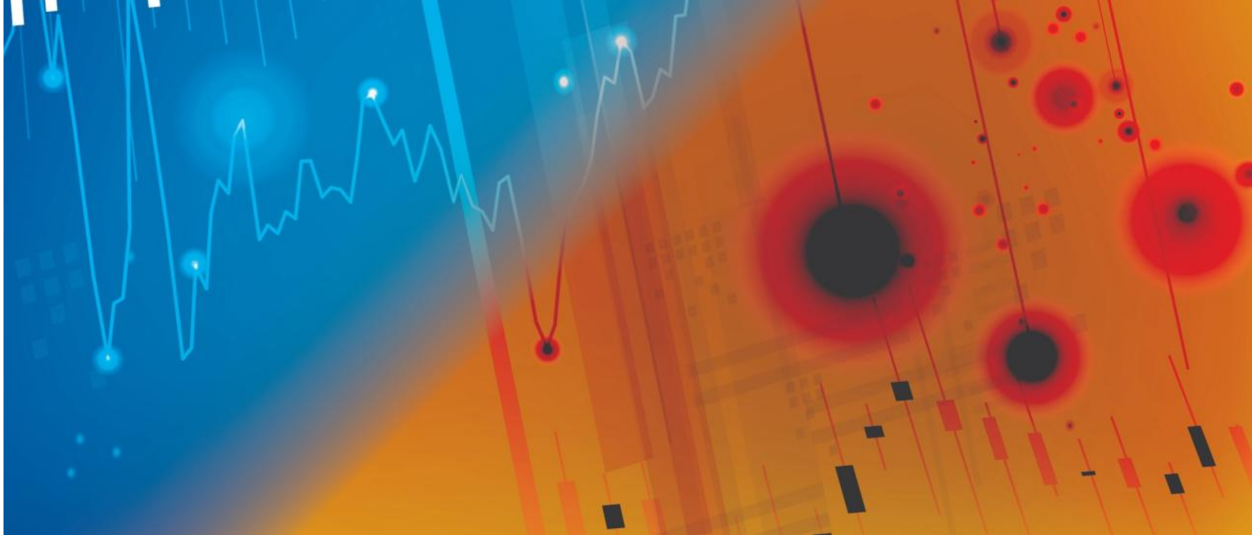
Crises, Stakeholders and Merger Success



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How economic shocks weaken the influence of shareholders and employees on acquisition outcomes.

Unexpected **macroeconomic shocks**, from recessions to the Covid-19 pandemic, place extreme pressure on firms and executives to find new and creative ways to keep their firms operational and profitable. Faced with such challenges, many companies turn to mergers or takeovers as an efficient way of adapting to times of financial uncertainty.

Merging with rival firms can reduce competition, lower operational costs and expand existing markets, allowing companies to grow or at least stay afloat amid choppy economic waters.

Battle for control

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Although **mergers and acquisitions** (M&As) might appear robust on paper, the reality is very different, with multiple studies estimating that between 70 to 90 percent of M&As end in failure. There are a number of reasons behind this, but the simple fact is that M&As should be viewed as a battle for control. A battle where victory is strongly influenced by two major opposing forces: shareholders and employees. On one side, you have shareholders who want to make sure their investments turn a profit. On the other, you have a labour force keen to protect their existing jobs and rights.

Our **new paper** identified how changing economic conditions, and in particular financial crises, can actually weaken the influence of both shareholders and employees on the outcome of mergers. We also examined how the conflict between these opposing forces varies between countries based on differences in individual country's labour laws, shareholder rights and government regulations.

Through analyses of M&A activity in financial services firms across 35 countries between 1990 and 2016, we found it relatively straightforward to predict the influence these opposing stakeholders have on levels of M&A activity during periods of relative economic stability.

As a rule, there tends to be higher levels of takeover activity in countries like the United States and the United Kingdom where shareholder rights are strongly enforced and protected. As a result, shareholders are able to exert much greater pressure on executive teams and have more power to replace CEOs if they are unable to deliver results. Shareholders also have a greater say in voting for mergers that may help to restructure assets and dislodge underperforming managerial teams.

At the other end of the scale, we found that M&As were less common in countries with strong labour laws such as Germany and France. The bargaining position of highly protected employees can actually make it difficult to even broker an initial deal. And even if an acquisition is possible, those same labour rights can make many of the elements that make M&As attractive – such as restructuring assets, downsizing benefits and job layoffs – much more challenging to implement.

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Shifting influences

Perhaps more importantly, our analysis found that the strength of these stakeholder influences is actually dynamic and can be negatively impacted by external economic crises.

For a start, an economic slowdown or recession reduces the bargaining power of the labour force. This is because a tough economic environment can lead to more extreme outcomes. When faced with the risk of their company being liquidated, it is understandable that employees are more likely to see a merger as the lesser of two evils. The focus shifts from short-term labour rights to the long-term collective future of the organisation.

This was seen during the 2009 acquisition of Belgium-based bank Fortis by BNP Paribas. Taking place after the 2007–2008 global banking crisis, the labour force ended up making concessions on everything from job cuts and voluntary redundancy packages to compensation and benefits, as they recognised the greater need to facilitate the deal and ensure the continuity of the newly formed company.

A drastic economic shock can also result in a loosening of regulations by governments, even if it's in the short term, as happened in the US and the UK during the 2007–2008 global banking crisis. This can give firms greater leeway to push through swift asset restructuring programmes or more substantial layoffs as part of an acquisition, again weakening the influence of employees on the outcome of the merger.

Yet, it's not just employees' influence that can be impacted by financial crises. In 2023, Swiss bank UBS Group AG agreed to buy Credit Suisse for US$3.2 billion in an all-stock deal brokered by the government of Switzerland and the Swiss Financial Market Supervisory Authority. After the failures of US banks, the deal was rushed through following concerns that Credit Suisse would suffer the same fate, leading to global panic.

Although the acquisition rescued the bank, many Credit Suisse shareholders were left deeply unhappy. In particular, many were angered by the Swiss

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government utilising a clause in the Swiss constitution that allowed them to bypass the need for a shareholder vote on the deal. While this is an extreme example, the Credit Suisse case clearly demonstrates how shareholder influence can be drastically weakened by economic shocks. It also underlines the shifting nature of the influences of both shareholders and employees, dependent on broader external factors.

Different dynamics

Understanding these shifting power dynamics is especially important when considering the viability of undertaking M&As in overseas markets. Just because a certain strategy worked for a previous acquisition in one country, there is no guarantee that the same approach can be successfully applied to an acquisition elsewhere. What worked in the US is not necessarily going to work in France.

Executives need to be aware of what is happening in the country they're entering, in terms of understanding that country’s labour rights and how these compare to shareholder rights. They also need to be aware that conditions can change at the macro level over time (sometimes rapidly), and that this could lead to changes in rights and regulations and impact the preferences of the different stakeholders involved. And, in the most extreme situations such as the Credit Suisse case, that a new and unexpected stakeholder might come in and disrupt the entire dynamic.

It is only through a proper understanding of the power dynamics at play between employees and shareholders – and how these can be affected by external pressures – that those involved in planning and executing M&A strategies can have a better chance of gauging their potential success or failure.

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About the research

"Do financial crises moderate the influence of stakeholder rights protection on M&A activity: The influence of institutional logics and power?" is published in *Global Strategy Journal*
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