 manufacturing sites	>30000 employees worldwide	>3000 marketed products
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## REVIEW OF LITERATURE

There are many roles of HR which have been considered as significant factor in managing merged entity effectively. Communication and transparency is an unavoidable factor to deal with the individual employee reactions to the merger.

According to Pablo Maran and Christine Pan Asian (2005) there is strategic literature on human resource role in merger and acquisition, the findings are that organizational and human resource issues have not receives in practice the level of attention that they should receive.

Kaydian Robinson Brown (2015) studied the impact of merger and acquisition on employee performance. They recommend some of the HR decisions in which the employee should take part. Kaydian said there are few areas of concerns like unity among employees, trust in leadership, communication etc. are few changes which impact employees. Kaydian gives recommendation like implement penalties on managers who do not recognize employees for work done, be transparent, effective communication. Host training sessions for employees to handle the change.

Uday Bhaskar (2012) examine that human resource as business partner when merger and acquisition takes place. Uday bhaskar finds that to make merger and acquisition successful an organization have to involve HR professionals in pre-acquisition phase and integration stage. He finds that after the merger cultural differences and organizational culture is a major challenge for HR.

Bhupesh Malhotra (2013) examined the HR practices in IT industry during merger and acquisition. He finds that employees are sometimes found them good enough or they waited on to see how things shape up and he also find that 20% of the work force of the acquired company resigns even before the integration activities are completed.

Linda S. Johnson (2000) discusses the critical human resource issue that should be considered during the phases of merger and acquisition. She stressed on careful planning and early involvement of HR professionals in this process. She finds that by satisfying the employees in work HR professionals helps the organization towards maximizing the potential for success.

Rita Salame (2006) stressed on why do mergers fail what can be done to improve the chances of success. She examined that 60% to 80% mergers are financial failures when measured by their ability. Many studies are pointing to the neglecting of HR issues as the main reason for merger and acquisition failures. She finds that senior executives must realize the importance of HR issues in the success or failure of mergers, they are not doing enough to encourage the involvement of HR teams and employees in merger and acquisition process.

Craig W. Fountaine (2007) studied the role of HRM in merger and acquisition. He evaluates that 65% of mergers and acquisitions that fail because of people issues, cultural issues and communication issues. This is because of HR has no seat on the table of merger process. He finds that there should be best practices checklist for HR professionals while involved on mergers and acquisitions- Leadership, Transition team, Structure and all along communication at all levels are key elements.

Teresa A. Daniel and J.D (2010) focuses on the management of human resources in the process of merger and acquisition. It describes the typical phases of an M&A and HR's role during different phases of the M&A process. The findings of this study are incompatible culture, management styles, poor motivation, loss of key talent, lack of communication, diminished trust and uncertainty of long term goals are some of the reasons of non-participation of employees in merged entity.

## RESEARCH DESIGN

The research design of this study is descriptive in nature. In this study the case of Sun pharmaceutical and Ranbaxy laboratories have been taken for research. This study includes employees from top level and middle level. This is a qualitative research and the data is collected through secondary information from websites of companies, journals, online documents and through literature reviews. It concentrates on how HR professionals can handle all the complexities of employees during post-acquisition stage.

## DISCUSSION

When acquisition takes place in any sector, the most affected person is employees of the organization. The employees might have many questions in their mind basically about their job security, compensation pattern, designation, job profile etc. This study relates to role of human resource in post acquisition stage.

In India pharmaceuticals acquisitions have been viewed as forced marriages in which the employees are absorbed. In this acquisition case the Ranbaxy top level executive had quit the company because of the salary structure, designation and culture. According to *Economic Times Sept 2015*, the company resources said that nearly 2800 employees had quit the job when the deal was announced. After the completion of deal, the new leadership team was made which mostly comprised of senior executives from Sun Pharma because of that step of sun pharma HR department nearly 150 top executives including vice president had quit the company due to designation of job and uncertainty of role and responsibilities in a merged entity. The problem of senior Ranbaxy executives became acute when Sun Pharma filled all crucial slots in merged organization with their own people. One single top executive was retained with the company whose name was Subodh Deshmukh, who handles over the counter business.

Sun pharma had asked to 18 top executives of Ranbaxy to leave the firm. Some of them are Indergit Banerjee-president and CFO, Yugal sikri- country head of India, Maninder Singh- VP Marketing, Govind Jaju- global head and Rahul Bhaduri- Director of finance. The executives had been given a severance package and a freedom to exercise their stock options before leaving and sun pharma gave four months' notice to these employees to look for a new job.

Some of the staff member of Ranbaxy had said that there is no certainty of role and responsibility and this creates a fear of decline in status or career prospects and feelings of being shunted in their mind.

After the deal was complete Sun pharma appointed HR manager Mr. Yashwant Mahadik to handle 30000 employees of merged entity. He had over 25 years of experience. But his attitude was not positive towards Ranbaxy executives. Their decisions are not in the favor of Ranbaxy employees. The new HR team gave all crucial roles and responsibilities to Sun Pharma executives which was considered very unfair by Ranbaxy executives. When the top executives had left the company, it also affects the morale of juniors.

According to the company sources there was big difference in cultures of two companies. The merged entity had 6 days working but in Ranbaxy there was 5 days working in a week. According to *Ramesh Edige the former employee of Ranbaxy*, Sun pharma indirectly gave an appropriate and gentle message to Ranbaxy team is to prepare for adjustments may be ready to take a hair cut in the salary and join at one level below or look for a job outside

The above discussion clearly points out that in the acquisition process the most affected is the human resources of acquired company. Their roles, rewards, recognition, job profile etc. all are affected to a great extent leading to increased stress level in their minds and DE-motivating them.

On the basis of extensive literature review, the post-acquisition phase include various aspects faced by employees -

- Corporate culture
- Existing value systems
- Staff qualifications
- Stress management
- Salary
- Technology
- HR policy
- Leadership styles
- Core competencies
- Post integration

- Allocation of responsibility
- Language barriers and country specific cultural differences

These are the issues which generally pop up in the mind of employees when they come to know about the acquisition of company.

## RECOMMENDATIONS

It is very important to involve HR professionals in merger and acquisitions as it involves people and has an impact on key people issues. HR professionals play an active role in the change process by offering their interventions to help ensure a successful merger and acquisition. To stop the kind of mass quitting that happened in Sun Pharma – Ranbaxy merger, management has to take following important steps:

- Firstly, to identify the key resources in both the organizations (key resources does not necessarily mean the top people in the management cadres, but those who have a following in the company as knowledgeable and trustworthy employees).
- Secondly, proper communication with the employees should be there so that they should not feel that they have been kept in dark. Communication channel should be open in all directions once the decision is taken on an acquisition. Involve employees in the decision making regarding changes that greatly affect them and projects
- Thirdly, host training sessions, workshops, seminars, and socials to get employees familiar with and make employees feel like a part of the change that is about to take place.
- Lastly hold senior managers accountable for getting employees involved and for team engagement. And this is the major challenge for HR to retain the top executives.

The major challenge for the HR department of the organization is to retain the talented person. One important point had been noted by literature reviews that it is the most talented resources of the organization that leave it first. Therefore, prompt and timely action is essential on part of the HR department. A wait and watch attitude can only destroy or spell doom as the employees wouldn't think on similar lines. They have their career at stake and they wouldn't want to take risks on that front.

For HR professionals, mergers and acquisitions are particularly challenging as they are expected to be agents of change rallying employees and keeping them focused on the right behaviors and activities. They need every tool possible to bring clarity and stability to the situation, so the employees can remain focused on their jobs.

So from all these we can say that there should be proper planning of human resources for merged entity, this must be done through talent mapping process. HR professionals must assess their existing skills and identify those required for future. There are three steps for talent mapping process first, conceptualize your talent strategy, secondly, assess and select from the talent you have on hand and lastly, develop talent mapping methods and implement these. As we know that in large organizations it's not enough to simply fill roles for today, it's about attracting, retaining and engaging the right talent who will tackle work force challenge for the next five to ten years.

This is responsibility of HR managers to take up the fair approach for acquired company employees by providing them proper information, channel of communication, dignity and respect, retaining the top talent, helps the employees coping with changes and new culture. If the management decides to downsize the work force, they had to convey a message well in advance to the employees. All these initiatives should ensure a company involved in a merger and acquisition to make it a successful integration.

### Best practices to be followed by HR

- Identify leaders from both the companies
- Train managers on the nature of change
- Explain new roles to the people
- Orientation programs on new policies and procedures
- Orientation programs on performance management, compensation and benefits.
- Identify the skills of people and mapping them appropriately.

These are some of the HR practices to be used by the HR department so that the percentage of success of merger and acquisition would be increased.

## CONCLUSION

Merger and acquisition are common in today's global market place. This is considered to be the most opted strategy for expansion. It is a way for companies to create synergistic effect and provide sustainable competitive advantage but simultaneously these sorts of corporate mergers have the potential to create severe personal trauma and stress which can result in psychological, behavioral, health, performance and survival problems for both the individual and companies. Most of these functions are handled by HR department of the organization. The most complicated stage of merger is post acquisition stage. To manage this stage is a difficult and complex task. It comes along with long lists of activities and tasks that have to be fulfilled within a short time and partly with incomplete information's. There are many opportunities and many decisions to take. In this stage HR can play a vital role in employees coping up with change and culture, organizational hierarchy, right job to right person, alignment of compensation benefits and welfare services etc. In the case of Sun Pharma and Ranbaxy, the HR department seems to be unfair to Ranbaxy employees and that may be one of the reasons for half of the workforce to quit the company. It can also be considered as lose of Sun Pharma in terms of losing top talent of Ranbaxy. The scope of study is limited because of the research based on the secondary data. This study may be helpful to employees, research scholars, employers and HR people.

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