Impact of Merger & Acquisition on Employee Culture: A Case Study on DXC Technology

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Abstract

When any merger or acquisition takes place, the motive is mainly on financial gain through market or technology capitalisation. A merger always brings with it a lot of structural changes in the newly formed organisation. The main stakeholders, apart from the Board of Directors include customers, employees, creditors and suppliers. The employees are involved in the process, throughout the entire journey and its aftermath. The state of the employees during and after the mergers is not the same. The employees would be in a state of insecurity and apprehension about their positions and future. Any merger would have its impact on the work culture and employee satisfaction. It is necessary to understand the employee’s perspective on mergers. This research is focusing on the case of a recent merger in the IT industry. The spin off merger of HPE with CSC had resulted in a new company, DXC Technology. The study has conducted a review of the merger, with emphasis on its impact on the employees and has been conducted in the Chennai division of DXC.

Keywords : Mergers, Spin off, Employee perspective, DXC Technology.

I. Introduction

Indian corporate has seen many swings in the recent past, of various degrees. There have been many events of mergers and acquisitions in Indian corporate in the last decade. Foreign investors and major players of IT and Telecom sectors see India as one of the fastest growing industries of the world these mergers and acquisitions often take place for growth or diversification of either one company or both companies that participate in merger, or for the company that acquires[IV]. And, improper merger or acquisition often disturbs employee’s professional and personal lives as well as the employee culture[VI]. This paper is part of an ongoing research on the mergers and acquisitions in the Indian IT sector for the past ten years. In this aspect, the HPE merger is a noteworthy one and hence it had been taken for the study.
I.i. Need for the Study

The aim of this research paper was to examine the post-merger experience of the employees at the merged entity, namely DXC Technology. There is a dearth of literature when it comes to the post merger experience of the employees and their perspectives, when it comes to the study of M&As. The emphasis is always more on the financial gains rather than the employee’s experiences even in making a merger successful. The focus group study was considered as the best approach to gain insight into the perceptions of the employees in the given time. The spin off merger took place in 2017 and the study is conducted two years after the merger. Cartwright and Cooper (1995) had suggested that changes that occur due to organizational transitions, can have an effect on employees on anytime between six months to four years and later.

II. Objectives

To study the spin off merger at HP Enterprises
To study the influence of the merger on the employees of DXC Technology in Chennai division.

II.i. Research methodology

The case study approach had been followed here to study the background of the spin off merger that resulted in DXC Technology and the impact of the merger on the employees. This case study focuses on the perception of employees of the Chennai branch of DXC Technology. Focus group method had been followed to study the problem. The study had been completed in a short period of five weeks. Due to different shift timings, there were some difficulties in conducting the meetings, follow up and feedback. These are inherent to any such kinds of studies and had been overcome.

II.ii. Merger & Acquisition

Haberberg and Rieple (2001, p. 612) characterize a merger as “the creation of a new legal firm by the bringing together of two or more previously independent companies”. This definition recognizes that two heretofore independent companies are uniting to form a new separate legal entity. (Lawlor, 2013). Corporate Restructuring is an important part of strategic management. Two companies may merge together to form a new company, aimed at synergy in terms of technology, workforce, finance or brand value. A stronger company may take over a less competent company and in this case, it becomes an acquisition [VII].

In this case, HP made its historical division in 2015, where the company divided into Hewlett Packard Inc. and Hewlett Packard Enterprise. HPI, focused on
the desktop and laptop projects for both personal and business use, while maintaining the imaging products of printing and scanning. HPE has its hold on products and services focusing on data management centers like service, enterprise storage and service and networking. HPE also takes care of professional consulting. The spin merge here is the merger of HPE with CSC Corporation in 2017. There is also the ongoing process of another spin merge with Microfocus.

HPE is on a visible acquisition spree as it has to increase its capabilities to match with increasing demands of big data and analytics. By acquiring small cap companies, which focus on the Big Data, HPE uses the strategy to retain its competitive position in the changing technological era.

II.iii. Impact of Mergers on Employees

When a merger takes place, the employees are in a complete state of insecurity and after the merger they may face various shocks in terms of culture, compensation and work life balance. If the only asset you're buying is people, and you upset them, all you have bought is an empty room. (Bowl, 2005). If the employees are disappointed at their front, the merger would not prove fruitful and may fail in achieving its intended purpose. The nature of a merger whether it’s a friendly or hostile one, has an impact on the employee’s attitudes.

One of the studies had examined how mergers influence job security, characteristics and work relationships. Even in the case of a friendly merger, these attributes diminish after a period of three months. There could also be reversal of attitudes among employees. Some employees who were initially positive may turn into negative and vice versa. (Fairfield-Sonn, Ogilvie, & Del Vecchio, 2002)[IX]. The mergers are viewed as very attractive organizational strategy but at the same time as traumatic incidents for the employees and the post merger proceedings put the organizational morale and commitment of the employees under question. When mergers are done for technological synergy, it becomes all the more difficult if the employees commitment is decreased post merger.

II.iv. Focus Group study Approach

The focus group was briefed on the need for the study and was encouraged to share their views on their post merger experiences. There were six people who volunteered for this study. One interesting feature was there are people who had been with HP, right from the beginning, had witnessed the HP split and is now part of HPE-CSC merger too. Three members were of that background. The other three have joined the company in 2016, a little before the spin off. The researcher had been the moderator and had suggested some points for discussion. The group members were not guided nor led towards any desired outcomes and rather a honest, free flowing discussion was encouraged.
II.v. Excerpts from the Focus Group study

“…..We are clueless about the happenings in the organization. Everyone of us hear new things everyday, but are not sure about the reality. We hear lot of initiatives but seldom see any implementations.”

“…..As someone who has been with the company for a long time, I understand that change is inevitable for a technological giant like HP. That’s the reason why we see the split offs and the mergers. The change is a little difficult at first, but it is for perennial good.”

“… I am more worried about my career because the work culture is changed. There are no more flexible work timings. Gone is the global culture of HP and I am stuck with something I do not no longer understand and do not want to part of this.”

“… I come and go and do what is assigned to me. I am no longer engaged but I am simply employed. I don’t see the big picture but I’m happy that I don’t have to work all the time.”

“….I accept the change and am happy that my company is expanding. Sometimes I feel I am not part of the happenings as we don’t have the least idea of our vision and there is no single trace of effective leadership.”

II.vi. Findings from the Study

The focus group members have given diverse opinions. They were uniform in some aspects. It is clear that the employees are not clear about the future growth of the company and their contribution for it. They all desire for a more strong leadership with systematic planning rather than coffee talks and motivations. They also believe that they belong to a company which has a global presence.

Talking of the fears, employees are always under the threat of layoffs. The company is under a downsizing exercise and hence employees are full of fear of losing their jobs. They have started updating their resumes and learning new skills to prepare themselves for a better start in some other company. Employees have expressed that the culture has been completely changed and they are unsure whether it is for good or bad. They are apprehensive about their roles as there are no clear guidelines available as earlier. Though they have accepted the merger, the post merger culture is not conducive enough to foster the needed growth.

III. Conclusion

The study has helped in gaining the insight about the merger and its impact on employees. HPE is on a clear track for growth in terms of acquisitions. It is inevitable that the company has to make its mark in the Big data era and the M&A strategy is quite sensible. At the same time, planning the merger, implementing it and
post merger management are significant issues. The post merger management, especially in the human resource front definitely needs an improvement. Though the focus group study is a small sample, it is again the honest expression of the employee’s perspectives. Rumor is one aspect which kindles the fear and anxiety in such mergers. Though the impact of rumors is less in this case, it should be further mitigated by clear communication. HPE should develop a systematic post merger policy and standardize the procedure, for successful navigation of the employees. The existing policy is less than satisfactory and the company has to address this challenge, seriously.

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