Chapter 3
The effects of cross-border mergers on labour: big challenges, little evidence

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1. Introduction

Cross-border mergers and acquisitions (M&A) are now a very substantial part of global mergers and acquisitions activity. The number of cross-border deals has increased steadily over the past twenty years and they now account for around 45 per cent of total M&A activity around the world (Erel *et al.* 2012). This growth can be attributed to a variety of factors, including globalisation and the increasing openness of many national business regimes. Within Europe it reflects the lowering of national obstacles as part of the European Union strategy to create a single market. The Cross-border Mergers Directive (CBMD) is one element of this strategy, alongside the objective of facilitating corporate restructuring to encourage growth and innovation.

The Cross-border Mergers Directive was passed in 2005 and transposed into national legislation and regulations in most Member States by the end of 2007. The Directive provides a set of simplified procedures for companies to merge across national boundaries within the European Union and adds to the earlier provisions for the establishment of multi-country European Companies (SEs). It does so by reducing the obstacles arising from differences in national laws and regulations. Since the passage of the Directive the number of cross-border mergers taking place under its aegis has steadily increased, from 132 in 2008 to 361 in 2012. The evaluation of the Directive by Bech-Bruun and Lexidale states that it has had a profound effect on cross-border merger activity between the Member States (2013: 3).

Two key issues for workers arise from cross-border mergers in general and the Cross-border Mergers Directive in particular. The first is the potential impact on employment; the second is the impact on worker participation and representation. The merger of two or more entities may eliminate the need for some activities and hence have a negative impact on total employment. Even where total employment remains more or less unchanged, there may be employment loss in one party to the merger as activities are transferred from one entity to another. The costs to workers are likely to be more acute in a cross-border setting because displaced workers are less likely to be able to transfer to the new entity than in a local merger. Any initiatives that promote cross-border transactions may therefore have adverse effects on workers. As for worker participation and representation, there is a danger that some or all workers in the merged entity may suffer a loss of rights and practices compared with the situation prior to the merger. In a cross-border setting, the arrangements for worker participation in countries with weak participation rights may displace those derived from countries with stronger

systems of worker participation and representation. Companies may engage in 'regime shopping' when undertaking cross-border mergers to locate the new company in the most advantageous regulatory context. The potential for companies to do this was an important consideration in the deliberations leading to the passage of the Directive, which has explicit provisions on this.

To date, there has been very little evidence on either of these issues for mergers in general or for mergers implemented specifically under the Cross-border Mergers Directive. Although there is a large literature on mergers and acquisitions, on closer inspection virtually all studies are primarily about acquisitions or else do not differentiate between the two forms of ownership restructuring. This also applies to mergers conducted across borders. As for cross-border mergers in particular, there has been very little research on the employment and participation effects of mergers conducted in accordance with the provisions of the Directive, other than that reported in this volume. The major evaluation of the first five years of the Directive by Bech-Bruun and Lexidale identified 'technical' problems with the Directive's provisions for participation, as seen by corporate and professional advisory personnel, but did not consider its impact on participation. What we know so far, as outlined in the chapter by Biermeyer and Meyer in this volume, is that most CBMD mergers involve intra-company restructuring, with apparently limited effects on employment and worker participation. However, in the absence of more comprehensive research on outcomes of these mergers, this conclusion has to remain tentative. The in-depth case studies presented in this volume show that the implementation of cross-border mergers can have complex labour effects.

The chapter proceeds by considering general issues relating to mergers and their definition. It then considers the main strands of research on mergers and acquisitions, noting that research findings are derived primarily from takeovers and highlighting that the effects of mergers on workers may differ from those of takeovers. The chapter then provides a short outline of the Cross-border Mergers Directive, before considering the possible effects on employment and worker participation. This latter part of the chapter discusses the limitations of what is known, and suggests some avenues for further research.

2. The mergers and acquisitions process: research findings

Although mergers and acquisitions are usually considered together, there are important differences between them. In broad terms, acquisitions and takeovers involve one organisation acquiring the ownership of another, while mergers comprise two or more organisations coming together to form a new, combined entity. As they are often characterised in the literature, mergers can be viewed as a marriage between two partners (although often somewhat unequal), whereas takeovers involve one entity acquiring control of another. In contrast to takeovers, one or more parties to a merger disappear but are not formally liquidated as such. In the case of the Cross-Border Mergers Directive, three types of merger are identified (see Clarke, this volume). In the first, one company absorbs other parties to the merger, with the assets and liabilities of the latter transferring to the successor company. In the second, the participating

companies are all dissolved and absorbed into a new company, with the assets and liabilities of the transferee companies passed to it. In the third, a subsidiary, and its assets and liabilities, are absorbed into the parent company. Mergers of these types fall under the remit of the Cross-border Mergers Directive when at least two of the parties are covered by the laws of different EU Member States.

The primary legal difference between mergers and takeovers is that the companies that are party to a merger are not liquidated, merely dissolved. Mergers are less common than acquisitions. High profile mergers include that of British Steel and Dutch Royal Hoogovens to form Corus (subsequently taken over by Tata Steel); that of British Airways and Iberia to form International Airlines Group (IAG); and that of commodity trader Glencore with mining firm Xstrata. However, the boundary between mergers and takeovers can be somewhat blurred in practice, depending on the extent to which the participating companies can be seen as equal partners. For example, the British Steel–Royal Hoogovens merger may be viewed as more akin to a takeover in that British Steel was the dominant partner in the new company in terms of size and share capital.

A major problem in evaluating mergers and their effects is that the literature nearly always discusses acquisitions and mergers together, even though there are potentially important differences between them. These limitations are also often reflected in official statistics and other data. For instance, the UK Office of National Statistics does not differentiate between mergers and acquisitions. In fact, much of the comment on mergers is based on the experience of acquisitions as these are much more common. A confusing aspect of the literature is a tendency to talk about mergers when it is really acquisitions that are being referred to. As a result, the objectives and effects of mergers are not very clearly identified in the literature, and there is a lack of clear empirical evidence relating specifically to mergers. This means that there is a lack of focused evidence against which use of the cross-border merger can be clearly evaluated. In the following discussion of recent literature, the evidence base is primarily takeovers and acquisitions rather than mergers.

The literature on cross-border mergers and acquisitions has grown significantly in recent years, reflecting the increase in cross-border transactions. To some extent the issues are similar to those arising with domestic M&A but cross-border transactions pose more intensive challenges because of differences in national culture, business systems and regulatory regimes. The literature has three main strands so far (Shimizu *et al.* 2004). The first is concerned with the objectives of cross-border transactions (synergy, market entry and so on) and how these influence the nature of the transaction (joint ventures, acquisitions and so on). The second focuses on the process of the transaction and the challenges faced, such as familiarisation with new regulatory requirements. Most important of all, the challenges of integration, especially cultural integration, are highlighted in this literature. This is a particular focus of the organisational behaviour literature in this area. The third strand of literature is concerned with the short and long-term performance effects of cross-border M&A in terms of share price movements, productivity and profitability. An element of this is concerned with the wages and employment effects of cross-border transactions. There is little research specifically concerned with the impact of cross-border transactions on worker participation and

representation, though the literature on multi-nationals (MNCs) generates some relevant evidence (for example, Almond *et al.* 2005; Almond 2010) (multi-nationals often enter new countries via acquisitions).

The first strand of research focuses on the objectives for cross-border transactions. Aguilera and Dencker (2004) identify three main strategic goals (based on Bower 2001) for cross-border mergers and acquisitions:

(i) elimination of over-capacity and duplication;
(ii) expansion of product markets and market growth; and
(iii) securing access to new skills and organisational capabilities.

The labour implications differ markedly between these objectives. Transactions based on the elimination of duplication seem likely to have adverse effects on employment, at least in the short term, whereas those aimed at enhancing market power may have a more benign impact on labour.

On the whole, elimination of duplication is likely to be a more widespread objective for mergers than takeovers, and hence mergers seem more likely to have adverse effects on employment than takeovers. The extent and distribution of employment changes may well vary between the national business systems in which the parties to the merger are located, with companies based in countries with lower levels of employment protection more likely to shed labour. At the time of the Corus merger, shareholders were promised that substantial savings would arise from the merger with clear implications for employment (Edwards 2004). The bulk of the subsequent job cuts took place in the United Kingdom rather than the Netherlands, in large part because of the rising strength of the UK currency at the time. However, weaker employment protection and worker participation arrangements in the United Kingdom also seem to have been factors in the distribution of job cuts.

A second strand of the literature concerns cultural integration. How far are the parties to the merger compatible in terms of culture and organisational practices? There is a substantial body of literature in organisational behaviour which argues that cultural and organisational differences, and a failure to consider how to resolve these, result in many mergers failing to deliver the benefits sought (Stahl and Voigt 2008). To continue the marriage analogy, the two partners discover that they have some incompatibilities and in some cases this leads to divorce. The merger of Chrysler and Daimler-Benz is widely perceived to have failed because of pronounced differences in organisational and management practices and style (Badrtalei and Bates 2007). This led eventually to a de-merger, with the sale of Chrysler to private equity firm Cerberus. In this type of cultural clash, each party typically blames the other for the problems that arise (Weber and Camerer 2003).

Cross-border transactions are widely thought to accentuate these mismatches of organisational culture, due to the important role of differences in national culture and business systems. The costs of integration in cross-border mergers and acquisitions are therefore predicted to be especially high, particularly when national differences are

marked. The potential danger for employees in both parties to cross-border mergers is that tensions in the integration process lead eventually to restructuring, with adverse effects on employment. Mergers may well suffer from these tensions more than acquisitions because the two or more parties to the merger typically retain some of their former identity post-transaction whereas in takeovers the target typically surrenders its identity from the outset.

From an industrial relations point of view, these issues give rise to a number of areas of concern. One is that clashes of culture lead to a failure to respect long-standing industrial relations and employment practices. A second is the extent to which employment and industrial relations policies and practices are harmonised across the merged entity and, if so, on what terms. The danger is that the least advantageous arrangements for workers and unions within the merged entity will be spread across the new company. From a trade union point of view, this is probably the most important issue arising during the development of the Cross-border Mergers Directive and similar initiatives, such as the European Company Directive (see Cremers *et al.* 2013 for an evaluation of this). Finally, do workers pay the costs (foreseen and unanticipated) of the merger through subsequent restructuring initiatives?

Turning to the third strand, the evidence on performance outcomes of cross-border mergers provides a more upbeat evaluation despite some well-publicised failures. In general, the productivity performance of organisations owned by foreign parents tends to be higher than that of domestic firms (Harris and Richardson 2003), although studies of foreign ownership tend to include all forms of foreign direct investment. This effect may well be due to a selection effect: foreign acquirers take over better-performing targets to compensate for the greater risk of cross-border transactions. More specific to mergers and acquisitions, it has been found that the sales and investment, and in some cases productivity, performance of acquirers is boosted after cross-border M&A (Stiebale and Trax 2011). As for stock price performance, the evidence mirrors that of domestic mergers and acquisitions: the shareholders of target firms receive a significant short-run acquisition premium (Goergen and Renneboog 2004; Campa and Hernando 2004), although it is not clear that cross-border targets have a higher premium than local ones (Danbolt 2004).

As for employment and wages, there is a widespread perception that plant shut-downs and job losses are a widespread result of mergers and acquisitions. However, much of the evidence suggests that the employment effects of cross border transactions tend to be positive rather than negative, probably because of the selection effects referred to above. Bandick and Karpaty (2011) find positive employment effects of foreign acquisitions in Swedish manufacturing, while Balsvick and Haller (2010) find plant-level employment and wages increase after foreign acquisitions in Norway. In a cross-Europe study, Oberhofer finds that targets of M&A have employment growth rates of around 15 per cent post-transaction, and that there is little difference between domestic and cross-border transactions in this respect. As for wages, both Hittunen (2007) and Oberhofer *et al.* (2012) find that wages in acquired establishments and firms experience higher wage growth than matched counterparts. The explanation for these generally positive effects of acquisitions is that targets of cross-border transactions are relatively

strong performers or have highly-skilled employees, with the objective of the transaction being to achieve synergy and growth rather than elimination of over-capacity. However, these results are typically derived from acquisition transactions rather than mergers. In so far as mergers may focus more on eliminating excess capacity and duplication, rather different wages and employment effects might be anticipated.

3. The Cross-border Mergers Directive

The Cross-border Mergers Directive was designed to facilitate cross-border mergers within Europe as part of a more general strategy to reduce the obstacles to trans-national restructuring within the European Union. Specifically, it was designed to enable two or more corporate entities operating in two or more Member States to join together. Prior to the implementation of the Cross-border Mergers Directive, the absence of a cross-border legal framework within Europe gave rise to a set of obstacles to any single company wishing to operate in more than one Member State, let alone cases in which two entirely separate companies from different countries wished to merge. These obstacles included a prohibition on seat transfers between most Member States and the absence of a recognised legal framework for harmonising entities between Member States. Companies wishing to expand their activities into another Member State often had to establish and register a separate company in the new country.

This generated a set of administrative costs related to registration, compliance with local company law and submission of financial reports to regulatory authorities, as outlined in the Bech-Bruun and Lexidale evaluation of the Cross-border Mergers Directive for the European Commission (2013). Transactions between related entities in different Member States could also give rise to tax and VAT liabilities. Any company wanting to operate in more than one Member State therefore potentially faced high administrative costs. Companies aiming to promote a pan-European brand, such as consumer-facing companies and banks, were arguably especially disadvantaged by these obstacles. Variations in national corporate law inhibited harmonisation between entities in different Member States. National law also tended to inhibit transfers of company seats between countries.

The Cross-border Mergers Directive enables a process of rationalisation within companies across national borders by making it possible for companies to convert firms in other Member States into branches, thereby saving on the costs outlined above. In fact, the enhanced capacity to carry out intra-company re-organisations is probably the most significant outcome of the directive: the evidence so far suggests that this may be its single most important use. The Bech-Bruun and Lexidale study found that by 2013 at least 38 per cent of cross-border mergers had been group reorganisations of this sort. The national studies reported in the current volume also highlight the primary role of group re-organisations. Biermeyer and Meyer find that all but one of the cross-border mergers in their study are intra-company re-organisations, often involving multiple subsidiaries.

One type of internal re-organisation appears to be a replacement of European Company structures. Prior to the Directive, one of the main ways cross-border reorganisations could be realised was through the creation of a European Company (SE). As is shown by several chapters in this volume, the Cross-border Mergers Directive has substituted for the European Company, with a number of SEs restructuring away from that company form using the Directive.

4. Employment and participation effects of the Cross-border Mergers Directive

Evaluation of the employment and participation effects of mergers taking place under the Cross-border Mergers Directive is difficult because of the lack of evidence on its workings and on the effects of mergers more generally. The major evaluation by Bech-Bruun and Lexidale (2013) focused mainly on technical aspects of the Directive, and the data sources were primarily company personnel and members of advisory firms. The studies reported in the present book are the main sources of information so far on the employment and participation effects of mergers using the Directive's procedures. What is clear is that although most of these mergers are intra-company administrative reorganisations, widely seen as 'good house-keeping', they are not without implications for employees and trade unions. This section reviews the potential consequences for labour and considers the type of research necessary to evaluate them.

To comply with the terms of the Directive, merging firms are required to publish the draft terms of the merger, including an assessment of the likely employment and participation consequences for employees. This has to be made available to employee representatives or employees, where the former are not present, and they have the right to express an opinion on the terms of the merger and its consequences (see the chapter by Clarke in this volume). These statements are potentially a useful source of research evidence on the initial impact of mergers, although they refer to predicted rather than actual consequences, and will tend to refer to short-term rather than longer-term effects.

The most contentious element of the Directive from an employee or union perspective is the arrangements for worker participation, given the variation in worker participation systems across the European Union. In response to fears that the Directive may be used to weaken worker participation, the general principle in the Directive is that employees should not suffer a diminution of participation as a result of cross-border mergers. As outlined in the chapter by Clarke, participation arrangements are usually governed by the national laws of the country in which the merged company is registered. However, there are a number of exceptions whereby these rules will not apply, and instead a special negotiating body will reach an agreement on participation arrangements. These exceptions include instances where at least one of the merging companies has more than 500 employees and has operated a worker participation system, and where the law in the host country of the successor does not provide for at least the same level of worker participation (measured by the proportion of employee representatives on governance bodies) as in the merging companies.

Comprehensive evaluations of the impact on worker participation have yet to be undertaken. The Bech-Bruun and Lexindale review highlighted various problems with the worker participation provisions in the Directive but these concerned their role in merger implementation rather than their effects on workers. However, Biermeyer's and Meyer's chapter in this volume provides an illuminating content analysis of the documentation generated for employee representatives during the merger process, finding that around half propose to operate a worker participation system and that just under half of these established a special negotiating committee to determine the participation arrangements. Further research is desirable to track the outcomes of negotiations where these take place. Do employee representatives achieve all or most of what they seek? How far do employers secure their objectives in these negotiations? While the Directive refers to national legal arrangements as the context, previous research tells us that national institutional arrangements do not tell the full story: the strategic actions of the actors within these are also important (Edwards *et al.* 2006). What factors influence the success or failure of the parties to secure their objectives for worker participation?

A deeper issue is the role of worker participation as a reason for the merger. Do some employers use the cross-border procedures to weaken worker participation arrangements, and if so, which ones and why? The evidence suggests that, for the most part, weakening participation is not an important reason for a merger. Simplification of administration and organisation seems to be the driving motivation, given that a large proportion of mergers are intra-company. However, an interest in weakening worker participation might influence the form that mergers take. Further research is needed to evaluate the extent of this, although it is likely to be difficult to collect reliable data on this issue because of the obvious sensitivities. The extant information suggests that dilution of participation is not a major factor influencing merger characteristics as many intra-company mergers have created successors in high participation countries. However, for some companies it will likely be important, and further research is needed to determine which ones, and why.

Even where participation arrangements remain more or less unchanged in a formal sense, the evolution of country-based subsidiaries into branches of a company based elsewhere may make the real locus of decision-making more remote, with the result that workers and their representatives have less influence on decisions that affect them. Rationalisations to secure cost savings may intensify pressures on branches to comply with head office expectations and practices. Thus, head office may become more powerful relative to branches, with a loss of some autonomy and discretion at local level (Edwards *et al.* 2006). The extent to which this occurs will depend partly on the extent to which the head company wishes to centralise or decentralise key decisions. One of the issues with the Daimler-Benz–Chrysler merger was that the German company attempted to centralise decision-making in the merged entity in the German arm.

The second major issue concerns the impact of cross-border mergers on employment, wages and terms of employment. Once again, very little comprehensive data have become available on these issues, although the studies reported in this book provide illuminating case studies. It is likely that the purpose and character of the merger

will influence the extent of employment and wage changes. Mergers involving two entirely different companies may well lead to attempts to reduce duplication of some activities, such as administration and management. However, given that many cross-border mergers are intra-company reorganisations, the effects may be predicted to be more modest. The merger documents studied by Biermeyer and Meyer do not predict significant job losses, consistent with the view that these mergers are simply 'good housekeeping'. Intra-company mergers may also be less susceptible to culture clashes, and the damaging impact these can have on company performance (and often employment), than inter-company transactions.

Nevertheless, reorganisation of national subsidiaries into branches of companies based elsewhere seems likely to facilitate rationalisation of company administration and removal of duplication, if not necessarily at the time of the merger itself. White-collar administrative and managerial staff are likely to be particularly affected by restructuring of this type. Furthermore, some functions may be shifted from one country to another. While the net employment effect within the company may be more or less neutral, job losses may nevertheless be experienced in those countries losing activities. A particular area of concern here is restructuring away from high-wage economies to those with lower labour costs. Certainly, broader evidence on restructuring within Europe suggests a shift of this type (Eurofound 2013). As yet, however, there is no comprehensive data on shifts in employment associated with the application of the Cross-border Mergers Directive.

Collecting comprehensive data on employment shifts will be challenging. Panel employment data will need to be collected on multi-country firms not experiencing mergers as well as those undergoing a merger, with a difference-in-difference methodology appearing broadly appropriate. However, the nature of the data will probably be problematic as the subsidiaries of the merging company will disappear and hence their employment data will be truncated at the merger. Collection of wage data is likely to be even more challenging.

5. Conclusion

Cross-border transactions have grown substantially in recent years. The Cross-border Mergers Directive was designed to facilitate them within Europe by removing some of the obstacles to mergers across borders, thereby enabling multinational companies in Europe to achieve cost reductions and enhance their competitiveness. Since the Cross-border Mergers Directive was passed and incorporated into national legislation, there has been substantial growth in the number of international mergers realised using the Directive's procedures. However, contrary to initial expectations, relatively few cross-border mergers between independent companies appear to have occurred under its aegis. Instead, the primary use of the Directive so far appears to have been to facilitate intra-company reorganisation across borders. Many of these mergers appear to be motivated by 'good housekeeping' (tidying up administrative arrangements) rather than a concern to achieve major shifts in the location of corporate activity.

There is a growing research literature in several disciplines on the nature, process and effects of cross-border transactions, which highlights the challenges arising in these cases. However, it is difficult to generate predictions from this literature on the labour effects of the Cross-border Mergers Directive because it draws primarily on acquisitions rather than mergers. Mergers differ somewhat from takeovers in several respects, with the typical concern to achieve synergies and efficiencies likely to have more adverse effects on labour than takeovers aimed at expanding product markets. The nature of transactions taking place under the aegis of the Directive suggests that there may well be threats to employment levels and extant forms of worker participation (despite the protections in the Directive). So far, there has been little systematic research on the labour effects of mergers realised under the Cross-border Mergers Directive and further research on its effects is clearly necessary. The studies in this volume make a significant contribution to meeting this need.

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