

**Discussion of Gehrke-Maug-Obernberger-Schneider:
Post-merger Restructuring of the Labor Force**

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Moqi Groen-Xu, Queen Mary University of London

A rich paper

From the introduction:

- “Little is known about how firms restructure their operations to realize synergies after mergers.
- “We take a detailed look at the post-merger reallocation of labor.
 - We ask how many and which employees are hired externally after acquisitions?
 - How many and which employees leave the firm, or are transferred between acquirers and targets in the post-acquisition period?
- Specifically, we are interested in
 - how employee flows affect the composition of the workforce,
 - how firms build managerial capacities, and
 - how managerial capacities and the organizational structure of the acquirer influence labor flows.”

Key result: more external than internal turnover

“While M&As create significant internal labor flows in merged firms, post-merger restructuring is dominated by hiring from and releases of employees to the external labor market”

- $\frac{3}{4}$ of acquisitions see no internal transfers of employees at all
- There is a small 3.5% increase of internal turnover, mostly target to the acquirer
- $\frac{3}{4}$ of restructuring happens through external hiring and firing
- “mergers set in motion a chain of new job assignments”
- Some details:
 - More flow with managers: some transfer from acquirer to the target
 - New employees are similar to incumbent acquirer employees but younger

The results in context

Literature:

- Large post-merger layoffs at the target firm (Lagaras 2020; Ma, Ouimet and Simintzi 2021)
- Acquiring labour from the target firm (Ouimet and Zarutskie 2020; Tate and Yang 2022)
- Integrating target employees after acquisitions (Smeets, Ierulli, and Gibbs 2016)

This paper:

- Layoffs are complemented by new hires
- New hires dominate flows between acquirer and target

Why does external turnover dominate? (1/3)

From the contribution section:

- “The notions that ILMs improve the assignment of employees to jobs, and that they permit the transfer of management practices, are integral to our framework
- We do not see that the creation of ILMs after M&As are critical to providing additional insurance opportunities, as far more employees find new jobs outside the merging firms
- We are sceptical about the skill-shortage argument
 - We find that ILMs play a relatively larger role for the general workforce than they do for highly-qualified employees or managers, and we would assume skill shortages to be concentrated in these segments of the workforce”

Why does external turnover dominate? (2/3)

From the introduction:

- “We build on the paradigm of Levine (2017), who argues that firms with lower production costs and limited growth opportunities become acquirers of target firms who tend to have the opposite features...
- Acquiring firms seek a competitive advantage through (1) leveraging the quality of their existing labor force, and improving and adapting the quality of their labor force further
- And (2) leveraging the quality of their managerial practices, and strengthening their organizational structure and their management”

How do these explain your main result?

- Little on selection (technological/organizational complementarity)
- Little on growth opportunities (later expansion?)
- Little on quality (long-term wage trajectory?)

Why does external turnover dominate? (3/3)

From the introduction:

- “mergers set in motion a chain of new job assignments”
- Some details:
 - More flow among managers: some transfer from acquirer to the target
 - New employees are similar to incumbent acquirer employees but younger
- Some additional ideas:
 - “Chain” starting with managers and triggering more flow?
 - Effects on hierarchies and scope of employees?
- Complement the literature:
 - (Ma et al.): Complementarity with technology spillovers?
 - (Smeets et al): New vs. existing establishments – integration or synergies?

Thank you for giving me this paper to discuss

- Comprehensive study of workforce restructuring after M&A
- I recommend focus on new hires, which dominate the layoff and labour acquisition effects documented by the previous literature
- Best of luck!