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Merger of Tech Mahindra and Satyam Computer Services Ltd. with special reference to HR Issues

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Abstract: *Satyam Computer Services Ltd is an Indian IT services company based in Hyderabad, India. Tech Mahindra which was ranked #5 in India's software services firms and overall #161 in Fortune India 500 list for 2011, is a is a part of Mahindra Group conglomerate with headquartered at Pune, India. Tech Mahindra Limited is a leading global systems integrator and business transformation consulting organization, focused primarily on the telecommunications industry. Satyam unveiled its new brand identity Mahindra Satyam subsequent to its takeover by the Mahindra Group's IT arm on 13 April 2009. On June 24, 2013 Tech Mahindra and Mahindra Satyam merging process completed and the name of the parent company was retained for the merged entity with a new Logo and motto. Merger was delayed due to various disputes both in India and abroad. There were quite many problems in the areas of legal and judicial issues, diverse expertise of the merged entities and also the culture between two companies. All these problems were successfully handled by the companies even while working is virtually integrated companies before the High court clearance for the merger. After the merger various activities were involved to smooth out the procedures at the merged entity. This paper comprises of all such problems faced and solved at Tech Mahindra.*

Introduction:

Pre- Merger Scenario at Satyam Computer Services Ltd.:

B Ramalinga Raju created Satyam Computer Services Ltd. as a private limited company on 24th June 1987 which became public in 1991 and turned into world's first ISO 9001:2000 company to be certified 2 by BVQI by 2001. Its customers included World Bank, General Electric Company and its affiliates, State Farm Mutual Automotive Insurance Company, Megasoft Inc., Caterpillar Inc. NCR Corporation so on and so forth. The company started with offering software development and consultancy services to business organizations. It was growing and by 1996, it had already developed four subsidiaries including Satyam Renaissance Consulting Ltd, Satyam Enterprise Solutions Pvt. Ltd., and Satyam Infoway Pvt. Ltd. Satyam Infoway (Sify) was the first Indian Internet Company listed on NASDAQ. In December the 16th, 2008, p;roblems cropped up in the company when the Chairman Mr Ramalinga Raju, informed that he wanted to deploy the cash available for the benefit of investors and announced a $1.6 billion bid for two Maytas companies i.e. Maytas Infrastructure Ltd and Maytas Properties Ltd. promoted and controlled by the same family. The investors did not approve this step and became furious and Ramlingam Raju had to run away. World Bank announced on December 23, 2008 that Satyam has been barred Satyam from business with World Bank for eight years for providing Bank staff with "improper benefits" and charged with data theft and bribing the staff. Share prices were falling drastically. Ramalinga Raju resigns.

As NDTV informed, over Rs. 70 billion accounting fraud of non-existent cash in the company's books was disclosed. Three more independent directors Vinod Dham, Krishna Palepu and Rammohan Rao resign.Satyam's investment banker DSP Merrill Lynch terminated contract. On Jan 8, 2009 Satyam's bankers Citibank freeze its accounts. On Jan 9, 2009 Rs. Share price fallen to 23.85, Satyam removed from Sensex, Nifty; NSE excludes F&O contracts on expiry of Jan contract. Satyam former CFO Srinivas Vadlamani, senior partners S Gopalakrishnan and Srinivas Talluri of the auditing firm PricewaterhouseCoopers were arrested for their alleged role in the Satyam scandal. On January 22, 2009, Satyam's CFO Srinivas Vadlamani confessed that by inflating the number of employees by 10,000, the company was earning around Rs 20 crore per month from the related but fictitious salary accounts. Initially the board consisted of CII chief mentor Tarun Das, former president of the Institute for Chartered

Accountants (ICAI) TN Manoharan and LIC's S Balakrishnan. On Jan 11, 2009 under the instruction of the Central Government HDFC Chairman Deepak Parekh, Ex Nasscom chairman and IT expert Kiran Karnik and former SEBI member C Achuthan also joined the board. It was decided in the board meeting that top priority would be given to bring back the trust of the customers, employees, suppliers, and investors. J Deloitte and KPMG were appointed as new auditors and on Jan 27, 2009 Satyam announces Boston Consulting Group as management advisors; Goldman Sachs and Avendus as investment bankers.

Pre- Merger Scenario at Tech Mahindra:

Tech Mahindra Limited is an Indian multinational provider of information technology (IT), networking technology solutions and business support services (BPO) to the telecommunications industry.[3] Tech Mahindra is a part of the Mahindra Group conglomerate. It is headquartered at Mumbai, India.Tech Mahindra is ranked #5 in India's software services firms and overall #111 in Fortune India 500 list for 2012Tech Mahindra has operations in more than 30 countries with 17 sales offices and 13 delivery centres.

Its activities spread across a broad spectrum, including Business Support Systems (BSS), Operations Support Systems (OSS), Network Design & Engineering, Next Generation Networks, Mobility Solutions, Security consulting and Testing. The "solutions portfolio" includes Consulting, Application Development & Management, Network Services, Solution Integration, Product Engineering, Infrastructure Managed Services, Remote Infrastructure Management and BSG (comprises BPO, Services and Consulting).Tech Mahindra has implemented more than 15 Greenfield Operations globally. After the Satyam Episode of 2008-09, Tech Mahindra bid for Satyam Computer Services, and emerged as a top bidder with an offer of Rs 58.90 a share for a 31 per cent stake in the company, beating a strong rival Larsen & Toubro.

Tech Mahindra Acquired Satyam, Renamed it As Mahindra Satyam:

On Feb 19, 2009 when the share price was Rs. 46.25, in order to increase authorized share capital to Rs. 2.8 billion from Rs. 1.6 billion, company Law Board decided to identify investors to get hold of 51% stake in company through open, transparent and competitive process from those organizations that are having net assets in excess of $150 million. Investors need to provide proof of funds worth Rs. 15 billion. The companies interested in acquiring Satyam include L&T, Cognizant, Wilbur Ross and Tech Mahindra. The bidding process took place on Mar 11, 2009 under the observation of Former chief justice of Supreme Court S.P. Bharucha. Satyam intimates SEBI was informed about bidding process. Apr 2, 2009 when the share price was Rs. 39.90 Satyam modifies bidding process; goes for open auction and on Apr 13, 2009 when share price Rs. 48.85 Venturbay Consultants, a subsidiary of Tech Mahindra, turned out as the highest bidder for Rs.58per share. Thus Tech Mahindra wins bid to acquire 51% stake in Satyam. On Apr 22, 2009 Rs. 46.90 Tech Mahindra makes open offer to Satyam shareholders at Rs. 58/share, offer to close Jun 9. Tech Mahindra (holding 31% stake in Satyam) bought Satyam. On June 21, 2009 it was renamed as 'Mahindra Satyam'. In the board of the new company, Tech Mahindra CEO and MD Vineet Nayyar was appointed as the Vice Chairman , its international operations Head CP Gurnani as CEO and Subramaniyam Durgashankar as CFO. Deloitte Haskins & Sells was chosen as the company's statutory auditors. The board of Tech Mahindra and Mahindra Satyam approved the merger on March 21, 2012. This merger although got the approval from the Mumbai High Court, it was yet to get permission from Andhra Pradesh High Court, where Satyam's head office was situated. It got that approval on June 11, 2013 and the formal merger took place on June 25, 2013. It became the fifth largest IT services company with total revenues of $2.7 billion. The merged entity was to be called Tech Mahindra and Anand Mahindra will be its Chairman. Tech Mahindra will aim to almost double the turnover to $5 billion by 2015 with focus on telecom, manufacturing and BFSI (banking, financial services, insurance). The merged entity has a combined workforce of 84,000, including 36,000 in the erstwhile Mahindra Satyam and 40,000 in Tech Mahindra. Tech Mahindra now focuses on four segments—telecom, manufacturing, healthcare and retail. These will be further divided into divisions such as engineering design, analytics, network services, security, etc. The company will also focus on areas such as banking, financial services, insurance (BFSI) and newer areas of growth such as intellectual property and mobility. Currently telecom account for 47% of Tech Mahindra's consolidated revenue. (Origin: Aug 19,2013 Business Line)

Challenges:

Each and every organization has a unique characteristics, policies which form work culture of that particular organisation. Whenever employees settle in the culture, they feel a sense of belongingness to the company. Many a times it does happen that when culture undergoes some kind of changes, due to some reason or other, it might lead to demoralizing sometimes even devastating situations. During a merger or acquisition also culture can change and employees from the acquired company might face too much problem and can resist in accepting the new culture. It might lead to demotivation, frustration, lower productivity etc., which can affect a company to a great extent. Only 25,429 employees were associated with Tech Mahindra. As compared to Tech Mahindra, Satyam was a larger in size with more number of employees. After the acquisition total staff strength became 85,167. To handle such a huge workforce was a great challenge. At the same time Mahindra and Mahindra group had to gain the customers' faith on Mahindra Satyam and make it run profitably again.

Strategies adopted from HR perspective:

To ensure the smooth sailing, the Tech Mahindra management handled the merger very cautiously. To reduce the level of resistance to change, they tried to remove the fears like loosing the job. They informed that company's condition is good and they are not going to take drastic action for the existing workforce. Like any company in IT sector the attrition rate was high. Also as the company merged with Satyam, an attrition rate was about 25 per cent in the crisis years of 2009-10 and 2010-11. Number of employees declined from 45,000 in FY09 to 27,000 in FY10. Regarding the high rate of attrition CP Gurnani, CEO, Mahindra Satyam commented that the company had to right size to get back to track and that the attrition that took place was both voluntary and involuntary. However, the attrition rate became 13 per cent by the end of the second quarter of 2013 as it is mentioned in an article 'Mahindra Satyam to hire 1,500 engineering freshers' in Business online.

The company was under too much pressure to retain its employees across all levels. To reduce the attrition rate, the company had initiated a few recruiting programmes. Major thirst was given on campus hiring. Also a buddy-referral programme they initiated so that prospective employees would be aware of the company, its culture which would help to reduce the attrition rate. Some specialist positions and career tracks were created which would boost the morale of the employees. Emphasis was given on career planning. They initiated various programmes such as shadow board and global leadership cadre (GLC), the company had also proposed career and succession plans for its employees. They identified nine people through the shadow board. The idea is to create a workforce that can lead the company in the future. The organization believes that they have already have employees with leadership potential. So instead of hiring from outside, 95% of leadership roles are filled from within the organization. Based on their dreams and aspirations, employees started planning their own careers. An Employee having an experience of two years was eligible for specialist roles e.g., whether to become a team leader or an expert in a particular field in a period of two years. Anyone who has worked on a particular project or location for about two years could now demand a change in his role, position and geography.

As Vineet Nayyar, Executive Vice-Chairman, Tech Mahindra, said on June 25, 2013 "Over the past four years, while we worked through the statutory and legal issues, our teams worked closely on the ground to integrate processes, eliminate overlaps, leverage best practices and deliver enhanced value to all our stakeholders." When asked about retaining Tech Mahindra's brand name for the merged entity, Nayyar said Tech Mahindra was a better known company in the IT industry globally. Also, when surveyed, the majority employees of both the companies had supported retaining the same name. After the merger in HR policy, initially changes were required regarding working hours, leave encashment policies, offshore rotation or onsite rotation essential to run the business in a hassle-free manner. Due to the sensitivities involved in running two separate organizations, the management had always kept it as a parallel HR policy. The two policy sets were harmonized and integrated based on discussions. (Origin: Aug 19, 2013 Business Line)

The new structure has 30 segment leaders. This structure avoids duplication of functions and thus includes proper segregation of work among all. Now the company doesn't have 30 different human resource, finance or legal policies but all are combined and reframed adapting to new situations. There are internal and external, shared services. The new structure allows individual leaders to run each of Tech Mahindra's verticals as a separate company leading to taking the action more efficiently and effectively. So it basically provides ownership to the leaders and allows them to take up more responsibilities and carry them out in their own way successfully. Tech Mahindra and Satyam although working together as one team there is a proper segregation of duties to maximize the benefits from both the companies. (Origin: Article by J.P Sharma, Professor of Law & Corporate governance, Delhi School of Economics)

Roads ahead:

On January 3rd, 2014 the share price of Tech Mahindra was Rs.1836.05. On the basis of this it can be assumed the company is moving forward at a very rapid rate. Tech Mahindra and Satyam together expected to post revenue of about $2.7 billion in fiscal 2013. The vision of Tech Mahindra is to be among the top three firms in India in the business segments it is focusing on. Its aspires to reach revenue target of $5 billion by 2015. To attain this vision the company is initiating to reappoint its former employees in the mid-to-senior management levels who know the organization in and out. This strategy is successful and since the last six months, more than 100 persons who had quit Tech Mahindra and Mahindra Satyam have come back, C.P. Gurnani, Managing Director, told *Business Line*. As he mentioned, “All of them are bright and talented folks, who moved on because we could not satisfy their growth aspirations. We are now trying to correct this and bring them on board. The exposure of working in another company brings a lot of value to the table”.

The company plans to move ahead safely giving prior importance to make the employees feel at ease and retain their best talent by recognizing them and providing proper growth opportunities. They are trying to make significant changes by giving more independency to the employees in carrying out their projects and encourage them for coming up with anything new and different way of doing things. Thus although Tech Mahindra had a turmoil situation for sometime after the merger with Satyam it has managed to make its way out in the best possible manner hovering with success ahead.

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