



## INTERNATIONAL JOURNAL OF RESEARCH IN COMPUTER APPLICATION AND MANAGEMENT

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**Contributions to books**

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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- Chandel K.S. (2009): "Ethics in Commerce Education." Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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- Kelkar V. (2009): Towards a New Natural Gas Policy, Economic and Political Weekly, Viewed on February 17, 2011 <http://epw.in/epw/user/viewabstract.jsp>

**EMPLOYEE LAY OFF IN MERGER AND ACQUISITION-A CASE STUDY OF AVIATION COMPANIES IN INDIA**

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**ABSTRACT**

The paper is about impact of merger and acquisition on employee lay off, a case of aviation industry in India has been taken. Two aviation companies were visited to collect the data in Mumbai. In depth interview was conducted to get the data along with other sources like newspaper, reports, journals, websites etc have also been used for data collection. It is about how there is cases of lay off in organization as a result of merger and acquisition and how it impacts the HR Integration process. This study gives a conclusion that merger and acquisition brings about duplicity of work and therefore there exists maximum possibility of lay off against those positions in organizations. The ongoing financial crisis during the year 2009 also impacted the lay off in aviation companies. The implication of study is about being careful while handling manpower matter in cases of M&A. The layoff is beset with possibility of fear and insecurity among employees. This may impede the HR Integration process. Pseudonyms have been applied in this study and therefore the names of the organizations have not been produced.

**KEYWORDS**

Layoff, merger, Industry, employee, acquisition

**INTRODUCTION**

Grant Thornton survey on International Business Owners, through 6900 interviews in 26 countries across Europe, Africa, Asia Pacific and the Americas, concluded that 34 % of business will consider M&A as a method to enhance or balance the profitability. (Harish H.V and Srividya C.G.,2004). According to Hrishikesh Mafatlal, CEO, Mafatlal Industries, "Mergers optimize funds utilization by the companies" (Business Today, Dec.7-21,1995).

Merger and acquisition is like a panacea for a company, which is confronting with the evils of cut throat competition and for those who are willing to expand in short span of time. It has been seen that every economy has a cycle of mergers and acquisition. US have dominant spells of merger and acquisition in recent times. Since the product life cycle shortens and there comes saturation in the period of new product introduction and in that case, companies are compelled to opt for merger and acquisition. However, we cannot brush aside the fact that merger and acquisition is being used as an open option to create conglomerates and to reduce operational cost. There are certain circumstances where mergers and acquisitions have taken place because of administrative reason. However, there may be several factors of merger and acquisition but the objective is to access the market smoothly and substantially. Merger and acquisitions are always a decision taken at the top level; however its impact is being seen at the bottom once it is done. There has been merger and acquisitions in several companies in recent times and the acquisition resulting in lay off of several employees from the company. It was a threat to those who were in the middle of their age and are not technically skilled. The study on merger says that in most of the cases the chances of success of merger is 50-50. Investopedia.com defined cited in Bajaj (2010) 'Merger' as "A merger involves the mutual decision of two companies to combine and become one entity, it can be seen as a decision made by two 'equals'.

The combined business, through structured and operational advantage secured by the merger, can cut costs and increase profits, boosting shareholders value for both groups of shareholders. A typical merger, in other words involves two relatively equal companies, which combine to become one legal entity with the goal of producing a company that is worth more than the sum of its parts. In a merger of two corporations, the shareholders usually have their shares in the old company exchanged for an equal number of shares in the merged entity"

Answer.com defines cited in Bajaj (2010), Merger as "The statutory combination of two or more corporations in which one of the corporations survives and the other corporations cease to exist"

Investopedia.com defines Acquisition as, "A takeover or acquisition is characterized by the purchase of a smaller company by a much larger one. This is combination of unequal can produce the same benefit as a merger, but it does not necessarily have to be a mutual decision. A larger company can initiate a hostile takeover of a smaller firm, which essentially amounts to buying the company in the face of resistance from smaller company management.

An acquisition paves the way for quick entry and instant access to local resources, but the acquired company may need deep restructuring to bridge the gap between the two organizations (Meyer and Estrin,2001).Acquisition is purchase of stocks in an already existing company in an amount sufficient to confer control (Kogut and Singh,1988,p.412).

Though there is numerous materials available in the market on corporate strategy but there are handful of books which give insights to confront the problems in mergers. (Heller 2006).

Answer.com defined different types of mergers

1. Horizontal Merger: In this type of merger there is consolidation of firms who are rivals of each other.

2. Vertical Merger: This happens by consolidation of firms that have potential buyer or seller relationship.

3. Conglomerate Merger: In this kind of merger there may be sharing of marketing or production channel and are unrelated in business.

Congeneric Merger: This merger happens between two companies which are in general business and are not having any buyer or seller relationship. For example: Merger of a leasing company in a bank.

**EMPLOYEE LAY OFF**

The mergers at large prove to be problematic and painful for the employees of acquired firms; the outcome may range from anger to depression. The usual impact is high turnover, decrease in the morale, motivation, productivity leading to merger failure. The other issues in the M&A activity are the changes in the HR policies, downsizing, layoffs, survivor syndromes, stress on the workers, information system issues etc. The human resource system issues that become important in M&A activity are human resource planning, compensation selection and turnover, performance appraisal system, employee development and employee relations (Pande and Krishnan, 2009).

Answer.com writes on Lay off "when a company eliminates job regardless of how good the employee performance"

Many authors like Allred, Boal and Holstein (2005), Marks and Mirvis (1998), Galosy (1990), Schweiger, Ivancevich and Power (1987), and Jemison and Sitkin (1986) found factors like loss of position, culture clash, arrogant nature of the acquiring firm, obsolescence of knowledge of parent firm, parting with trusted subordinates and colleagues, compensation loss, change in definition of job, career plans and relocation or transfer and job loss for being main causes for employees dissatisfaction after a merger or acquisition. (Bajaj,2010)

As per a study of 25 firms in seven years, the average employment in total was 205000 employees. Around two third of the total employees were in eight inefficient firms studied. The government has been under tremendous pressure for doing and not doing the downsize. (Pande and Krishnan, 2009).

The paramount issue for employees during a merger is their security of jobs. Afterwards they also give value to pay and other benefits, autonomy in work and feedback on their performance. (Schweiger et al.1987). Job insecurity becomes fertile in cases of mergers, injustice in procedure and unfair treatment are seen



vagrant in fact. The risk involved in merger may be reduced by decisions of human resource department on stability of the workforce and cutting the employee +strength through attrition not rather than redundancy.

This inculcates security and certainty for staff. Astrachan (1995) described separation anxiety as an anxiety associated with a situation of fear of change in relationship or ending of a relationship drastically. The anxiety created by merger and acquisition may be managed by proper communication about changes taking place in organization and the future course of action regarding jobs of employees.(Garpin & Herndon,2000; Schweiger & Denisi, 1991).

While employees of an acquiring company may feel enthusiastic about the new challenges being brought to them by virtue of integration, employees of an acquired company may confront with different reactions, like, uncertainty, anxiety or fear of major changes (Machiraju, 2003).

Astrachan (1995) described separation anxiety as an anxiety associated with a situation of fear of change in relationship or severing a relationship drastically. The anxiety created by merger and acquisition may be managed by proper communication about changes taking place in organization and the future course of action regarding jobs of employees.

In view of the changes being brought in organization, the main concerns of employees are the job security and their future prospect with the company<sup>1</sup>(Daniel & Metcalf, 2001).

Mergers and acquisitions take place for change, and this change in reality inculcates varied emotions among groups of employees (Leedy & Ormrod, 2005).Shinde,(1995) cited in Rao P.Mohan,(2004) *“Winds of liberalisation blowing hard over Indian corporate sector which undergoes a process of restructuring to gain competitive strength.But to achieve this goal,unrestricted mergers and takeovers may prove counter-productive.”*

**PROFILE OF CASES**

**CRAVE AIRLINES AND DULA AIRLINES**

Crave Airlines is a public sector aviation company. It was established in year 1946. There has been merger of Crave Airlines and Dula Airlines in recent past. Dula Airlines was also a public sector aviation company and it was established in year 1953. The new name was Crave Airlines. Earlier Crave airlines were operating in foreign whereas the Dula Airlines was operating in domestic market. Both the airlines were making huge loss. The decision on merger of Dula Airlines and Crave Airlines was an outcome of the rising concern for the losses being made by the duo. Though, lay off was not planned as an instant plan to cut the fix cost but several flexible hr policies were brought to cut the burden of salary. The company had also bought a fleet of new aircraft and that was seen as the strength for the company where as it has brought the company at a high expense end. There was effect of financial crisis also as the company had cut the number of flies and also dropped from some routes in domestic and international locations. The merger happened in 2007.

Though, a consultant was assigned to develop a common HR policy for newly formed airlines and there was possibility of introducing voluntary retirement extra for reducing the fixed cost. The company has also introduced leave without pay policy. As per report the newly purchased flight were liked by passengers.

**ALDER AIRLINES & TRIZON AIRLINES**

Alder Airlines was a low fare airline, and it was not doing well financially since it was in the need of financial support. It came into effect in year 2003. Trizon was looking for strategic acquisitions and acquired Alder and created a new brand in the name of Trizon Low, as a low fare carrier. This had tremendous impact on workforce in fact it created duplicity of jobs. The subprime crisis had impacted aviation industry and the impact was writ large as several flights for routes were discontinued. The carrier had no option but to cut its fixed cost through lay off and salary & other such facility cut. As per Business Line,( 23<sup>rd</sup> Sept,2008) , 300 employees were laid off till date.

**PERTON AIRLINES AND KRITONA AIRLINES**

Perton Airlines was established in India in year 1992 and soon it became market leader. Though airfares were high in India and there was need to capture middle income customer segment. There was trend of merger and alliances and Kritona Airlines was not doing good and it was indeed planning for merger. Thus it merged with Perton in year 2007. A new brand name was introduced as Perton Fly and it was used as low fare carrier in India. There was mutual consent that employees will not be laid off. There was plan to redeploy those who were victim of duplicity of work.

**MERGER AND ACQUISITION IN AVIATION COMPANIES IN INDIA**

Name of the company	Year of Establishment	Year of M&A
Crave Airlines	1946	2007
Perton Airlines	1992	2007
Kritona Airlines	1993	2007
Alder Airlines	2003	2008
Dula Airlines	1953	2007
Trizon Airlines	2003	2008

**METHODOLOGY**

Qualitative method was selected for this study. Qualitative approach is helpful in understanding the problem by virtue of feelings, emotions etc. In-depth interview was used as tools for data collection. Apart from in-depth interview different documents like newspaper, journals, reports, websites have also been used for data collection. Three aviation companies, where merger and acquisition took place, were taken for this study. The research setting was in Mumbai since the offices of aviation companies were in Mumbai.

The unit of analysis is the employee lay off due to Merger and acquisition in Crave Airlines & Dula Airlines, Alder Airlines and Trizon Airlines and Parton Airlines and Kritona Airlines in India.

**DATA ANALYSIS**

For data analysis the responses of interviews were noted and also the data from other sources like newspaper, journals, reports, websites etc were noted. These data were analyzed by finding the lay off and decision to lay off in aviation companies. The impact of lay off and such decision were also analyzed. Since, there was one public sector company where decision to lay off was not taken rather, voluntary retirement, leave without pay etc were planned, these factors have been considered while analyzing the data.

**OBJECTIVES**

- To understand the impact of merger and acquisition on employee lay off.
- To identify the outcomes of employee lay off on HR Integration process in Merger and acquisition

**FINDINGS**

Every merger has its distinct motive behind it (Ansoff et al ,1971,Salter and Weinhold 1981,Walter and Barney,1990) and it is oriented towards getting synergistic benefits from the combination of involved entities in the act of merger. The airlines industry had also been worst impacted by subprime crisis. Crave Airlines introduced voluntary retirement scheme, which was not accepted by employees, employees were even unhappy with any possibility of pay cut or delay in payment of salary. The airlines had problems in lay off being a public sector organization. Similarly, Kritona Airlines decided to lay off 1900 employees but

there had been industrial action and those employees who were getting affected went to demonstration and dharna. There was news in mass media and the airline had to revert back its decision. Though there was salary cut rather than lay off. Though it was reported that there was lay off in the airline. As per data, In the Trizon Airlines, there was strategic lay off as employees were being laid off in small numbers but that was repeated for several times. Around 300 employees were laid off till 23<sup>rd</sup> Sept, 2008. Out of them, 200 were security personnel. It was observed at large that an anxiety got developed out of such measures among other employees also. Employees were laid off and they were helped in resettlement through a recruitment consulting. Though this had impact on other employees also. Infact the layoff was not only because of M&A rather the financial crisis had also affected the process. Though M&A brought downsizing in the aviation industry but financial crisis made it more intense and in depth. This had debilitating effect on integration process in organization. There was no data found on using the surplus employees in some other function in the company. The companies were lacking the strategic plan to integrate those employees while diversifying business.

HR managers organized several joint interactions, leadership activities to develop a rapport among employees but the group dynamics was difficult to break initially. The company also provided job search support to employees who were identified to be laid off. They were connected with job consultancy to search suitable job for them. They were also told that there is option to call you back in case there is any opening as per your previous job in the company. It was also reported that the layoff has made the HR integration more difficult since employees are looking at the situation with a doubt and fear that they may be the victim. There is difficulty in integration initiatives due to such effect. The recent financial crisis has also touched the aviation industry and the organizational performance has gone down. The companies were thus compelled to cut the cost due to market circumstances. Lay off was seen as a result of merger and acquisition, there had been duplicacy of jobs and companies had to cut the cost somehow. The impact of lay off was seen on other employees also as there was fear that there may be information on retrenchment. It had affected the communication process in organization and resulted in creating difficulties in HR Integration process.

HR Managers play significant role in HR integration as employees communication is being done by HR department only in all cases of merger. In case of Kritona Airlines and Perton airlines, both the companies had informal consensus that no employee would be laid off as a part of acquisition process and surplus employees would be absorbed in Perton Airlines. Thus employees were at least convinced with the fact that they will not lose job though there might have some difficulty like transfer and change in department etc, HR department had the key role in persuading the employees to join at new locations with new positions.

## CONCLUSION AND IMPLICATIONS

There exists possibility of loosing of efficient manpower. This has negative impact on integration process and thus organizational performance also gets affected as whole. It was seen that the job security was key concern for maximum employees since it has been seen in many cases that restructuring follows the merger and rightsizing is the part and partial of restructuring. Companies introduce measures to cut fixed cost through salary cut, job cut, offering unpaid leave and Voluntary Retirement Scheme etc. This creates a fear among other employees also. They become insecure regarding their future and it influences employee integration, productivity and performance. Employee morale was down due to such initiative. Merger brought immediate lay off at large as happened in some cases here that certain category of employees had to lose their job. This is not conducive to the health of organizational culture, and employee relation. There have been cases of strike, demonstration and protest and government had to interfere with the matter to sort out the issue. M&A is followed by a restructuring since there is task duplicity in several cases. Hence the very organizational structure gets an exposure. The employee lay off disseminates like a fire in the forest and a sense of insecurity develops among employees. Therefore there is need to have more research on measures which may develop alternative model for creating business diversification by the virtue of employees who become surplus.

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