

A Case Study:

Merger and Acquisition of Sun Pharmaceuticals with Ranbaxy -

Better Approach to Handle Post- Acquisition Mass Layoff

I. Introduction

In 2014 and 2015, in accordance to the date of announcing the deal, in the pharmaceutical industry worldwide, there had been a large number of mergers and acquisitions.^{1,2} The reasons for such large number of mergers and acquisitions included, *inter alia*, easily available financing due to low-interest rates, economy of scale for more efficient operation of pharmaceutical companies, obtaining control of other companies and/or their patented assets, and acquiring companies that are experiencing temporary difficulties in finance and / or in operation.^{3,4}

¹ Wieczner J. The real reasons for the pharma merger boom. Fortune. 2015; <http://fortune.com/2015/07/28/why-pharma-mergers-are-booming/>. Accessed 5 Jan 2017

² Philips M. Monster deals, big questions. Bloomberg Business 2015. <http://www.bloomberg.com/news/articles/2015-02-23/m-a-wave-can-signal-economic-downturn-maybe-not-this-time>. Accessed 24 Feb 2016.

³ Turk S. Generic Pharmaceutical Manufacturing in the US. IBIS World Industry Report, 2015 32541b. Accessed 15 Dec 2016.

⁴ Danzon P, Epstein A, Nicholson S. Mergers and acquisitions in the pharmaceutical and biotech industries. Manage Decis Econ. 2007;28:307-28.

As indicated in Figures 1 and 2,⁵ the numbers of deals and amount involved in mergers and acquisitions of pharmaceutical companies producing generic drugs before 2000 were relatively small while both the numbers of deals and amount have both been increased in 2014 to 2016.

Fig.1: Number of completed merger and acquisitions deals with generic targets from 1995 to 2016 (the number of deals include deals that did not release the announced value) (Data were gathered from Bloomberg Finance LP)

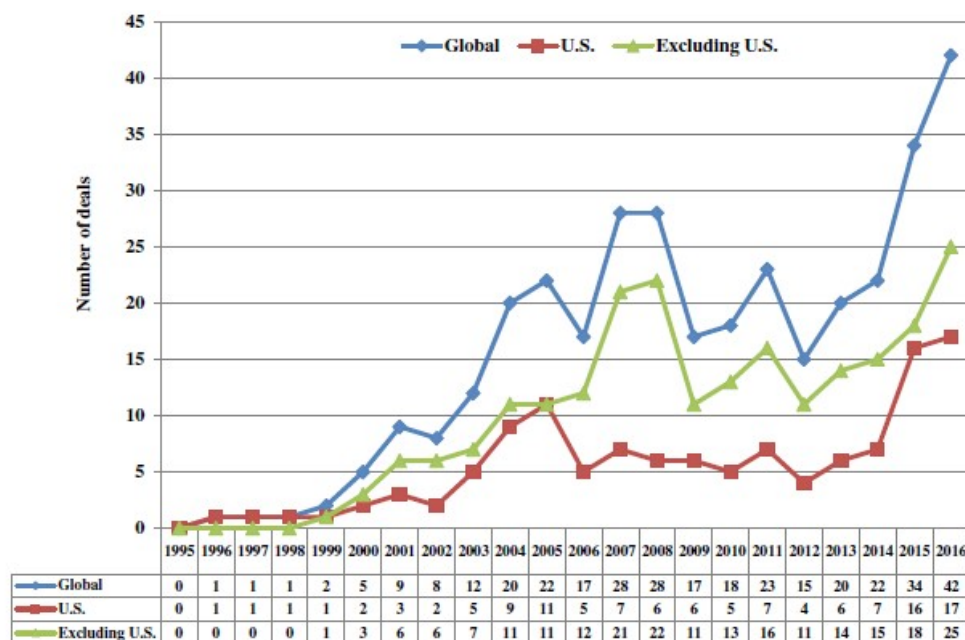
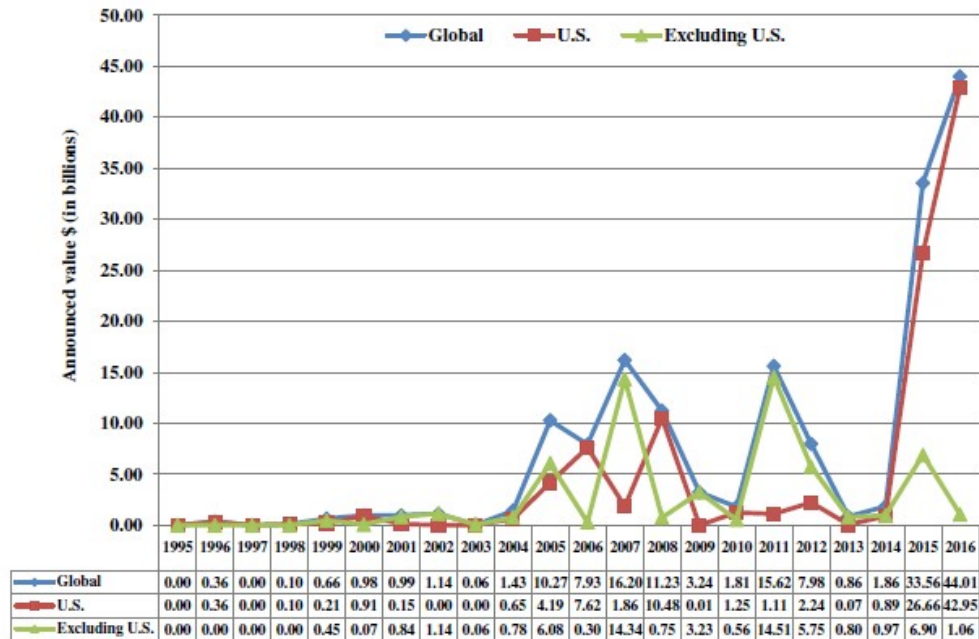


Fig. 2: Total value of completed deals with generic targets from 1995 to 2016. Financial figures are in billions of USD not adjusted for inflation and rounded to two decimal places. (Data were gathered from Bloomberg Finance LP)

⁵Figures 1 and 2 were compiled by Marc-André Gagnon and Karena D. Volesky in Merger mania: mergers and acquisitions the generic drug sector from 1995 to 2016, Globalization and Health (2017) 13:62, 22 August 2017



In particular, because pharmaceutical product development involves extensive researches and prohibitive cost, therefore, pharmaceutical companies would much prefer to develop new products within shorter time frame through merger and acquisition.⁶ In summary, the reasons for popularity of recent large number of pharmaceutical companies' mergers and acquisitions included, *inter alia*, the followings:

1. generic drug manufacturers can obtain the advantage from economies of scale by reducing fix costs though enlarged operation;

⁶Nikhil Joseph,Sahil Shah,Ruchi Biyani and Nishchal Joshipura, , Sun Pharma – Ranbaxy A Panacea for Ranbaxy's ills?, Nishith Desai Associates, 19 December 2014,https://www.nishithdesai.com/fileadmin/user_upload/pdfs/Ma%20Lab/Sun_Pharma_-_Ranbaxy.pdf

2. brand-name manufacturers entered the generic drug market due to expiration of patents;
3. quicker and easier means to get access to new markets, i.e. by increasing market share through acquiring targeted brand;
4. more complex products with better market created by the emergence of biosimilars developed by companies which can easily become attractive targets for mergers and acquisitions.
5. aggressive attitude to obtain good investment before it has been acquired by others;
6. pharmaceutical industry are considered as a relatively reliable industry and financing is easily available because of recent low-interest rates ;
7. investors' demand for increasing shareholder value; and
8. vertical integration to improve and secure the supply chain.^{7,8,9}

Likewise, India also experienced a boom in mergers and acquisitions in 2014 to 2016. From the Indian perspective, merger and acquisition has been used as

⁷Turk S. Generic Pharmaceutical Manufacturing in the US. IBIS World Industry Report, 2015 32541b. Accessed 15 Dec 2016.

⁸Wieczner J. The real reasons for the pharma merger boom. Fortune. 2015; <http://fortune.com/2015/07/28/why-pharma-mergers-are-booming/>. Accessed 5 Jan 2017

⁹Danzon P, Epstein A, Nicholson S. Mergers and acquisitions in the pharmaceutical and biotech industries. Manage Decis Econ. 2007;28:307-28.

strategies for corporate growth. Merger and acquisition had been adopted by many large corporations for acquiring technology and talent, for developing of better product portfolio, and better coverage in new markets.¹⁰ According to Maharaj and Reddy (2013), merger and acquisition can be used as a strategy to raise efficiency and productivity in increasingly competitive markets by consolidating the strength of two or more companies in emerging countries.¹¹

In particular, Indian pharmaceutical industry has been facing high competitions both domestically and internationally because short of research and development, low efficiency in production operation, high competition from generic products, especially those with expiring patents, and widely publicized criticisms and recall for the defective quality products.¹² This tough competitive business environment has encouraged merger and acquisition activities for Indian pharmaceutical companies in their expansion to the global pharmaceutical and biotech

¹⁰ R. K. Srivastava, Managing mergers and acquisitions in health care: A case study in the pharmaceutical sector, *International Journal of Healthcare Management* 2020, VOL. 13, NO. Si, S61-S73

¹¹ Maharaj B, Reddy M. To clear or not: examination of mergers and acquisition cases from small economies. *Int J Econ Finance*. 2013;5(2):Feb:125–140.

¹² Managing mergers and acquisitions in health care: A case study in the pharmaceutical sector, R. K. Srivastava 22 December 2017 *Informa UK Limited, trading as Taylor & Francis Group*
INTERNATIONAL JOURNAL OF HEALTHCARE MANAGEMENT 2020, VOL. 13, NO. Si, S61-S73

production and sales in 2014 to 2016, e.g. Daiichi's acquisition of Ranbaxy and the subsequent Sun Pharmaceuticals ("Sun Pharma") acquisition of Ranbaxy ("Ranbaxy") from Daiichi. For instance, one of the major reasons for the Sun Pharma's acquisition of Ranbaxy is because through complementary acquisitions, Sun Pharma can strategically acquire a better mix of products that can achieve a more comprehensive business portfolio.¹³ Further, as demonstrated in Sun Pharma's company historical development, through mergers and acquisitions, including the acquisition of Ranbaxy, Indian pharmaceutical companies have achieved a much quicker growth rate in the past few years.

According to Sharma and Mareja (2016), statistics reflected one of the most critical issues for the success of a merger and acquisition transaction, but frequently overlooked by management, is the human resource issues. Usually, in a due diligent exercise of merger and acquisition, the management does study the issues covering feasibilities on the business operational, financial and legal aspects of the related companies, but the study often does not include human resources issue as one of the routine or important issues to consider. However, it is vital for company management

¹³Krishnan RA, Joshi S, Krishnan H. The influence of mergers on firms' product-mix strategies. *Strategic Manage J.* 2004;5:587-611

to realize that people are important and critical for the success or failure to make good partners. Accordingly, it is essential for company management to investigate, study and plan for post-merged human resources issues at the earliest stage before the integration.¹⁴

The aim of this study is to analyse one of the possible human resources issues related to the integration process following the acquisition of Ranbaxy by Sun Pharma. In particular the study covers the topic of mass layoff of Ranbaxy top management and employees, which happened soon after the acquisition as mentioned herein below. It is also intended to use the case to project some discussions currently present in the literature on management's better handling of any mass layoff process.

The paper is set out in the following manner: the next section introduces company background of the Sun Pharma and Ranbaxy respectively. The third section describes the merger and acquisition of the two companies took place in 2014 to 2105 and the post acquisition human resources arrangement of the merged company. Then

¹⁴VAISHALI SHARMA and NEHA MAREJA, A STUDY ON ROLE OF HUMAN RESOURCE POST ACQUISITION: A CASE STUDY OF SUN PHARMACEUTICALS AND RANBAXY LABORATORIES, VOLUME NO. 7 (2016), ISSUE NO. 09 (SEPTEMBER), [INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT](#), pp62 - 65

the literature review section discusses literatures related to post acquisition human resources management and its impact on mass layoff in the merged entities in general. The final section presents the limitation of this study, conclusion and any proposal for improving the mass layoff of any company undergoing a smooth merger and acquisition process.

This case study is to analyze the human resource issue for smooth arrangement of mass layoff in post-acquisition phase. This study is descriptive in nature. The study and discussions will base on secondary source of data and information such as websites of companies, literature reviews, journals and online documents and news. As the study is only based on secondary data, therefore the width and depth of the study is limited. This research paper is targeted to assist employers, employees, human resource professionals, researchers and scholars for the practice and study of mass layoff process in post-acquisition stage of a merger and acquisition transaction.

II. Case Study

A. Background of the Companies

Sun Pharmaceuticals Industries Ltd

The company was commenced as a family partnership in, 1997 by Mr. Dilip S Shanghvi (“Shanghvi”) for manufacturing and marketing pharmaceutical products in India. Different from other leaders in the Indian pharmaceuticals industry, Sanghvi’s background is not in chemistry; but rather, he is a graduate in commercial studies.

In 1983, Sun Pharmaceutical Industries Ltd (“Sun Pharma”) was incorporated first with two people and then with a team of about ten employees. Shanghvi commenced his career as a wholesaler of pharmaceutical product in Kolkata, also known as Calcutta, the capital of the Indian state of West Bengal. At that time, the company only operated with just five products to treat psychiatry ailments. The company then set up a production plant at Vapi for production of tablets and capsules. In 1986, an administrative office was set up in Mumbai to cover customers in a few targeted cities in Western India. In 1991, Sun Pharma set up its first research center which became a driving force for growth of the company. In 1994, the company was listed on the Bombay Stock Exchange. Later, the company has also been listed on the National Stock Exchange. Since Shanghvi commenced his business as a pharmaceutical entrepreneur, his business only concentrated in the pharmaceutical industry. In 2005, Sun Pharma had been selected by Forbes amongst the best 200 companies, with sales less than USD 1 billion, in Asia. This was the fourth time in

five years that the Sun Pharma has been selected.¹⁵ Further, Shanghvi, the founder and managing director of the company also received the E&Y Entrepreneur of the Year award in healthcare and life sciences for 2005.¹⁶

Currently, Sun Pharma manufactures and sells a different variety of pharmaceutical products and a wide variety of consumer healthcare products.¹⁷ Despite the company's major business is in selling generic drugs, it concentrate its effort to develop those generic drugs in select therapeutic areas with high profit margin. In India, Sun Pharma is a market leader in the chronic pharmaceutical products. More than half of the company's revenue is contributed by sale of these chronic pharmaceutical products. Each year, the company invests about 7-8% of its global income in research and development. In the past few years, the company's export sale to foreign countries accounted for more than 72% of the company's sales.¹⁸

¹⁵Money control, Company History - Sun Pharmaceutical Industries Ltd,
<https://www.moneycontrol.com/company-facts/sunpharmaceuticalindustries/history/SPI>

¹⁶<https://stock-financials.valuestocks.in/en/sun-pharma-company-history>, Sun Pharma History

¹⁷Sun Pharmaceuticals Industries Ltd (SunPharma) – Company History, Business Standard,
<https://www.business-standard.com/company/sun-pharma-inds-4325/information/company-history>

¹⁸Annual Reports of Sun Pharmaceutical Industries Ltd. year 2013-14 to 2017-18.

Sun Pharma has 41 manufacturing plants located in various parts of the world. The two major markets are India and the US which cover almost 70% revenue of the company. In high-growth emerging markets such as Brazil, Mexico, South Africa, Russia and Romania, and as well as Europe, the company also has a strong source of product supply and market share.¹⁹

Merger and acquisition is one of the critical means for Sun Pharma's historical growth and success. To achieve the fast growth and expansion of the company domestically and internationally, the company has conducted numerous acquisitions and joint ventures deals in the past. In 1995/6, the company commenced its first acquisition transaction by acquiring a manufacturing plant from an international pharmaceutical corporation, Knoll Pharmaceutical. Through this acquisition, the company increase and considerably improved its sales and production capacity for regulated markets over the years across differentiated products. In 2001, the company also started its first joint venture manufacturing facilities in Dhaka Bangladesh.

¹⁹NDTV Profit, Sun Pharmaceutical Industries Ltd,

Pharhttps://www.ndtv.com/business/stock/sun-pharmaceutical-industries-ltd_sunpharma/reports

For the 20 years period between 1997 and 2017, Sun Pharma has made 17 strategic acquisitions. In particular, in 1997, to penetrate the U.S generic market, as part of a technology - for - equity agreement, the company invested in a generics manufacturer in Detroit, the Caraco Pharm Labs, which transaction was completed in 2010. This is the company's first international acquisitions. Also in 2010, by investing \$454 million cash to acquire more than half of the shareholding in another established international generics producer, the Taro Pharmaceutical Industries Limited, the company can enforce not only its presence in the US market, but also its presence in Canada and Israel. Other than investment in the developed markets, in 2011, by signing a strategic partnership agreement with MSD (Merck) in India, Sun Pharma has also developed and exported its differentiated branded generics to the emerging markets.

After all these years of merger and acquisition and joint venture activities, in terms of profitability, Sun Pharma has now become one of the leading pharmaceuticals producers in the world.

In 2014, the Board of Directors of the Sun Pharma announced on 7 April 2014 a

US\$ 4 billion milestone transaction that the company has signed an agreement with Ranbaxy's Japanese major shareholder, Daiichi, and subject to clearances obtained from different authorities in India and US, the company will acquire 100% of Ranbaxy shares in the stock market. In 2015 the company completed the transaction after receipt of clearances from all the authorities required for this Ranbaxy acquisition.

Despite Shanghvi is well known for acquiring problematic companies at a bargain price, and then reversed and saved the distressed companies' operation. In particular, for his years of entrepreneurial experience, he has the track record to overturn around 16 companies, majority of which were experiencing difficulties or in trouble, including the epic hostile acquisition of Taro Pharmaceutical of Israel. Nevertheless, there were still concerns from the mass media regarding the acquisition of Ranbaxy as Ranbaxy was not trouble free when it was acquired by Sun Pharma in 2013/14 as discussed herein below.

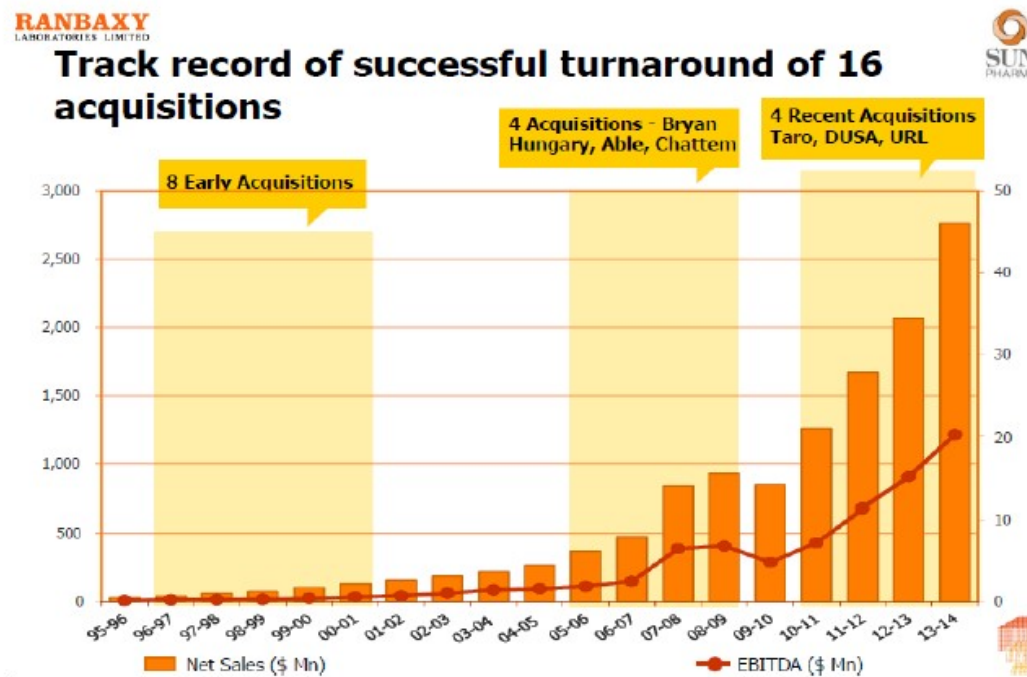


Figure3: Acquisitions by Sun Pharma over the years

(Source: Sun-Ranbaxy Investor Presentation)²⁰

Ranbaxy

Ranbaxy was founded in 1937 by Ranjit Singh and Dr. Gubax Singh as a distributor selling vitamins and drugs to Japanese Pharmaceutical companies. Before they established Ranbaxy, they had been working for the Indian operation of a Japanese pharmaceutical company. The name Ranbaxy is a made up by merging the names of its founders: **Ranbir** and **Gurbax**. The founders transferred the ownership of

²⁰ Extract from: Akarsh Agarwal, The Dynamics of major Indian Takeovers – Their Causes, Consequences & Valuation, Global Journal of Finance and Management. ISSN 0975-6477 Volume 10, Number 1 (2018), pp. 1-20, <http://www.ripublication.com>

the company to their uncle Bhai Mohan Singh in the early sixties. The company was later incorporated in 1961.²¹

In the 1960s, foreign drug makers controlled the Indian pharmaceutical market and majority of local pharmaceutical manufacturers were just involved in dosage preparation, packaging, and distribution. In 1962, Ranbaxy commenced its drug production in India after engaged with a pharmaceutical company from Europe.

In 1967, Parvinder Singh, son of Bhai Mohan Singh, completed his PhD degree in chemistry from the University of Michigan and returned back to India to join his father's business. With the assistance of Parvinder Singh's talent in chemistry and business, Ranbaxy soon got independent from with the European pharmaceutical company and became a fully Indian pharmaceutical company and a major pharmaceutical company in the world.

²¹encyclopedia.com, Ranbaxy Laboratories Ltd,
<https://www.encyclopedia.com/books/politics-and-business-magazines/ranbaxy-laboratories-ltd>

In the 1970s, Ranbaxy grasped the opportunity that there was no longer any more statutory patent protection for manufacturing of pharmaceutical products in India, the company was able to utilize India's large supply of well trained, yet cheap labor force to produce low-cost, generic versions of popular branded and expensive medications. Since Ranbaxy was able to produce generic drugs at much cheaper cost than the branded drug manufacturers, Ranbaxy was able to accumulate its initial capitals and use it to form a strong team of chemists and chemical engineers.

In 1973, to finance the company's expansion to set up a new production plant at Mohali, Punjab, Ranbaxy went public and got listed on the Indian Stock Exchange.

However, when India passed the Drug Price Control Order in 1970, drug prices had fallen as they were all controlled by the government. The company then utilized its highly competitive low production cost to develop international markets by exporting bulk drugs to emerging markets, such as Malaysia, Srilanka, Thailand, Singapore and Middle-East in mid-seventies.

In late eighties, with Ranbaxy strong team of research staff chemists and

chemical engineers, the company was able to launch new products to the United States. In 1992, Ranbaxy entered a joint venture agreement with the well respected Eli Lilly & Co for manufacture and sell Lilly's branded pharmaceuticals in India, while in the US, Lilly will sell Ranbaxy's generic drugs in the world's single biggest market. This has been considered as a major milestone for the company history of Ranbaxy.

However, in the 90's, as India was under the high international pressure to enforce international drug patents, Ranbaxy decided to expand its international operation, especially increase its presences in the United States. Therefore, in the late 90s, Ranbaxy Pharmaceuticals Inc. was formed in by Ranbaxy in the US in order to obtain its entry into the US pharmaceutical market.²²

In June 2008, the family of CEO and Managing Director Malvinder Mohan Singh sold 34.8% stake in Ranbaxy to the Japanese Daiichi Sankyo group, a top pharma innovator in the world, while Malvinder Mohan Singh remained as CEO after

²²"Ranbaxy: Ranbaxy Continues to Add Value and Utility to US Product Portfolio". pharmacytimes.com. Pharmacy Times. Retrieved 11 August 2018. Ranbaxy [...] entered the U.S. generic pharmaceutical market in 1995 introducing its first product under the Ranbaxy Pharmaceuticals Inc. label in January 1998

the transaction. In November 2008, Daiichi Sankyo acquired a total of more than 60% stake in Ranbaxy when the acquisition was completed.

Before the Daiichi Sankyo acquisition, during 2004 to 2005, two Ranbaxy's employees in India, Dinesh Thakur and Rajinder Kumar, accused Ranbaxy's fabrication of drug test reports. On the other hand, Thakur was accused by Ranbaxy that he had used his office computer to view pornographic sites he was forced to resign in 2005. After Thakur left Ranbaxy, he informed the Food and Drug Administration ("FDA"), the drug approving authority in the United States about Ranbaxy's defective operation in India. FDA started investigating his claims and consequently, issued two warning letters to Ranbaxy on 16 September 2008, and an Import Alert for generic drugs manufactured by two Ranbaxy's Indian production plants.

In February 2009, all Ranbaxy's drug applications from one of its Indian factory has been stopped by the FDA, because they had found that there was a practice of using fabricated data and test results in drugs that had been approved and /or pending drug applications. Further, from 2012 to 2014, there were more quality problems found in Ranbaxy's products and lots of drugs has been recalled in the US market because of presence of impurities and defective quality. Because of continuous quality problems found by FDA in products manufactured by four of the Ranbaxy's Indian manufacturing plants located in Sahib, Mohali, Paonta and Dewas, FDA banned all drugs manufactured by these plants and the sales in the US were substantially

adversely impacted because products from these four plants were mainly targeted for the US market.²³

Since 2011 to 2013, Ranbaxy has been continuously recorded a net loss and distressed from decreases in net worth despite the company met its annual sales targets. One of the reasons is because Ranbaxy had pleaded guilty and had to pay the huge settlement amount of US\$ 515 million to the US Department of Justice in May 2013 after civil and criminal charges were brought against it for knowingly making materially false statements of data to the FDA and findings of non-compliances in two of its Indian manufacturing plants. In addition, drugs manufactured by Ranbaxy's Mohali plant had to be throwing away because they were banned in the US. Further, Ranbaxy also incurred substantial losses on foreign currency option derivatives.

In 2014, since Ranbaxy was suffered from the negative image caused by the defective quality production and the enormous amount of compensation and was struggling from its difficult financial position; Daiichi Sankyo commenced to negotiate to sell its shares in the company to Sun Pharma. As mentioned hereinabove, in April 2014, Sun Pharma had announced that it will acquire from Daiichi Sankyo all their shareholding in Ranbaxy. At that time, Ranbaxy still has its operations in 43 countries together with 21 production plants situated in 8 different nations, and most important, it's well established product mixes selling in more than 150 nations in the world.

²³ P.R. Sanjai, Swaraj Singh Dhanjal, Sun Pharma completes Ranbaxy deal, <https://www.livemint.com/Companies/tvbrlhX1YGdm7GshBC44VL/Sun-Pharma-completes-Ranbaxy-merger-shares-jump.html>, Updated: 26 Mar 2015, 12:16

As mentioned hereinabove, despite Sun Pharma has a proven track record of overturning deteriorated assets in its acquisitions, the acquisition of Ranbaxy is definitely the largest and therefore the most challenging task for Sun Pharma to digest, especially when considering the poor financial performance and serious defective quality problems of Ranbaxy just years before the acquisition. Nevertheless, it will be even a more difficult challenge to Sun Pharma since the company is expecting to create synergy benefits of US\$ 250 million within three years after the completion of the transaction. As announced by Sun Pharma, the company is expecting these benefits will be generated mainly from enlarged revenue, strengthen efficiencies in procurement and supply chain, and other cost saving synergies.

B. The Merger and Acquisition Deal

In April 2014, at the critical time for Ranbaxy, Sun Pharma and Ranbaxy's Japanese majority shareholder Daiichi Sankyo jointly announced the sale of all 63.4% of Ranbaxy's share from Daiichi Sankyo to Sun Pharma for the consideration of about \$4 billion. This was expected to be one of the biggest merger and acquisition deals in the Indian stock market in terms of price. The deal was a cashless share swap. Under this arrangement, Ranbaxy's shareholders would receive 0.8 share of Sun Pharma for each share of Ranbaxy. After the acquisition, Daiichi Sankyo would own about 9% of

the shareholding, which would be the second biggest, of the merged company. Further, one of the board members of the merged company board would be nominated by Daiichi. Since according to the Indian tax laws this share-swap arrangement would not be treated as a ‘transfer’ and therefore there would not be any no capital gains incurred for the Ranbaxy shareholders. Accordingly, long term capital gain tax would be exempted and only a minimal security transaction tax was payable by the parties.²⁴ Accordingly, this share swap arrangement appeared to be a mutually beneficial transaction for both shareholders of the two companies, as Sun Pharma would not have to spend any cash in hand, and at the same time the Ranbaxy’s shareholders would receive the merged Sun Pharma shares with minimal payment of tax in exchange.²⁵

Kumawat and Bagan (2018) defined the term “Merger” as “the arrangement of two or more companies which can be merged together either by way of amalgamation or absorption”; while the term “Takeover / Acquisition” means “purchase of one

²⁴ Extract from: Akarsh Agarwal, The Dynamics of major Indian Takeovers – Their Causes, Consequences & Valuation, Global Journal of Finance and Management. ISSN 0975-6477 Volume 10, Number 1 (2018), pp. 1-20, <http://www.ripublication.com>

²⁵ Nikhil Joseph, Sahil Shah, Ruchi Biyani and Nishchal Joshipura, , Sun Pharma – Ranbaxy A Panacea for Ranbaxy's ills?, Nishith Desai Associates, 19 December 2014, https://www.nishithdesai.com/fileadmin/user_upload/pdfs/Ma%20Lab/Sun_Pharma_-_Ranbaxy.pdf

company (target company) by another company (acquirer company) for control of the target company”.²⁶ Following this definition, the deal between Sun Pharma and Ranbaxy was actually an acquisition transaction whereby Sun Pharma acquired Ranbaxy by share swap. Despite the deal was jointly announced by Sun Pharma and Ranbaxy’s Japanese majority shareholder Daiichi Sankyo, the acquisition was actually a hostile acquisition as the management of Ranbaxy did not agree to such acquisition.

In March 2015, the acquisition deal was completed after approvals received from various authorities as gate keepers in India and in the US.²⁷

As mentioned in the Annual Report of Sun Pharma (Year 2013 to 2014), Sun Pharma expected that after closure of the deal, the merged Sun Pharma would become the largest entity in the Indian pharmaceutical market and in terms of sales volume, the world’s fifth-biggest pharmaceutical company in selling generic drugs. The merged Sun Pharma would cover a market over 55 countries and have more than 40 production plants all over the world. Sun Pharma has expected that there would be a \$250 million saving within three years of the merger because of operating synergy.²⁸

²⁶Hanuman Sahai Kumawat, Ram Prasad Bagar, Corporate Restructuring in India: A Case Study of Sun Pharmaceutical Industries Limited, Emerging Trends and Innovations in Modern Management, pp 172 to 178 <https://www.inspirajournals.com/uploads/Album/153618126.pdf>

²⁷P.R. Sanjai, Swaraj Singh Dhanjal, Sun Pharma completes Ranbaxy deal, 26 March 2015, <https://www.livemint.com/Companies/tvbrlhX1YGdm7GshBC44VL/Sun-Pharma-completes-Ranbaxy-merger-shares-jump.html>

²⁸ Annual Reports of Sun Pharmaceutical Industries Ltd. Year 2013-2014.

Table 1: Summary of Sun Pharma Pre and Post Ranbaxy Merger (Rs.in Million)

	Financial Year 2013-14 (Pre-acquisition)	Financial Year 2014-15 (Post-acquisition)	Increment
Net Sales	1,60,044	2,72,865	70%
Gross Profit	1,32,250	2,05,473	55%
Net Profit (After Tax)	31,415	45,394	44%
Net Worth	1,85,249	2,56,231	38%
Net Fixed Assets	58,242	1,10,201	89%
Inventory	31,320	56,680	80%
Sundry Debtors	22,004	53,123	141%
Sundry Creditors	13,283	31,538	137%

Source: Annual Report of Sun Pharmaceutical Industries Ltd. 2013-14 & 2014-15

Table 2: Position before Merger and Post Merger Gains (Sun Pharma-Ranbaxy)

Before Merger Gains:		Sun Pharma	Ranbaxy
Financial Year 2012-13	Market Price as on April, 2012	287	458
	Market Price as on April, 2013	407	451
	Return	41.8%	-1.5%
Financial Year 2013-14	Market Price as on April, 2013	407	451
	Market Price as on April, 2014	587	470
	Return	44.2%	4.2%
Post-Merger Gains:		Sun Pharma + Ranbaxy	
Financial Year 2014-15	Market Price as on April, 2014	587.00	
	Market Price as on date	815.70	

	Return	39%
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Source: Annual Reports of Sun Pharmaceutical Industries Ltd.

C. Post Acquisition Arrangement

In order to achieve the targeted saving of \$250 million by operating synergy within the three years after the merger, it has been expected by analysts that the human resources of the two companies and combined supply chain have to be rationalized, and therefore, there would be job redundancies for overlapping sales staff at different areas worldwide, and restructuring of the distribution channel, mainly in the US and India. Further, repeated products and production facilities would have to be decreased in order to achieve the targeted saving.²⁹.

A consultant in the market has also commented that the key challenge would be managing the big cultural difference between the two companies during the amalgamation or absorption process for the merged company. Another industry consultant further stated that typically mass layoff and exit of senior executives may be caused by amalgamation of large entities with cultural differences.³⁰

In the Sun Pharma - Ranbaxy acquisition, the merged entities would have at least 25,000 to 30,000 employees and more than 40 units of production facilities globally.

²⁹P.R. Sanjai, Swaraj Singh Dhanjal, Sun Pharma completes Ranbaxy deal, Updated: 26 Mar 2015, 12:16 AM IST

<https://www.livemint.com/Companies/tvbrlhX1YGdm7GshBC44VL/Sun-Pharma-completes-Ranbaxy-merger-shares-jump.html>

³⁰ Same as above

According to a similar acquisition transaction in 2012 of the world's largest generic drug manufacturer, Teva Pharmaceutical Industries Ltd, subsequent to a series of acquisitions with other drug manufacturers in the US, Teva had announced that it would lay off 10% of its 50,000 employees at the latest by end of 2014.³¹

However, when Sun Pharma announced the acquisition of Ranbaxy in April 2014, in response to a query regarding possible rationalization of employees in the merged entities, a spokesman of Sun Pharma has stated that:

“Currently, there are no such plans formulated. We believe that a dominant part of the synergies can be realized through incremental revenue growth, as well as procurement and supply chain efficiencies.”³²

(Underline added)

In other words, at the time when the acquisition was announced, there was no announcement for reduction of production staff in the merged entities.

When the deal was closed in March 2015, Sun Pharma CEO and MD, Shanghvi stated that

³¹C.H. Unnikrishnan, Sun Pharma, Ranbaxy merger: Layoffs, supply synergy key to \$250 mn savings, 14 Apr 2014, <https://www.livemint.com/Companies/7eHPFVf9o1sTO45WGBZtI/Sun-Pharma-Ranbaxy-deal-Layoffs-supply-synergy-key-to-25.html>

³² Same as Note 30

“The merger creates a combined entity which has managerial capability that is significantly greater than either company alone.”³³

Shnanghvi also announced the three top priorities of the merged company as:

“(1) to achieve full compliance with manufacturing standards specified by the regulators, (2) to increase its focus on research and development, and (3) achieve strong business growth across the world.”³⁴

Again, it seems rationalization of production manpower was not one of the prioritized items on the agenda of the merged entity.

After the acquisition completion in March 2015, Ranbaxy’s defective quality in production and the FDA’s securitization in the US continued as the major problems for the merged company. In fact, because of defective production, FDA has continued the ban on drugs produced by the above mentioned four Ranbaxy’s manufacturing

³³P.R. Sanjai, Swaraj Singh Dhanjal, Sun Pharma completes Ranbaxy deal, Updated: 26 Mar 2015, 12:16 AM
<https://www.livemint.com/Companies/tvbrlhX1YGdm7GshBC44VL/Sun-Pharma-completes-Ranbaxy-merger-shares-jump.html>

³⁴ Same as Note 33

plants in India. As of October 2016, not only these four major production facilities acquired from Ranbaxy, but also one of Sun Pharma's own major production facilities in Halol, which production was also targeted for the US market, was facing the US FDA securitization.³⁵ According to an unnamed senior executive in Sun Pharma, the brand of Ranbaxy would eventually disappear according to marketing strategy of the Sun Pharma.³⁶

Because the enormous size of the two companies, the Sun-Ranbaxy merger had always been expected as a challenging task. For example, the total combined sales force in India and overseas for the merged company was close to 30,000.³⁷ As mentioned hereinabove in the background of the two companies, the organizational structures of both companies were very similar and they were both concentrated on the same emerging markets and developed markets in India, Russia and European countries, it would not be surprised if there was a surplus in staff in the long run.

³⁵ By Joe C. Mathew, Fixing the Ranbaxy Problem, Business Today, 23 October 2016, <https://www.businesstoday.in/magazine/cover-story/sun-pharma-fixing-the-ranbaxy-problem/story/238043.html>

³⁶ P.R. Sanjai, Swaraj Singh Dhanjal, Sun Pharma completes Ranbaxy deal, Updated: 26 Mar 2015, 12:16 AM
<https://www.livemint.com/Companies/tvbrlhX1YGdm7GshBC44VL/Sun-Pharma-completes-Ranbaxy-merger-shares-jump.html>

³⁷ P.R. Sanjai, Swaraj Singh Dhanjal, Sun Pharma completes Ranbaxy deal, Updated: 26 Mar 2015, 12:16 AM
<https://www.livemint.com/Companies/tvbrlhX1YGdm7GshBC44VL/Sun-Pharma-completes-Ranbaxy-merger-shares-jump.html>

Soon after the deal completion, Shanghvi had said in an exclusive interview that “Ranbaxy is bleeding. My priority is to stop that.”³⁸ However, he never mentioned how he would handle this problem. Meanwhile, a spokesperson from Sun Pharma had also said in an email response that:

“New and renewed leadership, clear direction, prioritised areas of improvement and emphasis on productivity helped in turning around the overall performance.”³⁹

This is the first time when Sun Pharma indicated that because of poor business performance after the acquisition, the merged company would need “new leadership” for the improvement and emphasis on production.

³⁸ By Joe C. Mathew, Fixing the Ranbaxy Problem, Business Today, 23 October 2016, <https://www.businesstoday.in/magazine/cover-story/sun-pharma-fixing-the-ranbaxy-problem/story/238043.html>

³⁹ By Joe C. Mathew, Fixing the Ranbaxy Problem, Business Today, 23 October 2016, <https://www.businesstoday.in/magazine/cover-story/sun-pharma-fixing-the-ranbaxy-problem/story/238043.html>

After Sun Pharma appointed its own people to occupy the key positions in the merged organization, how to arrange the repeated roles of some senior Ranbaxy executives became an intensified problem. Yet, in the May 2015 annual press conference, even Shanghvi had hinted that some senior management may no longer be required to occupy any functional position in the merged entity, he still clearly expressed his attitude that he would keep the senior executives from Ranbaxy. In particular, he had expressly stated that

“I have already announced people who will report to me, in coming days we will make more announcements of people who will be reporting to me. However, there are a few senior leaders of Ranbaxy who have no role in merged entity, and they are talented individuals, so we are looking at finding a way of retaining all people.” (Emphasis added)⁴⁰

According to “Business Today”, after the acquisition, as the merged entities had focused all its effort on rectifying its defective quality problem with the FDA, the

⁴⁰P.R. Sanjai, Swaraj Singh Dhanjal, Sun Pharma completes Ranbaxy deal, Updated: 26 Mar 2015, 12:16 AM
<https://www.livemint.com/Companies/tvbrlhX1YGdm7GshBC44VL/Sun-Pharma-completes-Ranbaxy-merger-shares-jump.html>

merged entities had not put much attention to expand its business.⁴¹ Accordingly, about a year after the announcement of acquiring the Ranbaxy shares in March 2014 and a few weeks after the announcement of the year 2013/14 fourth quarter reported profits had been reduced by 44 per cent due to high operation costs, Sun Pharma shares have fallen 12 per cent. So, the priority of the combined entities shifted to improve the performance of the acquired assets and to reduce bleeding.

As one of the means for cost reduction, in June 2015, Sun Pharma ordered 18 top executives of Ranbaxy to quit their employment with the merged entities. These 18 top executives included *inter alias*, Tndrajit Banerjee, President and CFO; Yugal Sikri, country head (India) Ranbaxy; Maninder Singh, V-P marketing; Govind Jaju global head sourcing Ratul Bahaduri, director-finance of Ranbaxy.⁴² Most of these top executives were employed by Ranbaxy after the Japanese Daiichi acquired Ranbaxy in 2008.

⁴¹ By Joe C. Mathew, Fixing the Ranbaxy Problem, Business Today, 23 October 2016, <https://www.businesstoday.in/magazine/cover-story/sun-pharma-fixing-the-ranbaxy-problem/story/238043.html>

⁴² See Note 40

A spokesperson from Sun Pharma had tried to explain the reason for the Ranbaxy acquisition was “to form a bigger and better entity for all its stakeholders”.

He also stated that:

“In order to make this happen, the company has made and will continue to make all efforts to utilize the total available talent in the most appropriate manner. If there are a few employees who could not be positioned appropriately, the organization will make all attempts to handle the same in a fair, transparent and sensitive manner. We reiterate that our focus continues to be on creating an environment of meaningful professional opportunities for our employees to lead, succeed and grow.” (Underline added)

It has been reported that for the first time a spokesman of the Sun Pharma had mentioned about layoff and the related severance package, which would be in a “fair, transparent and sensitive manner.” In fact the “fair, transparent and sensitive manner” severance package mentioned by the spokesman included, *inter alias*, a four month

notice to look for another job and the freedom to exercise their stock options before leaving.

Perhaps Sun Pharma's drastic action to layoff such large number of Ranbaxy's top executives at the same time may be explained as a consequence of a "hostile acquisition". It is noted that according to Sharma and Mareja (2016), they considered the case of Sun Pharma and Ranbaxy acquisition is a "hostile acquisition" because the acquisition transaction was arranged and agreed by Ranbaxy's Japanese majority shareholders due to poor performance caused by defective quality of production, but such acquisition was objected by Ranbaxy management. They also considered that in terms of human resources arrangement, this case is not favorable for Ranbaxy employees.⁴³

In fact, the layoff of the 18 top executives was only part of a mass layoff of the merged companies. It has been reported by the Financial Times that subsequent to the discharge of the 18 Ranbaxy's top executives, about 150 Ranbaxy's senior executives

⁴³VAISHALI SHARMA, NEHA MAREJA, A STUDY ON ROLE OF HUMAN RESOURCE POST ACQUISITION: A CASE STUDY OF SUN PHARMACEUTICALS AND RANBAXY LABORATORIES, *INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT* VOLUME No. 7 (2016), ISSUE No. 09 (SEPTEMBER), pp 62 -65

of research and development staff had also been sacked.⁴⁴ Further, in relation to the Ranbaxy problems (now the Sun problems) with regulatory authorities, one senior Sun Pharma executive had stated that,

“Indeed, problem plus problem is problem square. But we will have to deal with it. We will be focusing on clearing these hurdles in next one year, though there is no timeline fixed.”⁴⁵

Impliedly, it seems the restructuring of the merged company would be lasted for at least a year. In fact, one of the analysts had stated in the media that he would repeat his earlier stance that the integration of the merged company would be both lengthy and costly to the merged company.”⁴⁶

⁴⁴Financial Times 30 July 2015, After acquiring Ranbaxy for \$3.2 bn, Sun Pharma cuts staff in R&D division,

<https://retail.economictimes.indiatimes.com/news/health-and-beauty/pharmacy/after-acquiring-ranbaxy-for-3-2-bn-sun-pharma-cuts-staff-in-rd-division/48277169>

⁴⁵P.R. Sanjai, Swaraj Singh Dhanjal, Sun Pharma completes Ranbaxy deal, Updated: 26 Mar 2015, 12:16 AM

<https://www.livemint.com/Companies/tvbrlhX1YGdm7GshBC44VL/Sun-Pharma-completes-Ranbaxy-merger-shares-jump.html>

⁴⁶P.R. Sanjai, Swaraj Singh Dhanjal, Sun Pharma completes Ranbaxy deal, 26 March 2015, <https://www.livemint.com/Companies/tvbrlhX1YGdm7GshBC44VL/Sun-Pharma-completes-Ranbaxy-merger-shares-jump.html>

As reported in October 2016, Sun Pharma's lengthy and costly rationalization process of the combined entities included closing down or divesting dozens of manufacturing units, including some inefficient operations. It has been explained that by shifting work load to other facilities, it would increase and optimize the capacity utilisation at other facilities of the combines entities as well as costs. At the end of 2016, a Ranbaxy unit in Bryan Ohio, had been sold and another subsidiary unit of Caraco located in Detroit had been closed down. In addition, two other production units located in Aurora, Illinois, and Philadelphia, Pennsylvania, had also been sold. Further, closure of another Ranbaxy unit in Ireland with about 100 employments had also been announced.⁴⁷ In May 2017, Sun Pharma had announced that it planned to close its Wixom distribution facility and lay off 25 workers in June.⁴⁸ In 2018, another Jersey plants would also be closed and 100 employees would be laid off due to cutting cost after manufacturing consolidation.⁴⁹

⁴⁷ By Joe C. Mathew, Fixing the Ranbaxy Problem, Business Today, 23 October 2016, <https://www.businesstoday.in/magazine/cover-story/sun-pharma-fixing-the-ranbaxy-problem/story/238043.html>

⁴⁸Crain's Detroit Business, Sun Pharmaceutical to close Wixom plant, lay off 25, 4 May 2017, <https://www.crainsdetroit.com/article/20170504/NEWS/170509884/sun-pharmaceutical-to-close-wixom-plant-lay-off-25>

⁴⁹Eric Palmer, Sun looks to unload Ohm Labs New Jersey plants in manufacturing consolidation, <https://www.fiercepharma.com/pharma/sun-looks-to-unload-ohm-labs-nj-plants-manufacturing-consolidation-cnbc>, 23 January 2017

Other than mass layoff, the integration of these two companies also had some impacts on cultural differences between the two entities. Since completion of the acquisition on March 25, 2015, Ranbaxy was officially part of Sun Pharma, the Sun Pharma branding had since replaced the Ranbaxy brand in all Ranbaxy's 19 production plants worldwide. Stationeries as well as visiting permits had all to be changed to reveal the latest Sun Pharma branding. Also packaging material of the products had also to be changed to the new branding once approvals were received from authorities.⁵⁰

In summary, in the 18 months after the completion of the transaction in March 2015, the merged entities has undergone a series of worldwide restructuring activities from focusing on marketing profitable products; closure or disposing manufacturing facilities for better economies of scale and synergy; laying off overlapping and surplus staff from closed plants; and rectifying the defective quality problems

⁵⁰ By Joe C. Mathew, Fixing the Ranbaxy Problem, Business Today, 23 October 2016, <https://www.businesstoday.in/magazine/cover-story/sun-pharma-fixing-the-ranbaxy-problem/story/238043.html>

inherited from Ranbaxy.⁵¹ Despite the restructuring of the combined entities had never been expected to be an easy task, it seems Sun Pharma did manage to maintain the merged company as a profit making business as indicated in Table 2.

III. Issues to Study

However, the way that Sun Pharma handled mass layoff of employees from the merged entities was not without criticisms. For example, in January 2016, the US Appeal court found that it was wrong for Sun Pharma to give too short a notice to layoff nearly 600 employees for the closure of the Caraco Pharmaceutical Laboratories (one of the plants acquired from Ranbaxy) two days after the plant was raided by the FDA and key materials of the plant were confiscated for non-compliance of production practices. The Appeal Court did not accept Sun Pharma's allegation that the layoff was because of an "unforeseeable business circumstance".⁵² In this earlier instance, despite Sun Pharma had alleged that the company had compensated the employees with more than their entitlement under the regular severance package and had offered them

⁵¹ By Joe C. Mathew, Fixing the Ranbaxy Problem, Business Today, 23 October 2016, <https://www.businesstoday.in/magazine/cover-story/sun-pharma-fixing-the-ranbaxy-problem/story/238043.html>

⁵² Ed Silverman, Court decision puts spotlight on length of notice for layoffs, January 5, 2016, <https://www.statnews.com/pharmalot/2016/01/05/layoffs-drug-manufacturing-fda/>

with out-placement assistance, it had been sued by one of the employee in August 2015 for the company's non-compliance with the WARN Act of the United States, which requires companies to give workers at least 60 days notice before laying off the employees. The plaintiff claimed that the company should have expected much earlier that the FDA would take such action as the defective quality-control problems had been existed for a long time which the management of the plant failed to rectify. Sun Pharma was found guilty because the layoff notice given to the employees was too short and they should have notified state authorities and the employees that a layoff would occur at least 60 days in advance.⁵³

In August 2019, another 85 employees were layoff by given three months salary in advance due to closure of research and development centers in Vadodara in India.⁵⁴

⁵³Economic Times 29 August 2017, Sun Pharma US arm faces class action suit from ex-employees <https://economictimes.indiatimes.com/industry/healthcare/biotech/pharmaceuticals/sun-pharma-us-arm-faces-class-action-suit-from-ex-employees/articleshow/48713389.cms?from=mdr>

⁵⁴R&D units in Vadodara; lays off some employees, Market sources peg the number at 85 personnel who have been terminated and given three months salary in advance, Business Standard, 2 August 2019, https://www.business-standard.com/article/companies/sun-pharma-shuts-down-two-r-d-units-in-vadodara-lays-off-some-employees-119080202008_1.html

Mergers and acquisitions have been adopted by many companies as a means to expand their business operations, increasing income and profitability, and achieving faster growth. However, different stakeholders may have their own perspectives about the merger of two entities. Some stakeholders may consider a merger would do a favor to the post merged employees by giving them an opportunity to enrich their knowledge and skills by training and exposing them to new technologies, and hence to equip them with better skills, competencies, and future careers development. Some may consider it an unnecessary and unexpected task to go through because the employees are forced to get out from the comfort zone that they have been used to for years.

According to Srivastava (2020), his study of the Sun Phamra acquisition found that 88.8% of the employees expressed worries about their future and did not perceive merger as good to them. Srivastava reported that his finding is different from the study of Sanda and Pearl⁵⁵, which found that 56.2% of their responding employees perceived the merger is good to them. His study also found that 28.9% of the employees indicated anxiety about their future and all of them felt stressed for the works for the post merged company. He believed that these feeling from the

⁵⁵ Elsass P, Veiga J. Acculturation in acquired. Human Relations. 1994;47(4):431–453.

employees may be a source for development of group bias and may cause inter-organizational conflict as mergers usually come together with an organization restructuring, which may cause reassignment to new job, or getting layoff from their current position..⁵⁶

As mentioned hereinabove, the aim of this study is to study on the topic of mass layoff of Ranbaxy top management and employees, which happened soon after the Sun Pharma's acquisition of Ranbaxy.

The following is a literature review on the subject of management's handling of mass layoff followed by a discussion on the specific application on the case of Sun Pharma – Ranbaxy acquisition.

IV. Literature Review

A. Employee's response in the process of merging two entities

Srivastava (2020) found that researchers have identified human resources

⁵⁶ See Note 10 in the above.

factors related to the successful operation of a merger and acquisitions include, *inter alia*, the culture factors and human factors. These factors are explained as follows:

- 1) Culture shock – Different companies have their own culture developed by different working methods, different retention policies, different motivating system, and different career development paths for their employees. Also, policies, hierarchical and power relations environment of different companies can be distinguished from each other. It would not be surprised that when employees from different companies with different cultures are merged together may cause a cultural shock to the employees. It would not be an easy task for management to manage the merged operation which is likely to be impacted by culture shock. Vaara (2003) noted that cultural shock could cause employees' lack of confidence and reduction in commitment and engagement with the merged entities.⁵⁷

- 2) Human Factors - Human factor is obviously one of the most

⁵⁷ Vaara E, On the discursive construction of success/failure in narratives of post-merger integration. *Organiz Stud.* 2003;23(2):211-248.

important factors to success or failure. The style of the leader, ability to keep talent of value employees, working conditions, communication strategy and handling of union are all critical factors for future success of the merged company.⁵⁸

Srivastava also quoted from Dailey and Kirk's study (1992) that if an employee perceived he has been treated unfairly during the merger process, it could have a negatively impact on his willingness to remain on the merged entity since there may be adverse effect on his contentment, dedication and trust to the merged entity. Srivastava also referred to previous research from Sutton (1987) which found that when an organization which an employee has worked for but now no longer exists because of merger and acquisition with other company, he could feel stressful and disagreement with the new organization and may even have strong senses of failure, unhappiness, and even annoyance since the previous identities and values with the old organization no longer exist.⁵⁹

⁵⁸ R. K. Srivastava, Managing mergers and acquisitions in health care: A case study in the pharmaceutical sector, *International Journal of Healthcare Management* 2020, VOL. 13, pp 61-73 NO, <https://doi.org/10.1080/20479700.2017.1422337>, Taylor & Francis Group, 22 December 2017

⁵⁹ R. K. Srivastava, Managing mergers and acquisitions in health care: A case study in the pharmaceutical sector, *International Journal of Healthcare Management* 2020, VOL. 13, pp 61-73 NO, <https://doi.org/10.1080/20479700.2017.1422337>, Taylor & Francis Group, 22 December 2017

Srivastava further applied the “anxiety theory” which explains that when employees in a large organization involved in a merger and acquisition, they may be uncertain about their future and worry about their future job security with the newly merged company. The employees’ anxiety may even happen before the actual process of merger occurs. This is because in any integration of a merger and acquisition, there would possible involving changes to the organization’s structure and culture, which may have positive or negative impact to some of the employees.

Sharma and Mareja (2016) found in their study that incompatible culture, management styles, poor motivation, loss of key talent, lack of communication, diminished trust and uncertainty of long term goals are some of the reasons for employees’ non-participation in the merged entity.⁶⁰

Zhang et al. (2015)⁶¹ argued that other than those conventional reasons for mergers and acquisition, such as access to market and branded products, etc, access to

⁶⁰VAISHALI SHARMA, NEHA MAREJA, A STUDY ON ROLE OF HUMAN RESOURCE POST ACQUISITION: A CASE STUDY OF SUN PHARMACEUTICALS AND RANBAXY LABORATORIES, *INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT* VOLUME No. 7 (2016), ISSUE No. 09 (SEPTEMBER), pp 62 -65

⁶¹

talented employees is becoming an important reason for conducting mergers and acquisitions. Accordingly, retaining talents of remaining staff, especially for cross-border mergers and acquisitions has become one of the core issues in the post-merger integration process (Schuler and Jackson 2001).

Zhang et al. (2015) also cited prior studies which have demonstrated that there will be an unstable period experienced by the employees after the completion of merger and acquisition since employees in the acquired company may feel uncertainty about their future and worried that they are no longer required by the newly merged company, thus they may decided to leave the newly merged company. (Haspeslagh and Jemison 1991; Schuler et al. 2004; Gomes et al. 2011). Further, they had also referred to other prior studies which found that if the unstable period remains for a long time, especially for the executive teams, that may cause the failure of the merged company. (Cannella and Hambrick 1993; Hambrick and Cannella 1993; Lubatkin et al. 1999; Krug 2003a, b; Krug and Shill 2008). Likewise, studies from Weber and Tarba (2011) and Gomes et al. (2011) have also been referred to by Zheng et al. that after the completion of the acquisition, cultural difference and clashes of the top management teams from the combined entities may also caused instability of the merged company

and may have adverse impact to the acquired company.

B. Approaches to Mass Layoff

Watson (1974)⁶² proposed that managers should handle layoffs in a sensible and human manner which should generally be in the best interests of their employees. He suggested that employees should not be just regarded as one of the production components like capital, land, and raw materials since top management always proclaimed that employees are the greatest resources of the company. Therefore, management should not just close the production facilities and sack the employees when their services are no longer required. . Rather, management should be well aware of the serious economic and social impact to the employee personally, to the organization, and to the local community when a mass layoff is conducted.

In his paper, Watson further elaborated that for any individual, an employment provides not only a source of income to support his family's material needs in the present and future, but also, a fulfillment to his social needs which include a

⁶² Charles E. Watson, A Sensible Approach to Mass Layoffs, Public Personnel Management, May-June, 1974, pp233 -238

meaningful relationship with others, a sense of self-esteem, individual identity and a feeling or security. Watson also cited from a research conducted by Dr. Richard H. Rabe which he found that unemployment may change the employee's life style which is highly correlated to those changes caused by illness. Further, Dr. Rabe also found that the seriousness of the negative impact to an individual when he was "Fire at Work" can be ranked as serious as those worst events in life, such as loss of close family member or spouse by death, getting divorce, and / or imprisonment, etc.

For an organization, Watson found that an improperly handled mass layoff can have a negative impact to the remaining staff as they will feel unsecure for their engagement with the organization, especially when the mass layoff suddenly comes without advance warning. Accordingly, it is possible for the remaining staff to have a feeling of fear and uncertainty about the future just like the discharged employees. Further, the remaining employees may also have the feeling of anxiety or even feel frustrated with their job. If this feelings continue, the remaining employees may behave in an aggression, withdrawal and/ or internalization manner, which will cause the personal morale and productivity to decrease, and eventually will have a negative financial impact to the organization. Watson suggested that to avoid these possible

negative impacts to an organization, top management should provide an outlet to release the emotional strain of all the employees, including both the employees who will be leaving or remaining with the organization.

For the community facing a mass layoff, Watson suggested that it can experience damages both economically and socially since there will be a loss of economic activities, tax revenues, and increase pressures on local line of credit, which may result in a decrease in population in the long run. Further, the organization may bear the stigma as a bad corporate citizen in the community and may have negative impact to attract future talent, or good employees when the operation expanded or improved.

Accordingly, Watson proposed that if mass layoff is inevitable, the human resources department of an organization should take the following steps into consideration:

- Relocate Leaving Employees by assist them to obtain adequate new employments before and after they have leave the company
- Easing Psychological and Economic Pressures by providing services to counsel (1) all leaving staff on employment, moving to another job, and

financial difficulties; and (2) remaining staff to boost their morale and spirits toward the organization.

- Exercise the Duty as a Good Community Citizen by working with local leaders to provide schemes to eliminate or minimize the troubles caused by the mass layoff such that the organization can keep a favorable public image.

Implementation of a Better Layoff Process

After some practical steps has been discussed in detail, Watson concluded his paper by stating that an organization would enjoy lasting rewards and benefit for improved public image if the mass layoff has been handled reasonably in accordance to the practices steps proposed in his paper.

Feldman and Leana (1994)⁶³ further proposed some preferred practices in managing layoffs after conducting 8 real life case studies. In summary, they suggested that to assist employees to more readily adapt to unemployment, any

⁶³ Daniel C. Feldman and Carrie R. Leana, Better Practices in Managing Layoffs, Human Resource Management, Summer 1994, Vol. 33, Number 2, Pp. 239-260 © 1994 by John Wiley & Sons, Inc. <http://web.a.ebscohost.com.eproxy.lib.hku.hk/ehost/pdfviewer/pdfviewer?vid=31&sid=c79e28c6-901e-4b19-88a1-9803ff03a4b0%40sdc-v-sessmgr01>

organization involved in downsizing or closure should adopt the following policies proposed by previous researchers. These policies included: (1) early notification of layoffs, (2) provisions for adequate severance payment and comprehensive benefits, (3) schooling and retraining for laid off employees, (4) outplacement program, (5) unambiguous and express communication of information related to unemployment, and (6) supporting services for remaining employees. These policies have been further elaborated in their paper as summarized in the following paragraphs.

Firstly, with advance notification of layoffs, the unemployed staff can have more time to look for new employment such that his pressure and depression can be minimized, especially if he can find a new job soon after his layoff.

Secondly, proper severance payment and comprehensive benefits will provide an economic safety net to the employee to face the financial difficulties before they find a new employment.

Thirdly, the organization should arrange some schooling and retaining programs to the layoff employees such that they can learn new skills and broaden their chance

to obtain new employment in other corporation and/or in other industries.

Fourthly, with proper outplacement program, the unemployed employees would be assisted to learn the means to identify new employments and the means to present their talent more successfully to future employers.

Fifthly, unambiguous and express communication and announcement informing the employees about the layoff decisions written in an empathic manner with reasons for dismissing the layoff employees would allow them to maintain their sense of dignity and to obtain social support from their colleagues.

Finally, the organization should also provide proper attention to the remaining staff so that their morale will be maintained up high and they will continue to be committed to the organization and kept their productivity as high as before the mass layoff.

In addition, before the final decision of a mass layoff, organization should also perform good human resources planning to consider if there is any opportunity to

make alternative arrangement rather than permanent, mass layoffs, such as sharing the workload amount employees and taking alternative period for accumulated holidays, etc. Further, the organization should also coordinate with other welfare organizations to ensure assistance and all kinds of benefits be available to the laid off employees as early as possible.

Further, Zhang et al. (2015)⁶⁴ considered leadership and talent retention are also vital to the success of post-acquisition organizations. Good leaders in charging the post acquisition entities will allow smooth organizational and cultural adaptation such that employees from both entities will develop similar expectations for the combined entities. If the employees for the post merged entities trusted their leader would care about them after the merger of the entities, then they will adopt a positive attitude and committed to the changes caused by the merging of the two entities (Able 2007).⁶⁵

In their paper, they also referred to the study by Rachman-Moore and Tarba

⁶⁴ Jiali Zhang, Mohammad Faisal Ahammad*, Shlomo Tarba, Cary L. Cooper, Keith W. Glaister and Jinmin Wang, The effect of leadership style on talent retention during Merger and Acquisition integration: evidence from China, *The International Journal of Human Resource Management*, 2015 Vol. 26, No. 7, 1021–1050, <http://dx.doi.org/10.1080/09585192.2014.908316>

⁶⁵ Able, R.M. (2007), 'The Importance of Leadership and Culture to M&A Success,' Human Capital Institute, [http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2007/200705/The importance of LeadershipFMTTVD_EF_Apr30.pdf](http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2007/200705/The%20importance%20of%20LeadershipFMTTVD_EF_Apr30.pdf)(accessed 30 April 2011)

(2012)⁶⁶ which found that any modification to the acquiring firm's practices in human resources, such as training methods, communication and authorities given to human resources managers, will have substantial impact to the performance of the remaining employees in the post acquisition entities.

V. Discussion

From Table 2 indicated hereinabove, in terms of financial results, Sun Pharma's acquisition of Ranbaxy is a success as the earning of the merged company has been increased. However, if one takes into account of Sun Pharma's corporate social responsibility or the social cost in relation to the mass layoff after the completion of the acquisition, then one may have to reconsider the degree of success achieved by Sun Pharma.

It is noted that there has been a big difference in terms of period of notification given to the employees between the laying off of the 18 top executives as compared to the laying off of the labours in restructuring and / or closing of the production

⁶⁶ Weber, Y., Rachman-Moore, D., and Tarba, S.Y. (2012), 'Human Resource Practices During Post-Merger Conflict and Merger Performance,' *International Journal of Cross-Cultural Management*, 12, 73-99.

facilities. In particular, a four-month layoff notice has been given to the 18 top executives of Ranbaxy whereas much shorter notices have been given to the employees working for the production facilities. In the case of the mass layoff in Caresco in the US, the notice was so short that it did not even comply with the legal requirement and Sun Pharma was found guilty for the charge.

In the 2019 mass layoff in Vodadara, 85 employees were layoff by given three months salary in advance due to closure of research and development centers. While the employee may have adequately compensated by three-months salary, however, if the employees were asked to leave the job immediately with three-months salary in lieu of notice, the dismissed employees and their family would still suffer emotional damages as discussed in the above, especially if no outplacement program set up to assist these dismissed employees to look for new jobs.

As mentioned hereinabove, the negative consequences caused by mass layoff are not just adversely impacted directly on the dismissed employee, but also to the remaining staff of the organization and the community as a whole. Therefore, it is recommended that before any action for mass layoff, the organization should consider

all other alternative arrangement such as taking alternative annual leave and sharing workloads among employees during the downtime of a business and economy. Mass layoff should only be considered as the last resort when all other alternatives have been exhausted. After all, human resources are not the same as any other production elements like plant, capital or materials, etc, and should not be dumped easily during operation or business downtime. Prior researches have all indicated that retaining talents and good people are vitally important for the success of any company, especially for post-acquisition entities. If the dismissed employees of a mass layoff have not been handled properly, it may have a serious backfire to the remaining employees and may cause low morale and decreased productivity of the merged operation or even failure to the post-acquisition business.

In the case of the Sun Phamra v Ranbaxy acquisition, it is surprise that almost all the key and top executives had been ordered to leave soon after the completion of the acquisition. This is because other than the quality problem with the production line, there must be some good talents in marketing and administrative departments, including human resources department. The firing of the 18 top executives in the same instance must have caused remaining employees to have anxiety, uncertain and

insecure feeling about their future. The morale and productivities is likely to have impacts and may be one of the reasons for the subsequent mass layoff of various production facilities worldwide. It is also argued that the mass layoff of the top executives may be a result of a “hostile acquisition” which was objected by these management executives. After all, people who have established long term relationship with clients and have a control of the clientele are essential talents to retain and should not be laid off easily. Financially, while the Ranbaxy acquisition is a success, but the long term effect for the remaining employees’ long term engagement and the company’s corporate social responsibility / image may have been adversely impacted. Managers should consider impacts from both short-term and long-term as well.

Srivastava (2020) ⁶⁷ found that many acquiring organizations preferred to quickly complete the post-acquisition process such that they can quickly go through the restructuring of resources and management teams. Srivastava further suggested that according to the low successful rate of acquisitions, there should be a need for a careful and intensified long term human resources planning when the due diligent

⁶⁷ R. K. Srivastava, Managing mergers and acquisition in health care: A case study in the pharmaceutical sector International Journal of Healthcare Management 2020, VOL. 13, NO. Si, S61-S73, <https://doi.org/10.1080/20479700.2017.1422337>

exercise was commenced.

Accordingly, it is recommended that the following steps should be conducted by management if they considered mass layoff is inevitable for the organization:

- (1) An explanation to all employees, whether they are being laid off or remaining, about the reasons and criteria for layoff;
- (2) A fair performance evaluations for making layoff decisions;
- (3) Good outplacement program for proper treatment of laid-off employees with dignity and social support;
- (4) Fair recommendations and references given to potential new employers and the employees respectively; and
- (5) Caring the anxiety and discomfort which may have caused to the remaining employees.

VI. Conclusion and Limitation

Sun Pharma has acquired Ranbaxy when the latter was in a difficult time caused by its defective quality production problem. In terms of financial aspect, Sun

Pharma's strategic move to acquire Ranbaxy is successful. In fact, it has carried out the marketing and product synergies successfully. Further, it has also successfully cutting cost by mass layoff of employees from surplus production facilities. However, if the social costs of mass layoff are taken into account in the cost calculation, then the acquisition may not be as successful as it has been demonstrated from the financial figures. Especially, if one consider the manner that Sun Pharma had conducted in the mass layoff during the post acquisition period.

Srivastava (2020) found that studies demonstrated that it is not unusual that organizations take their employees for granted and the employees' feelings are often ignored, especially in restructuring human resources in the case of a merger and acquisition. It is always not an easy task to merge two groups of employees from the acquirer and the acquired organization to work together for the common goal as they were probably used to two different cultures and styles.

Mass layoff should be used as the last means to restructure a merged organization as people and good talents are vital for the success of any organization. If the mass layoff is not handled properly by the acquirer organization, then the

employees of the acquired organization may have stress and anxiety caused by the uncertain and unsecure future. If the mass layoff process is not handled properly, not only the laid off employees would be suffered, but also the merged organization may be adversely impacted by low morale and low productivity of the remaining employees. In addition, the community as whole may be suffered and the organization may obtain the stigma as an irresponsible corporate citizen.

Accordingly, a detail, careful and long term human resources planning should be involved at the early stage when the due diligence exercise was conducted for the merger and acquisition decision. After the merger and acquisition completed, if a mass layoff is inevitable after exhaust of other alternatives, a careful and detail planned severance package and outplacement program should be provided to the laid off employees as mentioned herein above.

Limitation and suggestion for further study

This case study is based on secondary data which is available from the websites of companies, news, journals and articles. Accordingly, it is likely that some of the data may have been filtered by some of the authors and publishers of these secondary

data. Further, this paper only investigated and discussed the proper handling of mass layoff in the case of Sun Pharma v Ranbaxy acquisitions. There are many other human resources issues related to mergers and acquisitions, such as handling of cultural difference, leadership in handling a successful merger and acquisition, and corporate social responsibility of the acquiring entities, etc. These are topics suggested for future researches.

References