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Recent Research

by Georgia Flight and Bridget Finn

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Photograph by Jean Paul Endress

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On sleep-deprived teams, postmerger executives, an unreformed industry, and unanticipated turnover.

by Georgia Flight and Bridget Finn

Retaining Management after the Merger

Title: The Big Exit: Executive Churn in the Wake of M&As
Authors: Jeffrey A. Krug (jakrug@vcu.edu) and Walt Shill (walter.e.shill@accenture.com)
Publisher: *Journal of Business Strategy*, vol. 29, no. 4
Date Published: July 2008
Available Online: www.emeraldinsight.com/Insight/viewContentItem.do?contentType=Article&contentId=1733254 (Subscription or fee required.)

It's no surprise that executive turnover goes hand in hand with mergers and acquisitions. What is stunning, however, is that churn rates at target firms can remain a problem for more than a decade after the deal is closed. The authors of this study reached this conclusion after examining client data from the consulting firm Accenture (where coauthor Walt Shill is a managing director). They reviewed corporate acquisitions involving more than 1,000 firms in the financial-services, securities, telecommunications, oil and gas, consumer goods, retail, and manufacturing industries, and

Georgia Flight
(gbiondoflight@yahoo.com) is a freelance journalist based in San Francisco. She has written for *Business 2.0* and *I.D.* magazine, and for Web sites such as www.CNNMoney.com, http://earth2tech.com, and www.BNet.com.

Bridget Finn
(finn_bridget@strategy-business.com) is the Web editor of *strategy+business*.

mapped the careers of more than 23,000 executives at these companies over 17 years.

In the first postmerger year, the authors found, more than 30 percent of executives left, but that percentage fell just 10 points the second year, and remained at a whopping 21 percent when 10 years' worth of postmerger data was averaged; this rate of turnover is more than twice the rate at nonmerged firms. Companies that were acquired multiple times lost an even greater percentage of their executive team: nearly 50 percent the first year, and an average of 32 percent each year over a 10-year postmerger period.

This data suggests that leadership continuity should be a top priority for companies bent on mergers, and that without a clear-eyed focus on executive retention, businesses can expect instability in their top ranks over the long term. Since research has shown that revolving-door leadership can result in lower performance for several reasons, including project delays, difficulties in reestablishing trust with employees and shareholders, and loss of long-term institutional knowledge, making management retention a priority during a merger can help to optimize future prospects.

Bottom Line: If an acquired firm was purchased primarily for the brains of the people running it, watch out — unless there is a careful strategy in place to avoid churn, acquirers can expect more than one in five executives to depart each year for the ensuing decade.

The Dangers of Sleep-deprived Employees

Title: Sleep Deprivation and Decision-making Teams: Burning the Midnight Oil or Playing with Fire?
Authors: Christopher M. Barnes (barnes@bus.msu.edu) and John R. Hollenbeck (jrh@msu.edu)
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Available Online: http://journals.aomonline.org/InPress/main.asp?action=preview&art_id=355&p_id=4&p_short=AMR (Subscription or fee required.)

It's clear that sleep deprivation can lead to disastrous workplace mishaps, with some of the worst accidents on record, including the meltdowns at Three Mile Island and Chernobyl, occurring between 2 and 4 A.M., when the effects of sleep deprivation are most pronounced. But what happens to team dynamics and problem-solving capabilities when one or more members have failed to get enough rest?

That question served as the authors' starting point for a study that deconstructed the effects of sleep deprivation on teams as varied as highly specialized surgical units and groups of accountants working on a company audit. Broadly speaking, the research showed that "burning the midnight oil," often seen as a sign that employees are motivated and responsible, can lead to a significant decline in team performance and decision making.

The authors identify several forms of sleep deprivation, including the case of the industrious worker who spent 20 hours finishing a specific task and that of the leader who hadn't slept more than six hours a night in several weeks. In teams with a high level of vertical differentiation — that is, teams in which members have very stratified levels of seniority and authority —

The U.S. bankruptcy reforms of 2005 were supposed to bring down the cost of credit for consumers — but it never happened.

a sleep-deprived team member or leader can drastically change the outcome of a specific task. The authors use a hypothetical scenario involving a team working on a product recall to highlight the difficulties sleep deprivation could pose to a highly specialized team. In their example, the crisis response team tasked with handling the product recall would likely consist of a lawyer, a public relations representative, an engineer, and a medical expert, among others. With such specialized skill sets, it's unlikely the engineer could step in for the lawyer, or vice versa, if one were too sleep deprived to function. Conversely, when groups are horizontally differentiated, meaning they have similar skill sets and have access to the same information, as with a team of accountants, one worker can assume the responsibilities of another, and the effects of sleep deprivation on a single team member are not as pronounced.

Bottom Line: Sleep deprivation is a part of daily life, and a factor in the workplace. Companies should be diligent about watching for the signs of sleep deprivation and should organize teams so that a tired member does not destroy the entire team's performance.

Did Bankruptcy Reform Help or Hurt Consumers?

Title: The Effect of 2005 Bankruptcy Reforms on Credit Card Industry Profits and Prices
Authors: Michael Simkovic (msimkovic@gmail.com)
Publisher: Self-published
Date Published: July 2008
Available Online: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1157158

When the United States Congress passed the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, it was seen by many as seminal legislation that would make it more difficult for individuals to file for bankruptcy, thereby reducing credit card company losses from bad debt. The financial-services industry argued that lenders would pass on these savings to consumers in the form of lower interest rates on credit cards, reduced fees, and longer grace periods. With three years of quantitative data to draw on, the author set out to test the validity of these and other assumptions about the law.

One finding stands out: The bill was a boon for the credit card industry. Bankruptcy filings fell sharply in the years after the measure was passed and still remain well below 2005 levels, contributing to a US$17 billion increase in profits for credit card companies in the two years following passage.

As to whether the legislation brought down the cost of credit for consumers, the author says that never happened. In fact, although enjoying record earnings, credit card companies increased consumer charges significantly: Over-limit fees ballooned 17 percent between 2005 and 2007, and average late fees rose 5 percent.

According to the author, consumers found themselves in a consolidation squeeze; the relative lack of competition among credit card issuers — the result of nearly a decade of industry rollups — meant issuers did not have to lower prices to attract new customers or keep existing ones.

Bottom Line: The bankruptcy reforms of 2005 have reduced the number of consumer bankruptcy filings, but they have not helped consumers gain easier access to credit, a fact that would have been obvious to legislators if they had more closely examined the relative lack of competition in the credit card industry.

How to Prevent Voluntary Turnover

Title: Understanding Voluntary Turnover: Path-specific Job Satisfaction Effects and the Importance of Unsolicited Job Offers
Authors: Tae Heon Lee (taeheon@nccu.edu), Barry Gerhart (bgerhart@bus.wisc.edu), Ingo Weller (iweller@wiwiss.fu-berlin.de), and Charlie Trevor (ctrevor@bus.wisc.edu)
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(Subscription or fee required.)

The high costs associated with replacing good workers makes the question of why people leave their jobs a particularly important one for companies to address. To shed light on this topic, the authors pored through a large national survey, called the NLSY79, conducted by the U.S. Bureau of Labor Statistics tracking about 6,000 workers from 1979 until 2000. They found that contrary to popular belief — and a large body of existing research — it's not just unhappy employees who move on. In fact, only about 50 percent of employees left their jobs because they were dissatisfied.

Instead, two other key reasons motivated employees to take another job: unsolicited offers from competitors and family obligations (for example, a spouse's transfer or a pregnancy). These results support the authors' contention that too much emphasis has been placed on job satisfaction as the best way to predict turnover rates. Unsolicited job offers, in particular, represented a surprisingly large part of the sample — 23 percent. This suggests that employers must pay close attention to "talent wars" in their industries.

Bottom Line: Job satisfaction is only one reason that employees leave their positions, and should not on its own be considered a good predictor of turnover. Competitive raids on a rival's best talent also play a major role and should be watched more diligently. ✚

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