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Full Length Research Paper

Human capital development role of Human Resource (HR) during mergers and acquisitions

Yasmeen Rizvi

Amity University, Uttar Pradesh, India. E-mail: yasmeenr@abs.amity.edu. Tel: 9873783658.

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The need for corporate firms to gain competitive advantage in a highly competitive global environment has necessitated the adoption of innovative strategies, one of them being mergers and acquisitions. Selden and Colvin (2003) have stated that 70 - 80% of acquisitions fail, meaning that they create no wealth for the share owners of the acquiring company. Schmidt (2003) has identified five major roadblocks to merger and acquisition (M& A) success, three of which are human resource (HR) issues. It has been established that there is a strong direct correlation between human resource involvement and 'success' in mergers and acquisitions. A positive association was found between human capital indicators and organisational performances. It was found that human capital development and enhancement in organisations contribute significantly to organisational competencies which in turn became a great boost for further enhancing innovativeness. As a research gap has been found in the study of human capital development interventions used during mergers and acquisitions, the present research aims to study the role of human capital development interventions used during integrations stage of mergers and acquisitions. Both quantitative as well as qualitative study has been carried out to capture a more complete portrayal of the subject.

Key words: Human capital development, mergers, acquisitions, changes management.

INTRODUCTION

The constantly changing global business environment requires firms to aim for competitive advantages through creative and innovative business strategies. This is essentially important for their long term sustainability. A study by Seleim et al. (2007) analysed the relationship between organisational performance of software companies and human capital. A positive association was found between human capital indicators and organisational performances. The indicators, such as training attended and team-work practices, tended to result in superstar performers which led to more productivity, which could be translated to organisational performances. A significant positive correlation was found by Dooley (2000) between the quality of developers and volume of market shares. It can be said that human capital indicators enhanced the firm performance directly or indirectly. A study by Bontis and Fitzenz (2002) established the relationship between human capital management and economic and business outcomes. Human capital development and enhancement in organisations contribute significantly to organisational competencies which in turn became a great boost for further enhancing innovativeness. Contemporary literature to a large extent supports the fact that firm performance is positively impacted by the presence of human capital practices (Noe et al., 2003; Youndt et al., 2004). Researchers have endorsed that human capital development is a prerequisite to good financial performance (Delaney and Huselid, 1996). The significance of organisational human capital with regard to firm performance was further supported by Hsu et al. (2007). It has been found in a survey (Schmidt, 2003) that there is a strong direct correlation between human resource involvement and 'success' in mergers and acquisitions. Since changing an organisation ultimately comes down to changing the practices, attitudes, and behaviors of the people who compose it, human resources departments are an essential component of change management. This research paper aims to study the human capital development role of human resource (HR) during mergers and acquisitions. Both quantitative as well as qualitative study has been carried out to capture a more complete portrayal of the subject.

LITERATURE REVIEW

Defining human capital development

Adam Smith defined four types of fixed capital (which is characterized as that which affords a revenue or profit without circulating or changing masters). The four types were: (1) useful machines, instruments of the trade; (2) buildings as the means of procuring revenue; (3) improvements of land and (4) human capital (Sullivan and Steven, 2003). 'Human capital represents the knowledge, skills and abilities that make it possible for people to do their jobs. Human capital development is about recruiting, supporting and investing in people through education, training, coaching, mentoring, internships, organisational development and human resource management (LISC, 2009). Human capital means a stock of skills and knowledge resulting in the ability to perform labor so as to produce economic value. It is the skills and knowledge gained by a worker through education and experience with different areas in that field (Wikipedia, 2009). Schultz (1993) defined the term 'human capital' as a key element in improving a firm assets and employees in order to increase productivity as well as to sustain competitive advantage. Human capitals involves processes that relate to training, education and other interventions in order to increase the levels of knowledge, skills, abilities, values, and social assets of an employee which will lead to the employee's satisfaction and performance, and eventually on a firm performance.

Rastogi (2000) stated that human capital is an important input for organisations especially for employees' continuous improvement mainly on knowledge, skills, and abilities. Thus, the definition of human capital is referred to as 'the knowledge, skills, competencies, and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being' (OECD, 2001). Undoubtedly, human resource input plays a significant role in enhancing firms' competitiveness (Barney, 1995). At a glance, substantial studies were carried out on human capital and their implications on firm performance were widely covered and obviously, human capital enhancement will result in greater competitiveness and performance (Agarwala, 2003).

The rapid development of the human development theory has led to greater attention being paid to training related aspects. Human capital investment is any activity which leads to the improvement in the quality (productivity) of the worker. Thus, training is an important component of human capital investment. It refers to the knowledge and training required and undergone by a person that increases his or her capabilities in performing activities which are of economic values. Contemporary literature has shown the importance of training. The workforce's lack of training is related to low competitiveness (Green, 1993). A greater human capital stock is related with greater productivity and higher salaries (Mincer, 1997). Similarly, training is linked to the longevity of companies (Bates, 1990) which is in turn related to business and economic growth (Goetz and Hu, 1996). Doucouliagos (1997) has noted human capital as a source to motivate workers, boost up their commitment and to create expenditure in research and development (R&D) and eventually pave way for the generation of new knowledge for the economy and society in general. For small businesses it is a precious asset, which is positively related with business performance. Investments in training are very desirable, from both a personal as well as a social perspective. From the organisational perspective, human capital plays a very significant role in the strategic planning of how to create competitive advantage. Following Snell et al. (1999) it stated that a firm's human capital has two dimensions which are value and uniqueness. A firm demonstrates value of its resources when they allow for improvements in effectiveness, capitalisaton of opportunities and neutralization of threats.

Human capital development role of human resource (HR) during mergers and acquisitions

Selden and Colvin (2003) stated that 70 - 80% of acquisitions fail, meaning that they create no wealth for the share owners of the acquiring company. Successfully integrating the target and the acquirer's businesses after the transaction closes is critical to achieving the goal of the combination, which is, making the new entity worth more than the sum of its parts. One of the ways to accomplish this is to effectively implement the required changes and address the related dynamics occurring in the new entity. Most mergers and acquisitions deals fail to accomplish many of the strategic objectives so optimistically projected in the initial announcements. Schmidt (2003) has identified five major roadblocks to merger and acquisition (M& A) success, the last three of which are HR issues: Inability to sustain financial performance (64%), loss of productivity (62%), incompatible cultures (56%), loss of key talent (53%) and clash of management styles (53%). According to Marks (1997), human resource professionals should take an active role in educating senior executives about HR issues that can interfere with the success of the merger and with meeting key business objectives. His work has stated the important role of HCD to smoothen the transition. The following ways have been described by him:

Education of managers and employees

To help employees and managers manage stress, low morale and productivity issues in work groups, educational seminars should be developed and delivered to minimize stress and uncertainty in the organisation during the merger process. These seminars should focus on specific issues which affect employees rather than on general change management.

Development of newly formed teams

The merger implementation may lead to problems as new teams are formed. These teams may face interpersonal conflict, unclear roles and responsibilities and confusing procedures as the focus of leaders is on operational tasks. A process needs to be created to develop the newly formed teams. The process needs to be reviewed with managers and supervisors, and consultation should be provided.

Reinforcement of the new culture

When two organisations with very different cultures merge, the management should be helped to preserve the best aspects of the old company and to carry them into the new company. What cultural characteristics and values senior executives want to preserve from their respective companies should be understood along with understanding what they do not want to keep and what new characteristics they want to introduce in the new organisation. A list should be made and each level of management should be asked for feedback. Management should be provided with a development tool. All levels of management should be surveyed about three months after the merger, to assess progress toward the new culture and feedback should be provided to managers.

RESEARCH METHODOLOGY

Both quantitative and qualitative study has been carried out. Methodological triangulation (Denzin, 1978), was done where both quantitative and qualitative methodologies were used because of the following reasons:

1. Methodological triangulation (using quantitative and qualitative methodologies) yields greater insights than a single research methodology.
2. Blending and integrating methods and data in studying the same phenomena can capture a more complete, holistic and contextual portrayal of the subject under study, by eliciting data leading to new hypotheses or conclusions, for which single methods would be blind.
3. The weaknesses and limitations of each individual method will be counterbalanced by the other method, exploiting the assets, and neutralizing, rather that compounding, the liabilities (Jick, 1983).

Quantitative research method

Positivism was selected as a paradigm for research. The research design has been described as follows:

Objective of the study

To find answer to the following research questions:

Q1. Which are the most frequently used human capital development interventions during M&A?
Q2. Of the 4 major roles of HR during mergers and acquisitions, what is the comparative significance of the human capital development role of HR in the service sector industry?

Sample

Responses were taken from 19 HR heads of 19 large/ midsized service sector organisations which had been merged or acquired. All mergers and acquisitions chosen were horizontal type since they involved competitor firms (Gaughan, 2002) and had a similar intensity of people issues. The objective of all 19 mergers and acquisitions (Appendix 1) was to increase market share by becoming a bigger force.

Data collection

Data was collected using a close ended questionnaire having 44 items. Questionnaire was designed using the theory on the role of HR (Ulrich, 1997; Ulrich and Brockbank, 2005). It was prepared around 4 broad HR roles during mergers and acquisitions. Role 1 had items (interventions) which were used pre-merger and acquisition and Roles 2, 3 and 4 had items (interventions) which were used during integration stage. Responses were collected from top HR heads who had been part of the pre-integration and integration teams.

Data analysis

Statistical analysis was carried out using SPSS software.

Qualitative research method

The case study method has been used for current research. Case study is a research methodology that focuses on understanding the dynamics present in a management situation (Eisenhardt, 1989). The research design has been described as follows:

Objective

The objective of this research is to study the human capital development role of HR during an acquisition.

Unit of analysis

The unit of analysis is Hutchison Essar’s acquisition by Vodafone.

The research proposition

The proposition is that the human capital development role of HR plays an important role during mergers and acquisitions.

Data collection and analysis

Primary data was collected through interviews with the senior HR team at Vodafone. Mr. Sandeep Gandhi, the VP HR at Vodafone

Essar was the main source of information for carrying out the research.

Quantitative study findings and interpretation

The present study found that the human capital development role of HR during mergers and acquisitions involved the following HR interventions/activities:

1. On-the-job soft skills training programme
2. On- the- job technical skills training programme
3. Off- the- job soft skills training programme
4. Off- the- job technical skills training programme
5. Online training
6. Career pathway
7. Team intervention
8. Intergroup intervention
9. Structural intervention
10. Comprehensive intervention
11. Orientation programme
12. Workshops on vision development
13. Workshops on communicating values/ philosophy
14. Deputation to acquiring company

The use of all the above interventions fell in the range of 81.1 to 21.6%. Table 1 depicts the frequently used human capital development interventions. The percentage mean of the 4 major roles of HR during mergers and acquisitions was calculated (Table 2).

Interpretation

The quantitative study findings led to the interpretation that of the 14 interventions found to have been used as part of human capital development role of HR, the most popular were (in descending order of frequency of usage) On-the-Job Soft Skills Training Programme, Career Pathway, On-the-Job technical Skills Training Programme, Team Intervention, Comprehensive Intervention, Orientation Programme, Workshop on Values and Philosophies and Structural Intervention. It was also found that in service sector organisations, the human capital development role (R4) had a mean of 43.99 which was the highest amongst the 4 HR roles studied (Table 2). It is thus interpreted that of the 4 HR roles the human capital development received the maximum focus during mergers and acquisitions in the service sector industry.

QUALITATIVE STUDY FINDINGS AND INTERPRETATION

Case example: HR role during the acquisition of Hutchison Essar by Vodafone

In February 2007, British telecom giant Vodafone acquired a 67% stake in Hutchison Essar from Hutchison Telecom International for about $11 billion. When Hong Kong-based Hutchison Whampoa decided to get out of the Indian market, Vodafone emerged as the top bidder for majority stake in India's fourth largest mobile player Hutch-Essar, beating Anil Ambani Group's Reliance Communications, a consortium led by Hindujas and Essar (Jayaram, 2007). In one of the biggest brand transition exercises in recent times, Hutch, country's fourth-largest mobile service provider was renamed Vodafone on September 21, 2007. Approximately Rs. 250 Crore was spent by Vodafone on the high-profile transition. Vodafone had acquired 67% in Hutchison Essar from Hong Kong-based Hutchison Whampoa and completed the acquisition of Hutchison Essar on May 9, 2007. As of today, Vodafone Essar is owned by Vodafone 67% and Essar Group 33%. It is one of the most succesful acquisitions in the telecom industry. As on August 31, 2009. The company across India has over 80.87 million customers.

The strategic intent

As part of the expansion strategy of Vodafone, the company, through the Hutch acquisition started its operations in India, which was witnessing an addition of five million new mobile subscribers every month. India had emerged as the fastest growing mobile market, over-taking China in September 2006. In outlining Vodafone's strategic priorities in May 2006, the then Vodafone CEO Sarin had highlighted that the organisation would pursue "selective opportunities to extend footprint" in the emerging markets.

About Vodafone

Vodafone is a British mobile network operator, with its headquarters in Newbury, Berkshire, England, UK. It was founded in 1983 as Racal Telecom, It is the largest mobile telecommunications network company in the world by turnover, and has a market value of about £75 billion (August 2008). Vodafone currently has operations in 31 countries and partner networks in a further 40 countries. The employee strength worldwide is 79,000 (2009).

The name Vodafone comes from voice data fone, chosen by the company to "reflect the provision of voice and data services over mobile phones". As of 2009, Vodafone had an estimated 303 million customers in 31 markets across 5 continents. On this measure, it is the second largest mobile telecom group in the world behind China Mobile. Arun Sarin (July 2003- July 2008) was the driving force behind the company's move into emerging markets such as Asia and Africa, through the purchases such as that of Turkish operator Telsim, and a majority stake in Hutchison Essar in India. (Vodafone, 2009; Wikipedia, 2009).

About Hutchison

Hutchison Telecom is a subsidiary of the Hong Kong-based Hutchison Whampoa Group. In 1977, Hutchison had acquired all stakes of these companies; Hong Kong and Whampoa Dock; and became Hutchison Whampoa

Table 1. List of frequently used human capital development interventions (range 81.1 - 43.2%).

Human capital development interventions	Percentage (%)
On-the-Job soft skills training programme	81.1
Career pathway	81.1
On-the-Job technical skills training programme	67.6
Team intervention	64.9
Comprehensive intervention	54.1
Orientation programme	51.4
Workshop on values and philosophies	51.4
Structural intervention	43.2

Table 2. Percentage mean and standard deviation of R1, R2, R3 and R4 during M&A in the service sector.

Roles of HR	Service sector (N = 19)	
	Mean	SD
R_1-Strategic partnership during organisational diagnosis/ HR due diligence	31.58	14.47
R_2- Employee advocacy	27.94 (Min.)	14.09
R_3-Functional expertise	33.55	16.17
R_4-Human capital development	43.99 (Max.)	14.14

Limited. In 1992 Hutchison Whampoa and its Indian business partner Max India, a healthcare company owned by Singh, established a company that in 1994 was awarded a licence to provide mobile telecommunications services in Mumbai (formerly Bombay) and launched commercial service as Hutchison Max in November 1995. Max sold its stake of 41% in the Indian venture - then known as Hutchison Max - to an Indian industrial group, the Essar group. Having consolidated its five entities under Hutchison Max Telecom Ltd (HMTL), the name of the company was changed to Hutchison Essar Ltd. In Delhi, UP (E), Rajasthan and Haryana, ESSAR was the major partner (Essar, 2008; Wikipedia, 2009). But later Hutch took the majority Stake. Hutchison Essar Limited started operations under the brand name 'Orange India.' It was then changed to 'Hutch'. In December 2006, Hutch Essar re-launched the "Hutch" brand nationwide. Hutch expanded rapidly to become the third largest mobile service provider in India and furthered its market share through the acquisition of BPL

Roles of HR during acquisition of Hutchison by Vodafone

Pre-acquisition

HR due diligence role: In the pre-acquisition phase an informal taskforce was created comprising of business heads and HR heads. In India the strength of the transition team was 40. Extensive talent profiling had been done.

Post-acquisition

Employee advocacy role: To counter the negative feelings of uncertainty, anxiety, loss of faith, and career doubt, communication was used as an effective tool. The MD of Hutch (India), Mr. Ashim Ghosh started the Web Cast. Every seven days, corporate HR had a meeting with employees and communicated directly what the company was doing.

Functional expertise role: Not a single employee was laid off. Early warning system was used to retain employees. The pay cycle changed from April-March to July-June. There was a 10 - 15% hike. Schemes such as 200 - 300% of CTC as part of ESOP continued. Schemes such as 200 - 300% of CTC as part of ESOP continued.

Human capital development role: Training workshops and OD interventions were used as methods of facilitating change. Orientation programme was conducted to change from the Hutch model to the Vodafone model. Anecdotes were shared with employees. The earlier values of Hutch had been, 'Brave, Positive, Simple and Gorgeous.' The values of Vodafone- Red, Rocksolid and Restless were linked with the values of Hutch through workshops in order to have a cultural fit. Hutch employees disliked the color red as it was the color used in Airtel logo, the competitor. Red was thought of as the color of the enemy. HR changed the perception and linked the colour red with restlessness about sales and passion to perform.

Two training programmes were conducted. One was for Band 1 managers (GM and above). The trainee group comprised of 5% of the employee population. It was done in association with Indian School of Business. The case study method was used as a methodology. The training was conducted for three and half days, in which learning was imparted in leadership skills, case laws, telecom space, people sensitization, and handling worry and anxiety. The group trained went back to their respective positions and helped diffuse the culture into the whole organisation. Thus, a parallel learning system was created. The second training programmme was held to communicate the values of vodafone-red, rock solid and restless. These values were linked with the values of Hutch-brave, positive, simple and gorgeous. It was an HR initiative and was conducted for eleven and half days.

The values of Vodafone were communicated to each and every employee, both fulltime (8000) as well as outsourced (25000). Assessment centers assessed employees and promotions were offered to the performing employees. For example, a senior HR professional of Hutch was offered a promotion and migration opportunity to Turkey post acquisition. Also, destination India was treated as a bench mark, and top performers were given the opportunity to work in India. A workshop called 'Huddle' and was conducted for 14 - 15% of employees across 4 - 5 verticals. In that, the positive and negative aspects of the organisation were discussed. It was extremely informal and full of fun. An employee satisfaction survey was also conducted across the company.

Interpretation

The following interventions were used during the integration stage of the acquisition of Hutchison Essar by Vodafone: On-the-job Soft Skills Training Programme, On- the- job technical skills Training Programme, Orientation programmes, Career Pathway, Team Intervention, Comprehensive Intervention. The case analysis thus, led to the interpretation that human capital development role of HR played a very significant role during the acquisition as compared to the other HR roles.

CONCLUSION

The quantitative study brought to light the different interventions used as part of the human capital development role of HR during mergers and acquisitions, namely, On-the-Job Soft Skills Training Programme, On-the-Job Technical Skills Training Programme, Off-the-Job Soft Skills Training Programme, Off-the-Job Technical Skills Training Programme, Online Training, Career Pathway, Team Intervention, Intergroup Intervention, Structural Intervention, Comprehensive Intervention, Orientation Programme, Workshops on Vision Development, Workshops on Communicating Values/Philosophy, Deputation to Acquiring Company. The study also found that of all the above interventions, the most popular were On-the-Job Soft Skills Training Programme (81.1%), Career Pathway (81.1%), On-the-Job technical Skills Training Programme (67.6%), Team Intervention (64.9%), Comprehensive Intervention (54.1%), Orientation Programme (51.4%), Workshop on Values and Philosophies (51.4%) and Structural Intervention (43.2%). The qualitative study led to the conclusion that human capital development is a very important HR role during acquisition It received the maximum focus as compared to other roles of HR, namely, HR due diligence, employee advocacy, and functional expertise. The human capital development interventions used during the acquisition were On-the-Job Soft Skills Training Programme, On-the-Job Technical Skills Training Programme, orientation programmes, career pathway, team intervention, comprehensive intervention.

The present study, on the basis of both qualitative as well as quantitative study, has led to the conclusion that human capital development is a very important role of HR during mergers and acquisitions. The study also has implications for practitioners. As more and more organizations are undergoing radical changes in the face of global challenges, the study leads to the conclusion, that HR departments should have specialists in the areas of human capital development as human capital development role has been found to be very important during management of transformational change.

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Appendix I

Table 1. List of 19 mergers/acquisitions in service sector.

S.No	Merger/ Acquisition	Year
1	IBM Global Technology Services (BCRS) /Aresenal Digital Solutions	2007
2	Wipro Technologies/ Spectramind	2003
3	VSNL International /Teleglobe	2006
4	HDIL/Live India	2008
5	Steria/ Xansa	2007
6	HDFC/ Centurion Bank of Punjab	2008
7	Aegis Communication/Teletech Services	2007
8	Idea Cellular/ Spice	2008
9	Indian Airlines/ Air India	2007
10	Vodafone/ Hutch	2007
11	Bank of Baroda/ BSB	2002
12	Fiserv Global Services/ Checkfree	2008
13	Jet/Sahara	2007
14	Logica/ CMG	2002
15	Sapient/ Derivates Consulting Group	2008
16	State Bank of India/ State Bank of Saurashtra	2007
17	Computer Sciences Corporation/ Covansys	2007
18	Genpact/ Axis Risk Consulting Services	2007
19	Bennett Coleman and Co./ Virgin Radio Ltd.	2008