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RESEARCH ARTICLE

THE IMPACT OF WORK FORCE REDUCTION ON SUCCESS AND FAILURE

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ABSTRACT

In this paper we examine the impact of workforce reduction on success or failure of corporate restructuring. Reduction in Contractual labor and Exempt workforce is studied with time horizon from restructuring event. Also, the percentage reduction and its impact on success or failure is studied. HR Managers of thirty companies who have gone under restructuring process during the year 2013-14 are surveyed for the study. We found that reducing workforce results in failed M&A, weal so found that workforce reduction within first two months of merger increases the risk of failure.

Key words:

Corporate restructuring, workforce,
pre-merger, post-merger,
human resources

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INTRODUCTION

1980s have witnessed some dramatic changes in the global business environment, driving wave of mergers and acquisitions (M&A) in India. Though the M&A are undertaken with progressive view in mind and for good reasons, as available data on M&A suggest that 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 thirty Indian companies with active M&A programs will help in a clearer understanding of the vague 'people problems' that are often cited in merger failures. By linking HR strategies to the ultimate success or failure of a merger or acquisition, it show to avoid the common pitfalls and underlines policies that are more likely to succeed.

Failed M&A events are most likely to involve work force reductions in the target that begin within two months of the purchase. This affects more than 10 percent of the target's workforce, and involves automatic elimination of redundant positions. In a study, when contractual employees were

terminated within two months of the acquisition, in such companies the failure rate was nearly 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 executives, managerial, and technical and professional employees. Employee 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.

Corporate Restructuring and Human Resources

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

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The Pre-Merger Stage Model

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 develop its process chart on how it will achieve organizational 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 in to 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 suggest that the human 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.

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)¹⁷; (Marks and Cutcliffe 1988); (Tichy and Ulrich 1984).

Unanticipated Turnover

The predominance of negative attitudes caused by uncertainty of ten leads employees to act on the worst scenario and begin updating résumés (Greenhalgh and Jick 1979). The most valuable employees—those that the post-merger corporations 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 suggest 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) and it is often the managers with the best performance histories who leave early on (Walsh and Ellwood 1991).

HR Interventions

Several authors have suggested how to reduce the incidence of counterproductive behaviors (Bridges 1988); (De Noble, Gustafson, and Hergert 1988); (Marks and Cutcliffe 1988). Preliminary intervention start get 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 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 (De Noble, 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 planning and budgeting system to the more formally 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).

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 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 Indian Organizations

This study is intended to help overcome some of the serious limitations in the M&A literature by determining which human resource activities are most prevalent in the integration stage of Indian 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 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 67 Indian companies. The seorporateexecutives were called and appointment was taken. Telephonic interview was taken for 30 companies as rest refused to participate and certain questions were asked to them during this telephonic interview. The list of companies is enclosed as Annexure-II. The identity of interviewed managers is kept hidden on their request as corporate restructuring is a highly confidential area and the HR policy of the companies did not allow managers to disclose any information pertaining to M&A or HR policies of the company.

Four Hypotheses about M&A Success

Workforce Reductions

The first hypothesis of this study was that reductions in the work force under taken shortly after the M&A event that were relatively large and arbitrary would be correlated within successful 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 30 of the M&A events. Of these 30 events, 12 were successes and 18 were failures. This difference was tested with a chi-square and found 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.

Tables1 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.) 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 of workers for more than two months after the event. In fact, 81percent of the cases (11outof14) 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 (9o utof 9). (For temporary employees, the difference between successes and failures was significant at a level of 0.05; for exempt employees, the difference was significant at the 0.01level. Chi-squares were 3.841and 6.635 for temporary and exempt employees respectively.)

Table1Timing of the Reduction in the Temporary Workforce

Timing of Reduction	N	Success	Failure
0-2Months	14	3	11
>2Months	16	9	7
Total	30	12	18

Table1 Chi-Square Calculation

Ho: Reduction in temporary workforce and unsuccessful events are correlated.

H1: Reduction in temporary workforce and unsuccessful events are not correlated.

f _o	f _e	(f _o -f _e)	(f _o -f _e) ²	(f _o -f _e) ² /f _e
3	5.6	-2.6	6.76	1.21
11	8.4	2.6	6.76	0.81
9	6.4	-2.6	6.76	1.06
7	9.6	2.6	6.76	0.70
				3.78

The first hypothesis is significant at 5% and 1% Level of Significance

Chi-Square Calculation

$$X^2 = \frac{(f_o - f_e)^2}{f_e}$$

Where, f_o is the Observed Frequency in each category
 f_e is the Expected Frequency in the corresponding category
 issumofdf is the "degree of freedom"(m-1)(n-1) X²is Chi Square

Table2 Timing of Reduction in Exempt Workforce

Timing of Reduction in Workforce	N	Success	Failures
0-2Months	9	0	9
>2Months	21	6	15
Total	30	12	26

Table2 Chi-Square Calculation

Ho: Reduction in exempt workforce and unsuccessful events are correlated.

H1: Reduction in exempt workforce and unsuccessful events are not correlated.

f _o	f _e	(f _o -f _e)	(f _o -f _e) ²	(f _o -f _e) ² /f _e
0	1.8	-1.8	3.24	1.8
9	7.2	1.8	3.24	0.45
6	4.2	1.8	3.24	0.77
15	16.8	-1.8	3.24	0.19
				3.21

Hypothesis is significant at 5% and 1%Level of Significance

With respect to the magnitude of the reduction (tables 3 and 4), when more than 10 percent of the hourly work force of the target was laid off, 84 percent of the events (9outof11)were reported as failures. Conversely, the event was nearly twice as likely to be a success when10 percent or less of the workforce was eliminated (only7outof 19, or 37 percent, were reported as failures). (This difference between success and failure was significantatthe0.01levelforhourly employees’ chi square of 6.635.)

For exempt employees, failures occurred in87.5 percent of the cases (6 out of 7) where more than10percentwereterminated. Even though cases of are duction of less than10 percent of the exemptworkforceweredividednearlyequallybetweensuccessesa ndfailures, the difference was significant atthe0.05 level for exempt employees (chisqu are of 3.841).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. 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 over all (in 6.5 percent of cases), while personal interviews were used least for decisions concerning hourly employees (in 2.4 percent of cases).

Table3 Percentage Reduction in Temporary Workforce

Reduction in Workforce	N	Success	Failure
0-10	19	12	7
11-50	11	2	9
Total	30	14	16

Table3 Chi-Square Calculation

Ho: Percentage Reduction in contractual workforce and unsuccessful events are correlated.

H1: Percentage Reduction in exempt workforce and unsuccessful events are not correlated.

f _o	f _e	(f _o -f _e)	(f _o -f _e) ²	(f _o -f _e) ² /f _e
12	8.87	3.13	9.80	1.10
7	10.13	-3.13	9.80	0.97
2	5.13	-3.13	9.80	1.91
9	5.87	3.13	9.80	1.67
				5.65

Hypothesis is significant at 1% Level of Significance

Table4 Percentage Reduction in Exempt Work force

Reduction in Workforce	N	Success	Failure
0-10	23	13	10
11-50	7	1	6
Total	30	14	16

Table4 Chi-Square Calculation

Ho: Percentage Reduction in exempt workforce and unsuccessful events are correlated.

H1: Percentage Reduction in exempt workforce and unsuccessful events are not correlated.

f _o	f _e	(f _o -f _e)	(f _o -f _e) ²	(f _o -f _e) ² /f _e
13	10.73	2.27	5.15	0.48
10	12.27	-2.27	5.15	0.42
1	3.27	-2.27	5.15	1.57
6	3.73	2.27	5.15	1.38
				3.85

Hypothesis is significant at 1% Level of Significance

Summarily, the simple incidence of 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 temporary 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 temporary 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 16 failures (62.5 percent) exhibited all three. This finding supports the first hypothesis of this study, that relatively large and arbitrary workforce reduction 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 30 M&A events in the sample, 17 cases (57 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. 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).

Table5 Incidence of Executive Turnover

	N	Success	Failure
Executive Turnover	17	7	10
No Executive Turnover	13	10	3
Total	30	17	13

Table5 Chi-Square Calculation

Ho: Unplanned Executive Turnover and unsuccessful events are correlated.

H1: Unplanned Executive Turnover and unsuccessful events are not correlated.

f _o	f _e	(f _o -f _e)	(f _o -f _e) ²	(f _o -f _e) ² /f _e
7	9.63	-2.63	6.92	0.72
10	7.37	2.63	6.92	0.94
10	7.37	2.63	6.92	0.94
3	5.63	-2.63	6.92	1.23
				3.83

Hypothesis significant at 5% and 1% Level of Significance

Table 6 Incidence of Exempt Turnover

	N	Success	Failure
Exempt Turnover	24	11	13
No Exempt Turnover	6	6	0
Total	30	17	13

Table 6 Chi-Square Calculation

H₀: Unplanned Exempt Turnover and unsuccessful events are correlated.

H₁: Unplanned Exempt Turnover and unsuccessful events are not correlated.

f _o	f _e	(f _o -f _e)	(f _o -f _e) ²	(f _o -f _e) ² /f _e
11	13.6	-2.6	6.76	0.50
13	10.4	2.6	6.76	0.65
6	3.4	2.6	6.76	1.99
0	2.6	-2.6	6.76	2.60
				5.74

Hypothesis is significant at 1% Level of Significance

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 within successful events.

Restructuring

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

Of the 30 events in the sample, 11 (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. As to the timing of the change, both M&A event categories reported a range from changes under taken immediately to change under taken 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 under taken sooner, at an average of 3.4 months following the event.

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

	N	Success	Failure
Change in Structure	11	2	9
No Change Required	19	13	6
Total	30	15	15
Timing of Change (Average)		6 Months	3.4 Months
Timing of Change (Mode)		6 Months	2 Months

Table 7 Chi-Square Calculation

H₀: Change in Management Structure of Target Firm and unsuccessful events are correlated.

H₁: Change in Management Structure of Target Firm and unsuccessful events are not correlated.

f _o	f _e	(f _o -f _e)	(f _o -f _e) ²	(f _o -f _e) ² /f _e
2	5.5	-3.5	12.25	2.23
9	5.5	3.5	12.25	2.23
13	9.5	3.5	12.25	1.29
6	9.5	-3.5	12.25	1.29
				7.04

Hypothesis is significant at 10% Level of Significance but not at 1% and 5%.

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 18 (60 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

	N	Success	Failure
Change Undertaken	18	7	11
No Change	12	8	4
Total	30	15	15
Timing of Change (Average)		6 Months	2.41 Months
Timing of Change (Mode)		6 Months	Immediately

Table 8 Chi-Square Calculation

H₀: Change in Policies & Procedures of Target and unsuccessful events are correlated.

H₁: Change in Policies & Procedures of Target and unsuccessful events are not correlated.

f _o	f _e	(f _o -f _e)	(f _o -f _e) ²	(f _o -f _e) ² /f _e
7	9	-2	4	0.44
11	9	2	4	0.44
8	6	2	4	0.67
4	6	-2	4	0.67
				1.22

Hypothesis is significant at 1% and 5% Level of Significance

Physical changes in the target company were made in a total of 18 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.) 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.

Table9 Incidence and Timing of Physical Changes Made to Target Firm

	N	Success	Failure
Physical Change	18	7	11
None Reported	12	8	4
Total	30	15	15
Timing of Change (Average)		6.39 Months	3.74 Months
Timing of Change (Mode)		6 Months	2 Months
Affecting 0–5%of target Work force	8	5	3
Affecting >5%of target Workforce	10	3	7

Table9 Chi-Square Calculation

Ho: Physical changes made to Target Firm and unsuccessful events are correlated.

H1: Physical changes made to Target Firm and unsuccessful events are not correlated.

f_o	f_e	$(f_o - f_e)$	$(f_o - f_e)^2$	$(f_o - f_e)^2 / f_e$
7	9	-2	4	0.44
11	9	2	4	0.44
8	6	2	4	0.67
4	6	-2	4	0.67
				1.22

Hypothesis is significant at 1%and 5%Level of Significance

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 57.14percent of the formerand41.67percent of the latter. Plant and office closures and departmental eliminations, re presenting more radical change, were slightly more prevalent in failures (58.33percent) than in successes(42.86percent).The incidence of each type of change was significantly different or 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 under taken, 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 are ported 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 30 events that exhibited workforce reductions

were investigated; no distinction was made between the success and failure of an event. To be counted as support for the hypothesis, both the workforce reduction and the restructuring activity had to be under taken within six months of the M&A event and the event had to involve all three variables: are ductionin the workforce, some form of restructuring, and executive or exempt turnover.

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 9 of the 30 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.

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.

SUMMARY OF RESULTS

The results of the survey conducted for this study suggest that the period in which the decision is being communicated plays a vital role in the success or failure of a merger or acquisition. In fact, when contractual employees were terminated within two months of an acquisition, the failure rate was a substantial 81 percent.

When exempt employees were terminated with in this same period, the failure rate was100 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

Avoiding Quick Changes

The finding that are duction 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.Shrivastava1986); (Mc Cann and Gilkey1988) 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.

Avoiding Large Reductions at Early Stages

The finding that the magnitude of the reduction in the workforce was a significant element in failures (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), 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&A occurs because acquirers seek gains through eliminating entrenched managerial inefficiency is not supported. Clearly, these results simply show that companies that consider managers to be part of the asset base being purchased may be hurt by high level so far planned 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 employee 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) 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 'dead wood' 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 on to the acquired firm (Shrivastava 1986); 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 longer period prior to the implementation of integrative changes.

CONCLUSION

To summarize, the present study suggests that workforce reductions based on arbitrary criteria which included reduction of more than 10% of the target's workforce had failed in case of a M&A event. 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 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.

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