



Mergers & Acquisitions: A Study of Employee Exit

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Abstract: The key to prosperity of a firm is its strong workforce. In the events of Mergers & Acquisitions (M&As), there is always a possibility of talent leaving the firms, thereby making the venture of M&A less attractive from all fronts. This calls for initiation and implementation of proper strategies to retain the same. An attempt to identify the factors attributable to employee exit, consequences of such an exit, and suggestions to retain talent has been made on 231 employees of one merged and three acquired firms, by administering a self-administered tool which also includes a pro-forma to elicit personal and occupational details, and a questionnaire that covers three sections – Factors attributable to employee exit, Effects of such an exit, and Suggestions to retain the talent. The results reveal that availability of other avenues for taking-up new assignment is found to be the major factor attributable to employee exit. Further, such an exit would lead to unhealthy consequences on the organization, and employees have suggested that the issue of culture fit is the main criterion for hiring the manpower rather than paying attention to only skill fit. The importance of retention of talent is emphasized.

Keywords: Employee Exit, Mergers Acquisitions, Motivators, Retention Strategies.

Introduction

Mergers & Acquisitions are the most commonly used tools by firms to advance in the present competitive business market. Fisher et al (1997) mention that corporate re-organization is the most desired issue either in the form of one corporation purchasing another or two companies joining forces or companies undergoing major reorganization initiatives. This is primarily intended to improve the competitiveness among firms and at the same time gaining economies through combining efforts. Though reorganization or restructuring has become more a routinized business transaction, the vital aspect of its success lies in managing the human resources. No organization or firm can remain static in terms of its structure/function

throughout its life span. Change, thus, is inevitable. Such a change is either induced from external sources or it may be a spontaneous one with no introduction of stimulus of any kind. Mergers and Acquisitions are the most prominent forms of change that every firm is likely to be exposed. In general usage, as explained by Samal (2011), a Merger is a combination of two or more companies and thereby forming a new company. In Acquisition, there is a procurement of one company by another and the companies remain separate with no new company being formed.

Workforce is the most important human resource that facilitates smoothly the process of M&A. It is the talent that is considered as the chief factor to differentiate the companies in terms of its position in the market. In Mergers



&Acquisitions, it is the HR team that must ensure that key employees are retained within the company.

The fact remains that organizations, however big can hardly grow and develop in the present competitive world without taking into cognizance the development of its human resources. People are the most cherished resource and key performers to prosperity and that resource cannot be substituted with any other alternate resource. The essentials of HRD include factors such as the optimum adjustment of employees not only with the job but also with the work environment, the involvement of employees in making appropriate decisions with regard to those issues concerned with their work, **and** development of skills and the capabilities of its employees.

Employees have reasons to remain on the job as well to leave the same. Such reasons vary from person to person, from one firm to another and from one situation to another. Recognizing that **talent loss as a problem** is the initial step in the direction of finding a solution to the same. An investigation into the underlying reasons for attrition, and to initiate measures to retain talent is the most important function of HR in case of Mergers & Acquisitions.

Review of Literature

Talent, as a valuable resource in the effectiveness of firms, is well established. The benefits of retaining the skills and knowledge of the firm's workforce are evident and are well emphasized too. Heller and Hindle (2008) have explained the two-factor theory for motivation, developed by Frederick Herzberg, and relating it to work and workplace. The theory is based on **motivators** and **hygiene factors**.

The hygiene factors include – Salary and benefits, Working conditions, Company policy, Status, Job security, Supervision and autonomy, Office life, and Personal life. The second factor is related to a set of **motivators** that inspire people to achieve. To have a satisfied workforce, managers have to take suitable engagement measures. The motivators include Achievement, Recognition, Job interest, Responsibility, and Advancement. The fact is to understand that different persons are motivated in different ways. High level of absenteeism and a quick turnover of employees are the warning signs of workplace demotivation. The authors have suggested to redefine the nature of work of employees as different as possible so as to reduce and avoid demotivation.

The beginning and end points of an individual's career in a firm are clearly elaborated by Brown (2015). According to the author, we are a society wherein the initial point (beginning) is praised and celebrated but the stage of leave-taking is often ignored or even goes unnoticed. In fact, there is little appreciation or applause when an employee decides (or has been decided for the employee) that it is the time to move on. It is evident from the above, that exit is loaded with unpleasantness even if it is the choice of the employee. The senior executives have been confronted with the ongoing challenges (which are unique, and major) in managing the changes in business. In such situations, the role of the leader is more evident. McChesney et al (2012) has specified **two** important things that a leader can influence when it comes to achieving the results i.e. – a) creating a strategy (plan), and b) ability to execute the strategy proposed.

The decisions with regard to HR issues in the event of M&A are clearly



highlighted by Varadha (2008). The author mentions that some of the most valuable principles that guide the HR professionals in case of Mergers&Acquisitions are – totake appropriate decisions with regard to **people issues** very honestly, treat every employee equally and with dignity and respect including, those who intend to leave the organization **and** enable the employee to understand the higher value of combined entity.

Effective communication is highlighted as an important measure of retaining talent in the events of Merger & Acquisition. Pikula (1999) states that employees are to be informed as far as possible to avoid grapevine in the organization. These rumours are highly detrimental to the morale of the organization. To overcome this, management must communicate with its employees, and the information shared is to be more accurate and comprehensive throughout the process. Listening to the employees is also important. Usually the attrition among higher cadre employees is more after a Merger/Acquisition. Hence, talent audit is required to be done before the change takes place and make sure that the talent is plenty even after the **event**.

The literature reveals that talent loss as a sequel to Merger&Acquisition is an issue that needs to be examined so as to take remedial measures for talent retention.

Research Methodology

A study is undertaken with the objective of identifying the factors attributable to employee exit, the effects of such an exit, and the suggestions expressed by the employees in retaining the talent.

The study has the following null hypothesis:

Null hypothesis (Ho): There will be no association between uncertainties of the condition of job emanated from the **event** (M&A) and employee exit during the post-**event** (M&A) period.

Alternate hypothesis (Ha): Uncertainties of the condition of job emanated from the **event** (M&A) influence employee exit during the post-**event** (M&A) period.

Development of the Instrument on “Attrition as a Result of M&A: Its Effects and Retention Strategies”:

An instrument on “Attrition as a result of M&A: Its Effects and Retention Strategies” is prepared on the assumption that each statement/issue in the instrument reflects the opinion/response of the respondent on the issues in question based on personal experience or recall of past instances/experiences of others.

A list of statements/issues, under three heads, is prepared to find out the impact of M&A on employee attrition, its effects, and the retention strategies that are being adopted or that are being suggested. The statements/issues covered under different sections are – the most probable reasons for employee exit/attrition; the effects of such an exit/attrition, and the measures adopted/to be adopted to retain the talent. Each statement/issue in the instrument has equal value/weight. This is purely to enable to place different respondents in relation to each other in terms of the intensity of the opinion/response towards a particular statement. The statements/issues are developed reflecting the opinion/response about an issue in varying degrees.



To find out whether the instrument would elicit the intended response on the basis of the objective, care is taken to make sure that the language is simple, words used are clear with no ambiguity, and there is a sequence in the arrangement of statements. Care is taken to ascertain that all statements/issues are linked to each other and equally to the main theme. Each respondent is asked to select a response which she/he thinks the best to describe the opinion/version. Further, the respondents have been asked to answer to statements/issues in all sections viz. Factors attributable to employee exit, Effects of employee exit, and Suggestions to retain talent, and to

tick (✓) either **Yes** or **No**, or **No opinion/Not applicable** in the appropriate box provided against each statement/issue. Further, the respondent is asked to avoid as far as possible the response '**No opinion**' and not to leave any statement unanswered.

For the purpose of scoring, the response is converted as 1 for **Yes**; 0 for **No**, and 0 for **No Opinion** or **Not Applicable**. For statements, where the responses are many, the combined influence is taken into consideration. Higher mean percentage score indicates that the perception of the employee is positive in the direction of the statement given.

$$\text{Mean Percentage Score} = \frac{\text{Obtained Score}}{\text{Max. Possible Score}} \times 100$$

The researcher has developed the tool in wide consultation with the experts. Further, consultations with professional colleagues and domain experts have helped to know the shortcomings in the tools and necessary modifications are made tentatively.

Pre-testing is an integral part of developing the tool, and hence, it has been done primarily to ascertain that the instrument would elicit the required data in the direction of the objective of the study. Further, it is to know whether the content of the tool is adequate, and language and presentation are proper. The tool was administered on ten subjects drawn from the population similar to the proposed firms. Based on the findings of the pre-testing, the researcher had modified the tool with necessary corrections which include deletions, additions, and changes in both the content and coherence in the presentation. A re-test of the same has been done on select subjects from the

above mentioned population, and thus, finalized the tool of the study (see Annexure).

Subjects of the Study

The study has been undertaken in four manufacturing firms (three cases of Acquisition and one case of Merger) that went for restructuring in the recent past either in the form of Merger or Acquisition and have their operations in India.

After obtaining the consent for the study from the top management, a list of employees of Merged/Acquired firms who have fulfilled the following inclusion criteria from each of the firms has been proposed:

- a) Those who are on the roll at the time of the **event**,
- b) Those holding middle and higher levels of managerial positions at the **event-time**,
- c) Those familiar with the **event** and have experienced/have been



experiencing the impact of the **event**, and

d) Those who are articulate and are willing to serve as respondents for the study.

A list consisting of 317 employees who fulfilled the above inclusion criteria, has been prepared. The questionnaire has been administered on all the 317 employees with a request to fill-up the same. At the end, as many as 231 (72.9%) questionnaires completed in all respects, have been used for the study.

Method of Data Collection

The tool mentioned above has been administered in the form of a questionnaire on all the subjects. The questionnaire also included a pro-forma to get details about the personal and occupational details. Data have been collected during the leisure time of the employees. All ethical issues, especially of informed consent, have been adopted in carrying out the study.

Characteristics of the Respondents

Personal and occupational details are presented in Table 1. Of 231 employees, 84 (36.4%) are aged 35 years & below, 43 (18.6%) are in the age group of 36-45 years, and 104 (45%) are aged 46 years & above. The mean age of employees is 41 years. Male representation is predominant (94.8%) than female representation. As many as 121 (52.4%) have a Degree/Diploma Certificate in technical education like engineering and the rest are without technical background.

Most of the employees i.e., 213 (92.2%) are married and the remaining (18/231 or 7.8%) are unmarried. As many as 175 (75.8%) have put-in service of 10 years and above and 56 (24.2%) have put in less than 10 years of experience in the same organization. The average duration of experience of the respondents is 12.6

years (Table 1). The respondents mostly belong to the middle age group with technical education background, married and have had more than 10 years of work experience. In terms of personal and occupational background, it can be mentioned that the respondents are mature enough both in personal and social life to assess their work/life and bring a balance between the two.

Results and Discussion

The results are presented under three heads – Factors that influenced attrition, Effects of attrition, and Retention strategies. The mean values are arranged in descending order from higher to lower value of mean.

1) The availability of other avenues which are either equally attractive or with reasonable higher returns is found to be most facilitative factor for employee exit. The period of work experience that the employees have, the expertise they possess, **and** the opportunities that are being available are the strong points that enabled employees to have confidence in their own professional future.

The restructuring (Merger/Acquisition) exercise has paved way for a change of place of work either within the same organization or transfer to other unit which sometimes may not be to the liking of employee/s. Employees, in such circumstances, make efforts to leave the organization considering the act of changing the place of work, as punitive measure.

Lack of healthy and timely communication at individual level resulting in the spread of rumors of uncertainty prompted the employees to search for work in other organizations.

Non-existence of similar role in the restructured organization and that too with the same prominence and perks is found to be another factor responsible for



employee exit. Changes in work atmosphere and adaptation of work ethics & practices as a sequel to restructuring have been perceived by employees as unhealthy and not of one's liking. This resulted in maladjustment of employees in the changed atmosphere.

Neither pay package nor other incentives have contributed as prime factors for the exit of employees. Other interpersonal and individual factors have also supported employee exit to a moderate level (Table 2). Samal (2011) says that M&A is a major cause of organizational change. The differences in practices of merged companies, the uncertainties about the future, the spread of rumors, and feeling of distrust create devastation in the life of employees. This may influence employees to take a firm decision of leaving the organization or such turnover may lead to drop in productivity due to indifference to work and towards management.

2) Employees have mentioned that the effects of employee exit, especially of highly talented persons, are alarming and the adverse consequences of such an exit disturb the equilibrium of the firm towards the negative side. The resultant burden is of higher investment in both hiring and subsequent training fresh recruits. The employees, further, felt that loss of talent has to be seen as loss of skills, and that impacts negative image on the other employees, coupled with added work-load, as a sequel to the exit of employees. Loss of talent is considered to be the worst retrograde measure in terms of loss of production, loss of morale, additional work to those who stay back, and financial drain in terms of investment on talent search, and talent development.

Not much difference is found between the employees in their response, and majority

have opined in a similar fashion (Table 3). The trend of response indicates that disequilibrium of the system, generated as a result of employee-exit, has to be understood and the damage needs to be brought to a possible minimum. The fact remains that the employee exit in a restructuring effort is not uncommon. Birkman Fink (2009) has stated very categorically that if M&A are executed properly and successfully, the positive side of the deal execution can be mentioned in terms of increased growth, cost savings, and competitive advantage.

3) Dowling Jr. (2011) has stressed the importance of retaining key talent in case workforce or leadership continuity is found necessary. To retain the desired employees, different strategies such as proactive communication, incentives and stay bonuses need to be considered. In the present investigation three important suggestions have been made that are related to hiring, and performance.

The participants are of the view that transparent and effective recruitment and selection process that accords greater importance to culture fit rather than looking for mere skill fit is to be adopted. Cushway (1999) mentions that poor selection of human resources is an issue that affects employee turnover.

Attractive job profile, in tune with the abilities and competencies of the employees, is a potential factor that improves the chances of retaining talent. Periodic feedback of performance, and appreciation of good work improves the extent of employees staying back even in the condition of uncertainties. Further, it is observed that attractive features not related to nature of work directly viz. competitive pay package, spousal career, and non-monetary incentives help in retaining the talent (Table 4).



Testing of Null hypothesis

Null hypothesis (Ho): There will be no association between uncertainties of the condition of job emanated from the **event** (M&A) and employee exit during the post-**event** (M&A) period.

Alternate hypothesis (Ha): Uncertainties of the condition of job emanated from the **event** (M&A) influence employee exit during the post-**event** (M&A) period.

Result: The result indicates that availability of other employment avenues, no place in the new organization, change in the place of work against one's interest, and improper and absence of timely communication are found to be factors attributable to employee exit as opined by the respondents. Hence, the null hypothesis is rejected.

Conclusion : The main issue that a HR professional is concerned with is the well-being of all persons associated within the organization. This has to be translated into action by initiating pro-employee policies and programmes and by creating a serene atmosphere that would enable every employee feel that he is a member of healthy family and community in the workplace. Talent is a scarce resource that needs to be retained all the time to excel in business, and to have an edge over other firms and to have a good footing in the market. The study on the factors attributable to employee exit, the effect of such an exit on the organization, and the suggestions to retain the talent, using a questionnaire, on 231 employees of four firms that underwent corporate restructuring (three Acquisitions and one Merger) indicate that availability of other avenues for taking up new assignment, change in place of work, absence of proper and timely communication are found to be the major factors attributable

to employee exit. The employees have further expressed that the after-effects of such an exit are not healthy for the organizations. The employees have suggested that culture fit is the main criterion to be taken for hiring the manpower rather than paying attention to skills only to perform a given job. Though talent loss is within reasonable limits after the **event** (M&A); the exit is mostly voluntary by employees. Firms have focused their attention on the human side of the deal and taken appropriate measures to retain the talent. The fact remains that, retaining every resourceful employee is paramount as the worth of a Merger/Acquisition depends to a great extent on the talented workforce.

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Table 1: Personal and Occupational Details of Employees

	Personal and Occupational Details	No. of Employees N: 231	Percentage
A	Gender		
i	Male	219	94.8
ii	Female	12	5.2
B	Age group		
i	35 years and below	84	36.4
ii	36 to 45 years	43	18.6
iii	46 and above	104	45.0
Mean: 41 years			
C	Education		
i	Technical	121	52.4
ii	Non-technical	110	47.6
D	Marital status		
i	Married	213	92.2
ii	Unmarried	18	7.8
E	Work experience (present)		
i	Below 10 years	56	24.2
ii	10 years and above	175	75.8
Mean: 12.6 years			



Table 2: Factors Attributable to Employee Exit

Sl. No.	Statement/Issue No. and Description		Mean value N: 231	SD	Yes	No	Total
1	1	Availability of other avenues for taking up new assignment	84.849	35.933	196 (84.8)	35 (15.2)	231
2	3	Change of place of work	83.117	37.542	192 (83.1)	39 (16.9)	231
3	4	Lack of proper, timely and effective communication before a Merger/Acquisition has taken place	78.355	41.272	181 (78.4)	50 (21.6)	231
4	2	No role to play in the new organization	77.056	42.138	178 (77.1)	53 (22.9)	231
5	8	Change of work atmosphere/ethics/practices	74.026	43.944	171 (74.0)	60 (26.0)	231
6	16	Uncomfortable with the present assignment and stressed with the boss	44.589	49.814	103 (44.6)	128 (55.4)	231
7	11	The pay package offered is not as expected	39.394	48.968	91 (39.4)	140 (60.6)	231
8	5	No appreciation/reward for the good performance	38.961	48.872	90 (39.0)	141 (61.0)	231
9	9	Lack of opportunities for career development	38.528	48.772	89 (38.5)	142 (61.5)	231
10	7	Job description is not of one's taste and is of not challenging to grow professionally	38.095	48.668	88 (38.1)	143 (61.9)	231
11	15	Lack of independence in taking decisions or has to report to many higher authorities	37.229	48.447	86 (37.2)	145 (62.8)	231
12	6	Job title and role is not of one's liking	36.364	48.209	84 (36.4)	147 (63.6)	231
13	14	Fear of resorting to downsizing of manpower in the near future	35.498	47.955	82 (35.5)	149 (64.5)	231
14	13	Lack of recognition/importance for the job/position in the organization	31.602	46.593	73 (31.6)	158 (68.4)	231
15	10	Employees are treated as hired hands only and with a little concern for their development	29.437	45.675	68 (29.4)	163 (70.6)	231
16	12	Other incentives, such as Bonus, Health Insurance, Retirement Package, Conveyance Allowance, Housing loan, Vehicle loan, Shares, Membership in Committees, etc are not attractive	25.926	31.026	60 (26.0)	171 (74.0)	231

(Figures within parentheses indicate percentages)



**Table 3: Effects of Employee Exit
 (Costs of loss of talent)**

Sl. No.	Statement/Issue No. and Description	Mean value N: 231	SD	Yes	No	Total
1	3 Higher investment on training the new recruits	79.654	40.345	184 (79.7)	47 (20.3)	231
2	8 Burden on Managers of HR department and of other departments as well in constantly recruiting and training new employees	79.221	40.661	183 (79.2)	48 (20.8)	231
3	1 Increased recruitment cost	79.221	40.661	183 (79.2)	48 (20.8)	231
4	5 Financial cost for replacements	76.191	42.684	176 (76.2)	55 (23.8)	231
5	7 Negative effect on other workforce in terms of insecurity and uncertainty of the positions	72.727	44.633	168 (72.7)	63 (27.3)	231
6	6 Loss of key skills, knowledge and expertise	72.294	44.852	167 (72.3)	64 (27.7)	231
7	4 Loss of productivity cost	70.563	45.675	163 (70.6)	68 (29.4)	231
8	2 Increased workload for others either for a short-period or long-period	70.563	45.675	163 (70.6)	68 (29.4)	231

(Figures within parentheses indicate percentages)



Table 4: Suggestions to retain the talent

Sl. No.	Statement/Issue No. and Description	Mean value N: 231	SD	Yes	No	Total	
1	1	Good recruitment and selection process should comprise of hiring those who will aptly fit into organisation culture rather than merely looking for skills to perform the given tasks	86.147	34.620	199 (86.1)	32 (13.9)	231
2	12	Offering of revised or afresh job description which includes Increased authority, Responsibility in taking decisions, Higher position with higher responsibilities, Higher status in the hierarchy, Change of job profile so as to match one's interest and ability, Transfer to place of choice	83.045	21.589	192 (83.1)	39 (16.9)	231
3	7	Regular feedback of performance and appreciation in letter and spirit	81.385	39.007	188 (81.4)	43 (18.6)	231
4	3	Long-term induction programme is to be initiated to enable the employees to be familiar with the organisation and its system	78.355	41.272	181 (78.4)	50 (21.6)	231
5	5	Creating an atmosphere of learning experience to employees	78.355	41.272	181 (78.4)	50 (21.6)	231
6	4	Empathetic listening to employees' genuine concerns and problems	77.922	41.567	180 (77.9)	51 (22.1)	231
7	2	Employees are valued as effective resource and communication is informal with a little/no rigid procedure	77.056	42.138	178 (77.1)	53 (22.9)	231
8	6	Periodically undertake (preferably through an external agency) job satisfaction survey that would help in identifying the issues which need attention and proactive action	75.758	42.948	175 (75.8)	56 (24.2)	231
9	10	Paying attention to spousal career (where applicable)	75.758	42.948	175 (75.8)	56 (24.2)	231
10	8	Offering competitive package of compensation and benefits (incentive programme) which include Salary, Bonus, Insurance, Retirement package, Interest-free loans	75.469	21.012	174 (75.3)	57 (24.7)	231
11	9	Higher pay package for top performers	74.892	43.458	173 (74.9)	58 (25.1)	231
12	11	Offering of non-monetary issues like Public acknowledgement of good work, Flexi-timings, Home office, Career development and training, Discounts in products/services, Membership in committee/s, or other offerings	73.037	26.893	169 (73.2)	62 (26.8)	231

(Figures within parentheses indicate percentages)