

Employees' Perspectives of M&A: A Case Study of Bayer Schering Pharma

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Abstract: *Merger and Acquisition (M&A) activities continue to rise, despite evidence that the majority of M&A fail to meet the financial and synergistic expectations of shareholders or employees. Special emphasis is usually put on the strategic and financial goals of the transaction. The case of Bayer Schering Pharma is representative of the same prevailing norms -- to develop synergy and annual savings of EUR 700 million in pharmaceutical business. But for Bayer Schering Pharma, this success came at a cost of more than 6,000 layoffs.*

More than a year into the M&A, the research study focuses on the uncertainty among the employees. More specifically, the study has attempted to identify the key concerns in terms of employee uncertainties during the M&A process.

Keywords: *Mergers & Acquisitions, employees' perspectives*

1. INTRODUCTION

Mergers and Acquisitions (M&A) activities continue to rise, despite evidence that the majority of M&A fail to meet the financial and synergistic expectations of shareholders or employees. The case of Pharmaceutical Industry is no different --- known bigger giants in the pharmaceutical industry keep on looking forward to acquiring small size specialized pharmaceutical and bio pharmaceutical companies. The reasoning is simple: to acquire and provide the company edge in particular therapeutics drug classes, as well as market leadership. Most of the mergers and acquisitions in the pharmaceutical industry take place due to the following reasons [1]:

1. Ownership of specific marketed drugs
2. Strategic filling of drug pipelines
3. Plugging of strategic holes in the R&D process
4. Streamlining the organization by removing duplicated efforts across project
5. Accelerating the development process through the use of newly acquired proprietary technologies

In M&A, special emphasis is usually put on the strategic and financial goals of the transaction, while the "human factors" do not receive much attention [3].

Further, consistent with a "process perspective" on acquisitions, the findings suggest that the outcome of an acquisition depends heavily on the management of the post-acquisition integration process [4]. While characteristics of the initial takeover situation may form the upper bound on the degree of success that an acquisition can achieve, top management's integration decisions and actions will determine the degree to which that potential is realized [5]. Being aware of (and appropriately tempering) the tendency to remove more autonomy from the target firm than might be necessary in order to achieve the projected synergies, can go a long way toward building a relationship that is based on trust. Carefully setting the appropriate tone in and after the negotiations, providing opportunities for interaction between members of the target and the acquiring firm, and improving incentive and reward systems will also have a positive impact on trust, and increase the chances for successful integration.

The impact of a takeover on employee morale and productivity is not always negative. Being liberated from weak and ineffective management may actually enhance employee satisfaction, commitment, and job performance [6]. Underperforming firm is acquired by a healthy one, target firm employees may see this as a chance for greater job satisfaction, more job security, and increased prospects for promotion and compensation. At the same time, poor target, firm performance in the past may increase an acquirer's tendencies towards arrogance and domination. Since the poor performance of a company is commonly attributed to its top managers, the prospect of being acquired by a more successful company will be particularly threatening to the target firm's executives. Even if executives of a poorly performing firm are not fired outright after their acquisition, they may feel inferior or depart voluntarily because they are anticipating the dominating behaviors of their "conquerors" [7].

Bayer Schering Pharma has nearly 60,000 employees worldwide. As a result of this merger, 10% of employees were expected to lose their jobs, especially in production

facilities, R&D, and marketing & sales operations. To develop synergy and annual savings of EUR 700 million in pharmaceutical business, Bayer Schering Pharma cut 6,100 jobs [2]. Although the strategy helped the corporation achieve these goals, it created dread on employee's job security with the company. This spillover effect was felt in Pakistan also, and many employees, in fear of job security, left the company because of announcement and proposed restructuring.

1.1 Bayer Schering Pharma

Another German rival Merck KGaA founded Bayer Schering Pharma after the huge battle of hostile takeover of Schering AG. Bayer Schering Pharma ranks at number 11 worldwide in the overall pharmaceuticals sector after merger with Bayer Health Care and Schering AG. It is also 7th worldwide in biological proteins and in the specialty pharmaceutical segment, which includes treatments in areas such as multiple sclerosis, gynecology, and hematology, in particular, as distinct from primary care pharmaceuticals [3].

Bayer Schering Pharma Pakistan is a member of the Bayer AG Germany.

2. RESEARCH PROBLEM

Based on the dynamics of success in terms of M&A, this research study studies the impact of such a 'success' in relation to employee uncertainty. Research questions have been formulated to understand employees 'side of the picture', specifically, their perspective of the overall communication and information strategies of the company during the M&A, and the general concerns or uncertainties that the employees may have.

The problem statement of the study is: 'Understanding the Bayer Schering Pharma Employees Perspectives during M&A processes'.

To support the problem statement, the following broad research questions were developed:

1. To identify key areas of concern during M&A process
2. To identify the communication / information processes involved and used to communicate the M&A
3. To identify senior management views relating to overall company image in the market after the M&A

2.1 Research Methodology

Being an exploratory research, presented as a case study, primary research methodology tools have been

employed. Data is collected through surveys of 30 employees, and interview with 3 senior managers. A tested and validated questionnaire on M&A, available through questionpro.com has been used to collect data.

An interview guide was also prepared to collect data on senior management.

All respondents were identified by Bayer Schering Pharma, however on our request; the company provided the names of individuals who had a minimum 3 years experience with the company. This was an important factor, since these employees had been through the M&A, and was still a part of the company after the M&A.

3. FINDINGS: SURVEYS

A 14-item Liker scale questionnaire was administered to the respondents. These 14 items were grouped in the following categories: communication and information strategies adopted by the management to communicate the M&A process to the employees; employees' key concerns during the M&A process; and over all company images after M&A.

In terms of communication and information dissemination, employees responded that they were informed of the M&A through private interactions / conversations, employee meetings, newsletters or over intranet.

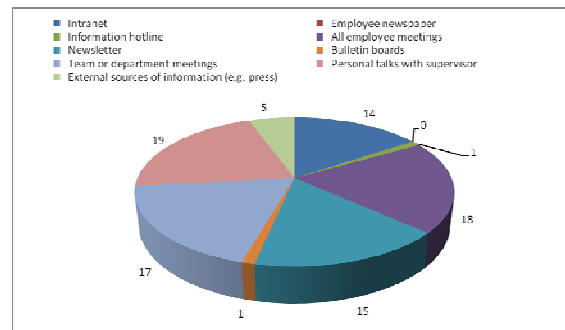


Fig 1: Communication/Information dissemination on the M&A

On employees key concerns, majority employees (65%) felt stressed during the whole process, while 70% were still not sure of their job security. Even with these responses, 80% felt that the M&A had provided them an opportunity for job enrichment, improving the overall productivity of the company. Results also showed an overall improvement for the employees in terms of paid benefits, and positive change in attitude towards work that could result in career or growth opportunities.

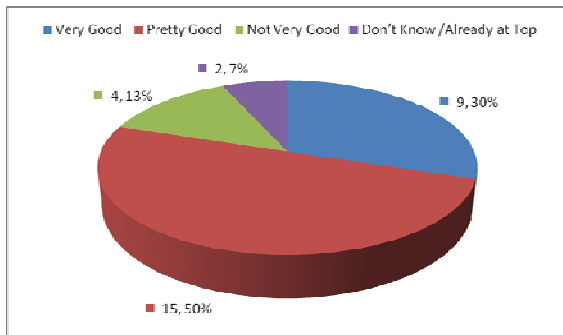


Fig 2: Overall career growth after M&A

We also asked respondents their views on the overall company image, after the M&A. 100% responded in favor, saying that the image has not only improved globally, but in Pakistan also.

Findings: Interviews

Due to the company's limitations, we were able to interview only 2 top managers.

The responses were identical to the ones we received in the employees' surveys: uncertainties; job securities; communication tools used during the M&A process; overall employees' satisfaction.

4. CONCLUSION

Bayer Schering Pharma employees, although much apprehensive and concerned about the M&A at the beginning, are feeling much more settled after a year of the M&A process. They feel that there is an overall improvement in their monetary benefits, work environment, and job enrichment, leading to better productivity through synergies improvement. This ultimately leads to improved and better chances of career and growth opportunities.

Positive changes have also come about in the overall standing in the market in terms of product portfolio, and market penetration.

The downside is the organizations' 'cut downs' in human resource management, especially layoffs and no-replacement policies, keeping a tight lid on any new hiring, even if the company runs short of people.

However, we would like to propose that whenever companies decide on any restructuring, or broadly M&A, employees should be communicated and the process so that they are not in the doldrums of confusion, and uncertainty. If communicated on company top decisions, employees feel themselves a part of the company's

decision-making process, and feel a sense of ownership in their organization. Rather than relying on 'grape vine', companies also gain employee trust and confidence, through direct communication, and open network channels.

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