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Mergers and Acquisitions: The Role of HRM in Success

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Executive Summary

Since the 1980s dramatic changes in the global business environment have been driving a wave of mergers and acquisitions (M&A) in Canada. Although they are undertaken for good reasons, many high-cost mergers and acquisitions fail to meet their objectives, in part because human resource (HR) issues are generally poorly understood, undermanaged, and often discarded at the outset as irrelevant to the strategic planning process. This study of the strategies of forty-four Canadian companies with active M&A programs will help practitioners by providing a clearer understanding of the vague 'people problems' that are often cited in merger failures. By linking particular HR strategies to the ultimate success or failure of a merger or acquisition, it shows how to avoid the common pitfalls and identifies policies that are more likely to succeed.

- 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.
- In the companies in this study, 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.
- The author concludes that it is important to avoid the quick changes advocated by some commentators and much of the

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About the Author

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popular press, since they cannot be based on a proper understanding of the acquired organization. Companies should be wary of undertaking radical integrative actions early on. Large workforce reductions should also be avoided, especially early in the M&A when too much change can be critically disruptive.

- Any workforce reductions that are undertaken should be based on objective, fair, and consistent criteria clearly communicated to all employees. The automatic elimination of redundant positions should be avoided.

Introduction

Since the 1980s Canada has been witnessing a wave of corporate mergers and acquisitions (M&A) that has been driven by dramatic changes in the global business environment. This fundamental economic restructuring is expected to continue for some time.

Mergers and acquisitions are undertaken to fulfill 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 (Shrivastava 1986).

Although they are undertaken for good reasons, the research shows that many high-cost mergers and acquisitions fail to provide the anticipated rewards. Shrivastava (1986, 65) suggests that one-half to two-thirds of all mergers 'simply do not work.' Buono and Bowditch (1989, 20) report that 30 percent of all acquired firms are sold off within five years and that 90 percent of mergers never live up to expectations.

In an attempt to understand the reasons for the high failure rate, more recent M&A research has focused on human resource activities, particularly during the integration phase. Unfortunately, empirical studies relating to this topic seldom reach consistent conclusions. Furthermore, most studies do not explicitly link the various strategies pursued in mergers and acquisitions with the degree of success that is eventually obtained. Nevertheless, it is clear that human resource issues are generally under-managed, poorly understood, and often discarded at the outset as irrelevant to the strategic planning process (Napier 1989; Buono and Bowditch 1989) and that a better understanding of human resource issues in the integration stage of mergers and acquisitions could help them succeed.

This study of the strategies of forty-four Canadian companies with active M&A programs contributes to the search for successful M&A strategies by revealing a direct link between the way in which human resources are managed and the success or failure of the merger or acquisition.

HR Problems in Mergers and Acquisitions

McCann and Gilkey (1988) have developed a seven-step model of the merger process that provides a useful framework for considering the difficult human resource problems that may arise in any merger or acquisition. The first five steps occur in the pre-merger stage and the last two in the post-merger stage.

The Pre-Merger Stage

Strategic Planning and Organization

The first step is strategic planning in which the acquiring firm develops its mission statement and determines the type of merger or acquisition that will be sought and how it will achieve corporate objectives. In the next stage the firm is primarily concerned with organization—creating a specific team to manage the M&A activity. In their eight-year study of mergers and acquisitions, Marks and Cutcliffe (1988) found that corporate executives generally failed to integrate human resource aspects into the merger process, perhaps because they were not familiar with the appropriate methods of managing the change in their organizations or because they did not realize that the merger might have a significant negative effect on their employees. Consequently, financial and legal concerns dominated the pre-merger stage, and human resource managers, who could have provided advice on managing the human side of the transaction, were seldom included in the core planning group. Similarly, Bohl's (1989) survey of 109 companies with active M&A programs found that the human

A better understanding of human resource issues in the integration stage of M&As could help them succeed.

Transition and integration are the most complicated and are surrounded by the highest level of uncertainty.

resource function had not played an important role in the pre-merger planning in about two-thirds of companies reporting post-event problems, while the same was true in only about half of those reporting no problems (34).

With such results in mind Fombrun, Tichy, and Devanna (1984) stress the need to include human resource managers in the core strategic team. Because ‘people problems’ are a primary source of poor M&A performance, including HR managers early in the decision-making process is an important part of any M&A strategy (Marks and Mirvis 1986; Marks and Cutcliffe 1988; Tichy and Ulrich 1984).

Searching

Searching for potential acquisitions and thoroughly investigating the merits of each is the third step of the merger process. Of particular relevance to HR are the results of Schweiger and Weber (1989) who found in a survey of 80 firms that the most important factors in evaluating potential acquisitions were the talent and management philosophy of the acquired top managers and the talent of the acquired middle managers. Similarly, McCann and Gilkey (1988) and Walsh (1989) note that most M&A’s are undertaken partly to capture the valuable asset of a qualified management team. The retention of management thus becomes a key factor in the success of a merger or acquisition.

Analysis and Offer

The fourth stage of the merger process is analysis and offer, in which a primary objective is to evaluate the ‘fit’ of the two firms. McCann and Gilkey (1988) identify three types of fit—financial, business, and organizational fit—that must all be present if the merger or acquisition is to be successful. For the purposes of this study, organizational fit, which includes human resources and the two organizational cultures, is of primary importance, since it helps to determine how well the two firms can be integrated. McCann and Gilkey suggest that ‘the greater the difference between the two firms in these areas, the greater the difficulty in achieving the desired level of integration . . . and in realizing business synergies which will ultimately show up in financial performance’ (58-9).

The Post-Merger Transition

The last two stages in a merger or acquisition are the transition and integration. These two stages are the most complicated and are surrounded by the highest level of uncertainty. The transition stage is in fact the most poorly managed of all, and consequently it is the stage where most failures occur (McCann and Gilkey 1988).

A Delicate Balance

Management of the transition stage requires a delicate balance between providing a stabilizing influence and creating a climate for change. Uncertainty and anxiety, anger, frustration, psychological withdrawal and family disruptions are pervasive during M&A activity (Schweiger, Ivancevich, and Power 1987). Those who voluntarily leave their company indicate that uncertainty leads them to do so early in the acquisition process (130). The importance of transition management is further emphasized by Beatty (1990) which shows that negative employee reactions and behaviours are more common in failed acquisitions than in successes (21).

Insecurity and Anxiety

Negative employee feelings and behaviour are typical responses to threatening situations (Dyer 1983)—in this case, job insecurity.

The magnitude of the response will be determined by the employee’s perception of the severity of the threat and the degree of powerlessness to counteract it, which will in turn be a function of his or her confusion concerning the expectations of the new firm. For example, if employees are unaware of how they will be evaluated for the retention decision, feelings of powerlessness will be

high. Since information is generally scarce in the transition stage, the employee's perceptions will be influenced predominately by rumour and speculation.

Greenhalgh and Jick (1979) found a positive correlation between job insecurity and resistance to change (see also Staw, Sandelands, and Dutton (1981)). Individuals faced with a threatening situation exhibit strong attachment to previously learned behaviours, even if they are inappropriate. Since the transition stage in the merger process is supposed to facilitate change, high levels of uncertainty are clearly counterproductive.

Unanticipated Turnover

The predominance of negative attitudes caused by uncertainty often leads employees to act on the worst scenario and begin updating résumés (Greenhalgh and Jick 1975). The most valuable employees—those that the post-merger corporation can least afford to lose—tend to be the first to leave the organization. For example, when Fluor Corporation acquired St. Joe Mineral in 1981, in a deal costing \$2.2 billion, the large-scale migration of key managers following the acquisition contributed to millions of dollars in losses at the previously profitable St. Joe (Shrivastava 1986). Estimates of unanticipated turnover suggests that 47 percent of top executives in an acquired firm leave within the first year and 75 percent within three years. Within five years 58 percent of all managers leave (Walsh 1989, 313), and it is often the managers with the best performance histories who leave early on (Walsh and Ellwood 1991, 215).

If there is no planned intervention strategy to deal with negative feelings and behaviours, the long-term behaviour of employees who do remain with the organization may be affected, significantly reducing the likelihood of a successful post-merger integration (Marks and Cutcliffe 1988). 'More than any other issue, how you handle employees in the first three to six months will set the tone for future relations between the two firms' (McCann and Gilkey 1988, 65).

HR Interventions

Several authors have suggested how to reduce the incidence of counterproductive behaviours (Bridges 1988; DeNoble, Gustafson, and Hergert 1988; Marks and Cutcliffe 1988). Preliminary interventions target emotional support, and may begin while negotiations are still underway. Activities in this phase are focused on providing stability. Other techniques are intended to create a positive environment for change by decreasing the level of uncertainty and fostering realistic expectations for the future. Feelings of powerlessness on the part of employees are reduced by providing information to determine how (or if) the threat to job security can be counteracted. Commitment to the new organization may be fostered if the employees are encouraged to see that career opportunities are available and continued success is possible in the new organization (Schweiger, Ivancevich, and Power 1987).

The Post-Merger Integration

Changes that are designed to capture synergies are implemented in the integration stage. This phase is most often poorly managed (DeNoble, Gustafson and Hergert 1988; Schweiger and Weber 1989; Shrivastava 1986).

Procedural Integration

Procedural integration is designed to standardize work procedures and improve productivity. Since each firm has its own systems and procedures, combining the two requires that some of the old ways are abandoned. Marks and Mirvis (1986) suggest that where the system of the dominant firm is adopted over that of the subdominant, it may be understood to imply that the former is superior and that its people are wiser and more able. After a series of such 'losses,' the subdominant group will lose its organizational identity, and conflict both within and between the groups will result. For example, after Texas Instruments merged with M&C, it attempted to transfer its sophisticated plan-

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ning and budgeting system to the more informally run M&C. However, this action resulted in a drop in performance and resistance to the change. It took several years for the new system to stabilize, and even when it did, the performance level was far from optimal (Shrivastava 1986, 68).

The dominant firm often attempts to centralize the control function within the acquired firm, particularly with respect to expenditures (McCann and Gilkey 1988). The approach can create problems, however. Hayes and Hoag (1974) found that two-thirds of the managers who left behind acquired firms did so because of loss of autonomy and control. Kitching (1967) discovered that in 81 percent of 'failed' M&A events, the organization's reporting relationships and/or the degree of managerial autonomy were disturbed at least once after the acquisition event. Similarly, Bohl (1989) found that of companies reporting no post-event problems, 41.8 percent had left the management structure unchanged. Of the companies reporting problems, only 13.0 percent did not alter the management structure. When key functions were centralized in the acquired firm, problems such as higher absenteeism and turnover and lower productivity were nearly twice as likely as when no change was made.

Physical Integration

Physical integration is intended to use the mutually exclusive assets of the two firms as the basis for capturing synergies. Some common assets will become redundant and workforce reductions may take place.

Schweiger and Weber (1989, 82) found that 75 percent of the organizations they surveyed had terminated employees following a merger or acquisition event. Workforce reductions frequently lead to subsequent problems, however. In one study 70 percent of the companies that had downsized following a merger or acquisition reported one or more post-event problems, compared with 40 percent of the companies that had retained all their workers (Bohl 1989, 27). After downsizing, considerable uncertainty and frustration may be exhibited among remaining employees, who may feel that the termination decisions were based on unclear or inappropriate criteria (Schweiger, Ivancevich, and Power 1987). One policy in particular—the automatic elimination of redundant positions—correlates highly with post-event problems. In one study, two-thirds of the firms that adhered to this policy encountered post-event difficulties (Bohl 1989, 28). Policies that created fewer problems included automatic retention of all employees wishing to stay, one-on-one interviews with employees, and retention of employees meeting specific criteria (31).

Organizations that make a series of cuts tend to keep the employees' anxiety focused on personal survival with no sense of where the cuts would come next (Fombrun, Tichy, and Devanna 1984). The result is a 'vicious cycle of disintegration' in which a first set of cuts leads to declining morale and lower performance, which in turn leads to a second round of cuts and further decline in morale and performance (Behn 1988, 349). Consequently, numerous authors (e.g. Leana and Feldman 1989; Hardy 1988; Frombrun, Tichy, and Devanna 1984) advocate a single reduction in the workforce, based on a solid understanding of the anatomy of the organization.

The manner in which the workforce reductions are undertaken has a significant impact on the organization's success in managing the survivors: how employees are terminated is often interpreted by the survivors as an indication of how they can expect to be treated by the new company (Schweidger, Ivancevich, and Power 1987; Schweiger and Weber 1989; Golembiewski 1979).

Sociocultural Integration

Sociocultural integration is the final and most difficult task in a merger or acquisition. Because the organizational culture is part of the employee's identity (Harshbarger 1987), a failure to address culture issues may lead to a loss of commitment among employees and may result in lost opportunities to retain qualified personnel and motivate individuals (Schweiger, Ivancevich, and Power 1987, 130).

According to Marks and Mirvis (1986) the most important source of conflict in an acquisition is the clash of cultures that occurs when the dominant firm attempts to subvert the formal and infor-

mal organization of the acquired firm. There are three main reasons for this conflict: the power differential between the two groups, the unidirectional flow of culture from the dominant group, and the active resistance to a loss of culture in the acquired firm (Sales and Mirvis 1984).

On the question of how soon changes in the acquired company should be implemented, some commentators favour the quick approach, arguing that it will minimize uncertainty for employees. For example, Buono and Bowditch (1989) point out that employees are expecting change following a merger or acquisition and thus are more likely to accept relatively radical changes in the immediate post-event period. On the other hand, Shrivastava (1986) suggests that integration should be phased in over time to avoid the shocks associated with changes in ownership. But Marks and Mirvis (1986, 72) warn that while dominant firms tend to move quickly to 'consolidate their gains,' this aggressiveness can have such a negative impact on the target firm's employees that the acquirer loses any benefit. McCann and Gilkey (1988) also advise against radical change until problems of organizational fit are better understood. Surprisingly, however, Schweiger and Walsh (1990) report that so far there has been no research that specifically examines this question.

Research Problems

While M&A activities constitute a growing area of study, the research currently suffers from several limitations. The problem most commonly cited is that the vast majority of work in the area is either based on a single case study or is primarily anecdotal (e.g., Walsh 1988; Shrivastava 1986). Furthermore, there have been no studies that relate various human resource activities and employee reactions during integration to the ultimate success or failure of the merger event. The research that is reported below attempts to bridge that gap.

M&A Strategies in Canadian Organizations

This study is intended to help overcome the serious limitations in the M&A literature by determining which human resource activities are most prevalent in the integration stage of Canadian mergers and acquisitions by relating those activities to merger success or failure. This information can provide a clearer understanding of the vague 'people problems' which are often cited in merger failures; M&A specialists and human resource practitioners will be able to use this information in planning and implementing the integration of target and parent companies and staff.

The Survey

Companies identified by Beatty (1990) as having active M&A programs were selected as potential participants in a telephone survey for this study. A letter explaining the purpose of the study and requesting participation was sent to the relevant corporate executives in 102 Canadian companies.

Beatty (1990) had identified companies with active acquisition programs, based on the requirement of at least two acquisitions in the previous ten years. Of the approximately 200 companies she contacted, 49 ultimately completed her questionnaire. Because some companies did not provide data on both a successful and an unsuccessful event, the sample consisted of 48 successes and 38 failures, for a total of 86 M&A events.

The 49 responses formed the initial basis for this study. Next, 53 other companies that had indicated receptiveness to Beatty's study but had failed to return surveys were added to the list, for a total sample of 102 companies. To increase the likelihood of participation, each company executive was assured anonymity in the final report and was promised a copy of the analyzed survey results.

Of the 102 companies contacted to participate in the study, 44 ultimately agreed, a response rate of 43.13 percent. Because some firms provided information regarding only a success or a fail-

ure, the sample was comprised of 42 successful events and 33 failures. The study did not attempt to define 'success' or 'failure' in an objective sense using accounting or financial measures. Rather, events were classified as successes or failures based on participant responses. The total of 75 events is adequate for statistical purposes, although results from a larger sample may have been more widely applicable.

Four Hypotheses about M&A Success

Workforce Reductions

The first hypothesis of this study was that reductions in the workforce undertaken shortly after the M&A event that were relatively large and arbitrary would be correlated with unsuccessful events. Consequently, the incidence, timing, and size of workforce reductions and the criteria used for them were tested in successful and failed events.

In the sample surveyed, workforce reductions took place following 35 of the M&A events (46.67 percent). Of these 35 events, 16 were successes and 19 were failures. This difference was tested with a chi square and found not to be significant at the 0.05 level. Nevertheless, tests of the differences in timing of the reductions and in the proportion of employees were found to be significant. Tables 1 and 2 summarize the results for the timing of workforce reductions for hourly and exempt workers, respectively. (The category 'exempt' includes managerial, technical, and professional employees.)

Table 1
Timing of the Reduction in the Hourly Workforce

Timing of Reduction	<i>N</i>	Success	Failure
0-2 months	21	4	17
> 2 months	23	12	11
Total	44	16	28

Note: The total in the '*N*' column incorporates some events that used more than one step for the reduction.

Table 2
Timing of Reduction in Exempt Workforce

Timing of Reduction	<i>N</i>	Success	Failure
0-2 months	11	0	11
> 2 months	27	12	15
Total	38	12	26

Note: The total in the '*N*' column incorporates some events that used more than one step for the reduction.

Firms that initiated reductions of workers within two months of the M&A event were more likely to experience failures.

Firms that initiated reductions of hourly and/or exempt workers within two months of the M&A event were more likely to experience failures than those that began the reductions more than two months after the event. In fact, 81 percent of the cases (17 out of 21) in which hourly employees were terminated within two months were failed events. In addition, *all* events in which exempt employees were terminated in the first two months were classified as failures (11 out of 11). (For hourly employees, the difference between successes and failures was significant at a level of 0.05; for exempt employees, the difference was significant at the 0.01 level. Chi squares were 5.206 and 7.145 for hourly and exempt employees respectively.)

With respect to the magnitude of the reduction (tables 3 and 4), when more than 10 percent of the hourly workforce of the target was laid off, 84 percent of the events (11 out of 13) were reported as failures. Conversely, the event was nearly twice as likely to be a success when 10 percent or less of the workforce was eliminated (only 8 out of 22, or 36 percent, were reported as failures). (This difference between success and failure was significant at the 0.01 level for hourly employees—chi square of 7.66.)

Table 3
Percentage Reduction in Hourly Workforce

Reduction in Workforce	<i>N</i>	Success	Failure
0–10	22	14	8
11–50	13	2	11
Total	35	16	19

Table 4
Percentage Reduction in Exempt Workforce

Reduction in Workforce	<i>N</i>	Success	Failure
0–10	27	15	12
11–50	8	1	7
Total	35	16	19

For exempt employees, failures occurred in 87.5 percent of the cases (7 out of 8) where more than 10 percent were terminated. Even though cases of a reduction of less than 10 percent of the exempt workforce were divided nearly equally between successes and failures, the difference was significant at the 0.05 level for exempt employees (chi square of 4.61).

Four criteria for the termination decision were tested: automatic retention, automatic elimination of redundant positions, one-on-one interviews to determine capability, and retention based on specific criteria. With automatic retention all who wish to remain with the newly combined company may do so. Automatic elimination occurs when an incumbent in the purchasing company either currently performs the duties of an employee in the acquired firm or when the incumbent’s job can be expanded to perform those duties. In this case, the incumbent retains his or her position, and the acquired employee is deemed redundant and is terminated.

The results suggest that firms are most likely to use a combination of approaches with exempt employees. In general, automatic retention was the least-used technique overall (in 6.5 percent of cases), while personal interviews were used least for decisions concerning hourly employees (in 2.4 percent of cases).

In both successes and failures, automatic elimination was used more frequently for decisions pertaining to hourly employees, although it was used in a higher percentage of cases in failures. When automatic elimination was used for hourly employees, the event was more likely to be a failure. (The differences in treatment between successful and unsuccessful events was found to be statistically significant at the 0.01 level, with a chi square of 7.409.) With respect to exempt employees, however, the differences in treatment were not significant (above 0.1).

Furthermore, reductions in the workforce that were undertaken in more than one step were more likely to be associated with failure than when only one cut was made. In fact, only 11 percent of successes used multiple reductions, while 48.57 percent of the failures followed this approach.

Reductions in the workforce that were undertaken in more than one step were more likely to be associated with failure.

In failed M&A events the average turnover rate was more than twice that of the successes.

In summary, the simple incidence of a reduction in the workforce was not found to be an element that significantly differentiated between success and failure. However, three conditions were found to be associated with M&A success on a statistically significant level. Success was more likely when

1. reductions in the hourly and the exempt workforce of the target were not undertaken within two months of the event;
2. less than 10 percent of the target's workforce was affected if workforce reductions occurred (this applied to both hourly and exempt employees); and
3. automatic elimination of redundant positions in the hourly workforce was avoided.

It is also important to note that only 1 of the 16 successes that engaged in workforce reduction (6.25 percent) contained all three elements, while 10 of the 19 failures (52.63 percent) exhibited all three. This finding supports the first hypothesis of this study, that relatively large and arbitrary workforce reductions undertaken shortly after the M&A event would be positively correlated with unsuccessful events.

Unplanned Turnover

The second hypothesis of this study was that higher levels of unplanned turnover among executives and exempt employees would be positively correlated with unsuccessful events.

Of the 75 M&A events in the sample, 42 cases (56 percent) experienced unplanned turnover at the executive level (table 5). The difference in the incidence of turnover reported in successes and failures was statistically significant at the 0.01 level (a chi square of 6.692). That is, unplanned executive turnover was associated with M&A failure. Furthermore, in the failures a higher proportion of executives were lost, with an average of 49.42 percent leaving, versus an average of 11.94 percent in the successful group.

Nearly 79 percent of all events in the sample experienced unplanned turnover among exempt employees in the target company. While this pattern is quite high for both successful and unsuccessful events, a much higher proportion of failures experienced a turnover (table 6). (This difference was significant at the 0.01 level.) In addition, in failed M&A events the average turnover rate was more than twice that of the successes (12.84 percent versus 5.67 percent).

**Table 5
Incidence of Executive Turnover**

	<i>N</i>	Success	Failure
Executive turnover	42	18	24
No executive turnover	33	24	9
Total	75	42	33

**Table 6
Incidence of Exempt Turnover**

	<i>N</i>	Success	Failure
Exempt turnover	59	27	32
No exempt turnover	16	15	1
Total	75	42	33

While the incidence of executive and exempt turnover was higher than anticipated, the fact that both provide statistically significant evidence of a difference between success and failure lends support to the hypothesis that higher levels of unplanned turnover would be positively correlated with unsuccessful events.

Restructuring

The third hypothesis of this study was that restructuring activities undertaken soon after the M&A event would be positively associated with unsuccessful events. To test this hypothesis, three types of restructuring activity were investigated: changes in the managerial structure that centralized or decentralized key functions or reduced the layers of management; changes in the policies and procedures of the target; and physical changes in the target firm.

Of the 75 events in the sample, 26 (35 percent) reported a change in the management structure of the target following the M&A event. Table 7 illustrates that in failed events the incidence of changes to the management structure of the target was more than three times as high. (This difference was found to be statistically significant beyond the 0.01 level, with a chi square of 17.506.) As to the timing of the change, both M&A event categories reported a range from changes undertaken immediately to changes undertaken twelve months after the event. On average, structural changes in the successes were initiated approximately six months following the event. In the reported failures, changes were undertaken sooner, at an average of 3.4 months following the event.

Table 7
Incidence and Timing of Changes in Target's Management Structure

	<i>N</i>	Success	Failure
Change in Structure	26	6	20
No change required	49	36	13
Total	75	42	33
Timing of change (average)		6 months	3.4 months
Timing of change (mode)		6 months	2 months

Failed events were more than twice as likely to have undertaken a centralization of key functions. In addition, only in successful events were steps taken to decentralize key functions.

In 46 (61.33 percent) of the M&A events, there were changes in the policies and procedures of the target company. As table 8 illustrates, failed events were represented almost one and a half times as often as successes (this difference was found to be significant at the 0.01 level). In addition, on average in successful M&A events acquirers tended to wait twice as long before initiating the change in the target.

Table 8
Changes in the Policies and Procedures of Target

	<i>N</i>	Success	Failure
Change undertaken	46	19	27
No change	29	23	6
Total	75	42	33
Timing of change (average)		6 months	2.41 months
Timing of change (mode)		6 months	immediately

Physical changes in the target company were made in a total of 45 M&A events (60 percent of the sample), including plant and office closures, employee transfers, relocation of the target's head office, and departmental eliminations. When a physical change had been made, failed events were represented one and a half times as often as successes (table 9). (This difference was found to be significant at the 0.01 level-chi square equal to 11.688.) In successful events the physical change began an average of 6.39 months after the acquisition, while in failures the change tended to move more quickly, even though physical changes in the failed events affected more individuals, on average.

Failed events were more than twice as likely to have undertaken centralization of key functions.

Changes that were initiated relatively quickly after the M&A event were more likely to be associated with a reported failure.

Table 9
Incidence and Timing of Physical Changes Made to Target Firm

	<i>N</i>	Success	Failure
Physical change	45	18	27
None reported	30	24	6
Total	75	42	33
Timing of change (average)		6.39 months	3.74 months
Timing of change (mode)		6 months	2 months
Affecting 05% of target workforce	20	11	9
Affecting >5% of target workforce	25	7	18

Successes and failures were also associated with the number of physical changes made in a single event. While approximately 50 percent of the successes reported more than one type of physical change in a single event, 77.78 percent of the failures reported multiple changes. Transfers dominated in both successful and failed events. They took place in 57.14 percent of the former and 41.67 percent of the latter. Plant and office closures and departmental eliminations, representing more radical change, were slightly more prevalent in failures (58.33 percent) than in successes (42.86 percent).

The incidence of each type of change was significantly different for the successful and for the failed events, when taken separately. Furthermore, the existence of more than one type of restructuring activity in a single event was more likely to characterize a failure than success. Specifically, changes were made in at least two of the main categories of management structure—policies and procedures and the physical environment—in 30.95 percent of the successes. But changes in two or more of the categories were evident in fully 82 percent of the failures. Furthermore, when two or more of types of change were undertaken, 63 percent of the failures changed all three of the categories in a single event, while only 38 percent of the successes followed the same path.

In addition, changes that were initiated relatively quickly after the M&A event were more likely to be associated with a reported failure. These findings, therefore, support the third hypothesis of this study.

Restructuring, Workforce Reductions, and Unplanned Turnover

The fourth and final hypothesis of this study was that the incidence of restructuring activities and reductions in the workforce undertaken shortly after the M&A event would be positively related to unplanned turnover. To test this proposition, all 35 events that exhibited workforce reductions were investigated; no distinction was made between the success or failure of an event. To be counted as support for the hypothesis, both the workforce reduction and the restructuring activity had to be undertaken within six months of the M&A event, and the event had to involve all three variables: a reduction in the workforce, some form of restructuring, and executive or exempt turnover.

The data revealed that 25 (71.43 percent) of the events exhibited all three variables. The next step involved testing turnover against the presence or absence of both reductions in the workforce and restructuring. The result of this test was that in 22 of the 25 events with all three elements (88 percent) turnover was also reported, while turnover was reported in only 40 percent of the events with two or less of the elements. These findings therefore support the fourth hypothesis. (The chi square proved to be statistically significant at the 0.01 level—12.616.)

Employee Support, Morale, and Unplanned Turnover

During the survey, respondents were also asked whether or not they provided support for employees who were affected by workforce reductions. Only 24 of the 44 firms surveyed provided any sort of support, although several of these offered more than one type. References were offered most often, while outplacement and counseling were available only to exempt employees.

Surprisingly, stress management workshops or other vehicles to help surviving employees cope were not used by any participants in the study. Also unexpected was the finding that alternatives to terminations or layoffs were used only in one-third of the cases. An early retirement option was most common (in 52 percent of the cases), but this option generally involved a very small proportion of total workforce reduction. Offering permanent part-time employment to selected workers was also reported in a few firms, but the use of work-sharing programs or modified workweeks was not reported by any of the respondents. In fact, with one exception, no innovative mechanisms were used to reduce the workforce.

Firms were asked whether the unanticipated loss of executives had a negative effect on the integration effort. Of the 42 events that were reported to involve executive turnover, integration was said to have been hindered by this turnover in 25 (59.5 %); 28 percent of these were successes and 72 percent were failed events. In the majority of the successful events turnover was associated with a decline in morale among remaining employees, while in a few temporary reduction in productivity was observed.

Lower morale was also the most common reaction in the failed events (table 10). In addition, there was both a broader range of reactions and a higher incidence of more than one type of negative reaction in a single event. Loss of productivity and continuity were reported to be related to high levels of executive turnover. In addition, difficulties pertaining to disrupted reporting relationships and increased exempt turnover were mentioned. Of the 18 failed events in which post-merger problems related to turnover were reported, problems caused by executives who refused to leave were reported in only one.

Over 60 percent of the firms that experienced unplanned exempt turnover volunteered that these quits created a greater obstacle to the integration effort than did the loss of executives. The most commonly identified problems related to crucial gaps that were opened in the company's knowledge base and to a significant loss of continuity, particularly on special projects. This finding is especially interesting in light of the fact that the reported incidence of exempt turnover was higher than that for executives.

Lower morale was also the most common reaction in the failed events.

Table 10
Firms Reporting Negative Survivor Reactions to Executive Turnover

Problem	Success	Failure
Depressed morale	7	14
Increased exempt quits	1	5
Lost productivity	2	12
Lost continuity	3	10
Reporting problems	1	6
Other	0	1

Note: Numbers do not add to company totals as several firms reported the incidence of multiple reactions.

Integration Activities in the Target

Firms were asked to rate the effect of changes made to staffing and policies and to the physical structure of their target firm on a seven-point scale. A score of 1 indicated no negative impact on the morale of survivors, while a score of 7 suggested a highly negative reaction. Respondents reported an average score of 1.89 and a mode of 2 (45.94 percent) for changes in staffing and policies or procedures in the successful M&A events. The reaction for failed events was considerably more negative, with a mean of 4.61 and a mode of 5 (39.4 percent). The averages related to physical changes in the target were less divergent, with a score of 1.56 in the successes and 3.97 in the failures. However, the successes had a mode of 2 (44.44 percent) and a maximum of 3, while the latter produced a mode of 6 (25 percent) and a range from 0 right up to 7.

If reductions are undertaken quickly, they cannot be based on a proper understanding of the acquired organization.

Summary of Survey Results

The results of the survey conducted for this study suggest that timing is an important element in the success or failure of a merger or acquisition. In fact, when hourly employees were terminated within two months of an acquisition, the failure rate was a substantial 81 percent. When exempt employees were terminated within this same period, the failure rate was 100 percent. In addition, firms involved in failed M&A events were more likely to have undertaken more than one type of post-merger change, after a shorter waiting period and affecting a larger number of employees. Successes were found to have a lower incidence of executive and exempt employee turnover and when unplanned quits were in evidence, fewer were reported than in cases of failure.

Managing for M&A Success

The survey results outlined above may help to provide clear guidelines to HR managers in a merger or acquisition.

Avoiding Quick Changes

The finding that a reduction involving either hourly or exempt employees within two months of an M&A event was significantly associated with failure supports proponents of the slow approach to change (e.g. Shrivastava 1986; McCann and Gilkey 1988) but is contrary to the recommendations for quick change of Buono and Bowditch (1989). Furthermore, this study fails to support the 'corporate raider' approach—radical changes immediately after the event—advocated by Carl Icahn (1988) and supported in much of the popular press.

One explanation for the importance of the timing of workforce reductions is that if reductions are undertaken quickly, they cannot be based on a proper understanding of the acquired organization (Fombrun, Tichy, and Devanna 1984). Similarly, the higher incidence of failure with quick reductions may indicate a truncated or nonexistent transition phase. Without interventions at this stage to reduce levels of uncertainty and insecurity, integration activities are less likely to be successful (Marks and Mirvis 1985/86).

Avoiding Large Reductions Early On

The finding that the magnitude of the reduction in the workforce was a significant element in failures (a reduction of more than 10 percent of the target's hourly or exempt workforce was more than five times as likely to be associated with a failed event) is consistent with research by Bohl (1989, 54), which suggested a positive correlation between the incidence of post-event integration problems and the magnitude of the reduction. Shrivastava (1986) contends that too much change in the integration stage can be critically disruptive. Similarly, the predominance of failure in larger reductions may be the result of higher levels of stress (Schweiger and Ivancevich 1985) and increased employee resistance (Tichy and Ulrich 1984).

An alternative explanation is that a higher degree of organizational fit may exist among the successes. This explanation would suggest a lower incidence of redundancy between the two firms and thus a smaller required reduction (McCann and Gilkey 1988). In other words, success or failure may be less a function of the magnitude of the workforce reduction per se and more a function of the attributes of the acquired firm.

The survey also found that, contrary to expectations, the majority of both successful and unsuccessful events reported reductions of less than 10 percent for employees. This finding supports the proposition of Walsh (1988, 1989) that acquiring companies are purchasing valuable managerial talent. Conversely, the theory that M&As occur because acquirers seek gains through eliminating entrenched managerial inefficiency is not supported. Clearly, these results imply that companies that consider managers to be part of the asset base being purchased may be hurt by high levels of unplanned turnover.

Basing Reductions on Objective, Fair, and Consistent Criteria

The automatic elimination of redundant positions was most commonly used for hourly employees, and this technique was significantly associated with failed events. These results are consistent with Bohl's (1989) finding that companies using automatic elimination were more than twice as likely to experience post-event problems. They also support the contention of Schweiger and Weber (1989) that reductions should be based on objective, fair and consistently applied criteria. Automatic elimination is arbitrary since it fails to consider individual differences and may make it more difficult for remaining employees to discern why they escaped termination. Arbitrary criteria may create barriers to the implementation of changes by increasing uncertainty levels and negative behaviours among the survivors (Schweiger, Ivancevich, and Power 1987).

Thus, if reductions in the workforce are necessary, they should not be initiated within less than two months of the acquisition and should be limited to less than 10 percent of the target's workforce. Furthermore, the automatic elimination of redundant employees should be supplanted by an objective, consistently applied set of criteria.

The Problem of Unplanned Turnover

The survey indicated that failed events were more likely to involve unplanned executive and exempt-level turnover and a higher proportionate loss of employees. This result is consistent with Bohl's (1989, 55) finding that 72.22 percent of failures exhibited high turnover rates. Furthermore, the statistically significant relationship between failure and higher levels of unanticipated quits is consistent with the findings of Schweiger, Ivancevich, and Power (1987) and McCann and Gilkey (1988). That unplanned quits among exempt employees were reported in 100 percent of the failed events may support the proposition that failed events involve higher levels of uncertainty and insecurity and are thus more likely to experience turnover.

The fact that turnover was significantly more prevalent when workforce reductions and restructuring were undertaken in the acquired firm within six months of the purchase supports the advocates of a slow approach to integration activities and is at odds with many authors in the popular press (e.g. Sturges 1989; Smye and Grant 1989) who promote the benefits of cutting organizational and managerial 'deadwood' as soon as possible. This finding is diametrically opposed, as well, to the popular 'corporate raider' approach that advocates radical changes immediately after the acquisition. It is clearly important during the transition phase to allocate sufficient time to reduce uncertainty and unplanned turnover. Companies should be wary of undertaking radical integrative actions early in the process.

Avoiding Restructuring Pitfalls

The survey finding that cases where changes were made to the management structure of the target were more likely to be failures, particularly if key functions were centralized, is consistent with Bohl (1989), who found a positive correlation between centralization and post-event problems. It also suggests support for a negative relationship between the loss of managerial autonomy and M&A success (Kitching 1967; Hayes and Hoag 1974).

The finding that failure was more likely when policies and procedures or the physical organization were altered, may indicate problems arising from attempts to integrate dissimilar cultures. Employees may have been resisting the loss of 'their way of doing things' when the procedures and policies of the purchaser were grafted onto the acquired firm (see Shrivastava 1987; Sales and Mirvis 1984).

Because all three types of restructuring activities were initiated earlier in the M&A process in failed events than in successes, which waited approximately twice as long, this study provides additional support for those advocating a gestation period prior to the implementation of integrative changes.

Cases where changes were made to the management structure of the target were more likely to be failures.

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Summary

To summarize, it was found in this study that in failed events there were most likely to be workforce reductions based on arbitrary criteria and involving more than 10 percent of the target's workforce. In addition, changes were more likely to have been made to the target's management and physical structure and policies and procedures. Furthermore, the earlier the change was initiated in the process, the greater was the chance that the event would fail. Overall, this suggests that companies avoiding these specific elements are more likely to obtain a successful M&A event outcome.

The findings do not suggest, however, that companies should avoid making changes to the acquired organization. In many situations, changes will have to be made to capture the synergies of a merger or acquisition. Consequently, the main thrust of this study is that since the manner in which changes are made can differentiate between success and failure, an increased understanding of the issues involved in M&A transition and integration is a crucial step toward addressing the high incidence of M&A failures.

Future Research Needs

Because the research sample for this study consisted only of publicly traded companies, the results cannot be generalized across all M&A activity. Nor can the data be differentiated by industry, by type of merger or acquisition, or by the degree to which the merger or acquisition was hostile or friendly. (The predominance of horizontal M&As in Beatty (1990), which was used here, does suggest, however, that this type also dominates in the present study.)

This study was not of course intended to provide a definitive solution to M&A failure in Canada. Instead, it strove to draw attention to the human resource issues by analyzing their relationship to M&A outcomes. The importance of explicitly incorporating human resource management issues into the study of M&As cannot be overstated. As Samuels (1972, 7) stated so eloquently, 'Profits are not produced by machinery, buildings or products. It is people that breathe life into these otherwise dormant assets.'

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