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Success Or Failure Of Mergers And Acquisitions: Employees – The Ultimate Losers

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Abstract:

In the beginning of Mergers and Amalgamations the shareholders of the merging company may be benefited by getting some extra compensation from the absorbing company. In this process some of the employees either of the companies lose jobs. If the same activity goes well the shareholders of the new company or the absorbed company will be benefited. Even this activity fails due to different reasons again the employees will be affected. Thus in this activity of M&As the ultimate losers are employees. Therefore it is the duty of both the companies to compensate the affected employees properly. A systematic compensation package should be evolved with the knowledge of the employees' representatives before and after the exercise of M&As irrespective of the success or failure of the companies.

Keywords: *Mergers & Acquisitions – Shareholders – Employees – A New Look – Compensation package*

Introduction

Mergers and Acquisitions (M&As) have become the order of the day in the modern business world. The combination of two or more independent business corporations forming into a single enterprise, usually involving the absorption of one or more firms by a dominant firm can be called as Merger. Merger may be Horizontal, Vertical or Conglomerate. On the other hand Acquisition is an act of one enterprise of acquiring, directly or indirectly or shares, voting rights, assets or control over the management, of another enterprise.

M&As are generally formed with the following major objectives[1]:

1. Higher growth rate
2. Increased market share
3. Eliminating of competition
4. Balancing product portfolio
5. Moving upstream or downstream in supply chain
6. Acquiring technology and
7. Acquiring distressed assets

M&As are undertaken to fulfil various corporate objectives. They may be intended to reduce the likelihood of hostile takeovers, to diversify risk, or to achieve competitive advantage through synergistic efficiencies. They may involve merely integrating accounting functions and creating a new legal entity, or, at the other extreme, they may involve integration of capital assets, functional departments, and human resources[2].

M&As aimed at improving profits and productivity of a company. Simultaneously, the objective is also to reduce expenses of the firm. However, M&As are not always successful. At times, the main goal for which the process has taken place loses focus. The success of M&As is determined by a number of factors. Those M&As, not only affects the entire work force in that organization but also harm the credibility of the company. In the process, in addition to deviating from the actual aim, psychological impacts are also many. The successful M&As give benefits to both the merger companies or acquired company in the form of expansion, increased market share, increased share value, increased technology, increased competitive capacity etc. Before the success, the companies might have shown doors to some of the employees in the

[1] *Carolyn Krist janson Love,* Mergers and Acquisitions: The Role of H R M in Success, IRC Press Industrial Relations Centre, Queen's University, Kingston, 2000.

[2] Shrivastava, P. Postmerger integration, Journal *of Business Strategy* 7: 65–76.1986.

beginning of the deal. Even after the successful story the employees may not be offered their share in the form of bonus shares, promotions, recognition etc.

M&As with whatever objective they are formed, the failure or success depends on various aspects. There is no guarantee of success in this business deal like any other business activity. Although M&As are being aggressively pursued by companies, recent studies have indicated that 60-80% of all mergers are financial failures when measured by their ability to outperform the stock market or to deliver profit increases.[3]

Impact of Mergers and Acquisitions:

In general the following are the impacts of M&As on shareholders and employees.

Shareholders:

The impact may be on the shareholders of the acquiring firm or the target firm.

Shareholders of the acquired firm

The shareholders of the acquired company benefit the most. In majority of the cases the acquiring company usually pays a little excess than the value of the acquired one. So that the shareholders forgo their shares, the company has to offer an amount more than the actual price, which is prevailing in the market. Buying a company at a higher price can actually prove to be beneficial for the local economy.

Shareholders of the acquiring firm

The benefits enjoyed by the shareholders of the acquired company in degrees, the degree to which they were benefited, by the same degree, these shareholders are harmed. This can be attributed to debt load, which accompanies an acquisition. However, if the M&A activity succeeds these are the people who benefit a lot.

Impact of M&As on employees

The impact of M&As on employees is heavy. It is a well known fact that when there is a merger or an acquisition, there are bound to be layoffs. In the event when a new resulting company is efficient business wise, it would require less number of people to perform the same task. Under such circumstances, the company would attempt to downsize the labour force. If the employees who have been laid off possess sufficient

[3] Raymond Noe, *"Mergers and Acquisitions"* **MHR 860**, Ohio State University Fisher College of Business, January 17, 2002

skills, they may in fact benefit from the lay off and move on for greener pastures. But it is usually seen that the employees those who are laid off would not have played a significant role under the new organizational set up. This accounts for their removal from the new organization set up. These workers in turn would look for reemployment and may have to be satisfied with a much lesser pay package than the previous one.

Impact of M&As on top level management is also considerable. There might be variations in the cultures of the two organizations. Under the new set up the manager may be asked to implement such policies or strategies, which may not be quite approved by him. When such a situation arises, the main focus of the organization gets diverted and executives become busy either settling matters among themselves or moving on.

The effects of M&As on employee **morale** is also significant if the reorganization of the business is not handled effectively. During any merger or acquisition effort, there are at least two groups of employees involved, often coming from organizations with distinctly different cultures and styles. Learning a new culture is really a challenging job for employees.

Change is often difficult for employees, especially if they are not directly involved in decisions that impact their jobs. During M&As, change can be especially difficult and can lead to **stress** which can have a negative impact on morale if not handled effectively.

In M&As, culture clash is inevitable. Rarely do two organizations have the same culture. As these groups get to know each other there will inevitably be conflict and perceived or real losses on both sides. Employees may **fear losing** their **jobs** or losing opportunities that they formerly had. This fear can negatively impact productivity and may even result in employees leaving the company to seek jobs elsewhere. When employees are concerned about their own job security they are more likely to become competitive with others and this **competitiveness** can result in differences of opinions or conflict.

M&As Failures And Impact On Employees

According to kjlove[4] failed M&A events are most likely to involve workforce reductions in the target that begin within two months of the purchase, affect more than 10 percent of the target's workforce, and involve automatic elimination of redundant positions.

[4] Kjlove, Mergers and Acquisitions: The Role of H R M in Success, IRC Press, Industrial Relations Centre Queen's University, Kingston, ON K7L 3N6.

When hourly employees were terminated within two months of the acquisition, the failure rate was a substantial 81 percent. When managerial, technical, and professional employees were terminated within two months, the failure rate was 100 percent.

Failed events are more likely to involve high levels of unanticipated turnover among executive, managerial, and technical and professional employees. Turnover is more likely when workforce reductions and restructuring are undertaken in the acquired firms within six months of the purchase.

Firms involved in failed events are more likely to have undertaken changes to the target's management structure (for example, by centralizing key functions), physical structure (for example, through plant closures), and policies and procedures.

Conclusion

It is clear from the above discussion that irrespective of success or failure of M&As, the ultimate losers are the employees. The reasons are obvious and simple. The investment community focuses on costs. They generally always like the idea of cutting workers and save money when M&As are announced. But it's difficult for them to factor in the associated costs of layoffs, declining morale, and the chaos that comes from restructuring. Because the investment community can't easily measure these costs, they don't factor them in, and that's one reason why mergers rarely work out.

The merging companies rarely consider the effects of layoffs as they are primarily concerns about their shareholders. They do not bother about the well-being of the employees.

Layoffs give devastating experience, both psychologically and physically to the employees who lose the jobs. Further, in the process of M&As the companies do not pay any attention about the potential and sincere employees.

A New Look

Therefore, a new look keeping in view the employees is required. Companies form, merge, absorb, succeed or fail – these are all common in the business world. But it is a fact that human factor should not be neglected as they are the pillars of any business organisation. Hence, it is the duty of both the companies to compensate the affected employees properly. The following frame work may be considered by the companies while they go for M&As:

1. If layoffs are inevitable in the process of M&As, the employees who are losing jobs must be paid reasonably and this compensation package must also be included in the cost of M&As.
2. The affecting employees' representative must be included in the committee fixing compensation package.
3. Even in case of failure of M&As, the employees should not be penalised in the form of layoffs, as employees are not the reason for failures of M&As. If downsizing in an alternative identified by the companies, the employees affected must be paid proper compensation as mentioned above.
4. The employees must also get their share of profits in the form of bonus or incentives in case the synergy is created through success of M&A.

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