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Facing the People Issues of Mergers & Acquisitions

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After months of negotiations, the acquisition deal has been set—in the boardroom. Both parties are pleased about the emerging organization's new capabilities. But what happens to the employees of the two companies? How will they adjust to the new corporate environment? Will some choose to leave? These are but a few of the many challenges employers face during a merger or acquisition.

Prior to the signing of an agreement, both parties expend enormous energy scrutinizing financial variables, contemplating and engaging in the give-and-take of negotiations. Before the new organization is formed, goals are established, efficiencies projected, and opportunities appraised as staff, technology, products, service and know-how are combined under one roof. Meanwhile, a competitive analysis looks at issues such as marketshare, comparative profitability, brand uniqueness and forecasts of future sales.

All these activities are planned prior to the public announcement of the deal and implemented immediately upon signing the final documents. But more than likely, no one has worked out with the same sharp pencil how the combined organization's top-level and middle managers will work as one unified team, especially when duplication of functional responsibilities exists between the two companies.

This is why the transition period following an acquisition is usually a time of great organizational upheaval. At least one corporate culture and many jobs are at stake.

As the merger moves forward the newly-formed organization enters a difficult transition period. Now the people side of the equation comes into play, when the vision and possibilities of the new organization captures the imagination of employees—or does not. Management must quickly determine, foster and inculcate the values, philosophy and style it wishes to represent. In a very brief span, management has to establish the operating environment and determine how the new organization will be perceived by its employees, clients and the public.

"People issues are the most difficult and important aspect of a successful acquisition."

At the same time, employees face the stress of an unknown situation. Some employees may leave, either by design or on their own, and the rest have to decide whether they want to play the new game under the new rules. Often these decisions are made amid confusion and apprehension. While trying not to set off two many stress signals, management has to determine who has the necessary skills and motivation to help take the new organization forward. It is in this frantic, confused environment that the most important people decisions are made. And these hastily formed decisions can leave an irreversible imprint on the newly created organization.

"There might be some obvious changes that need to be made, perhaps an entire new management team has to be brought in. But we cannot really assess the situation until we are inside, until we start to live the drama," says David Johnson, executive vice president and CEO of Republic National Bancorp, a Phoenix based holding company. "And with the clock ticking loudly, the most difficult part about making tough people decisions is gathering enough information, insight and objectivity, because it really is a situation in which there aren't any hard fast rules."

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Anne Corey, formerly an international human relations executive with Squibb, learned that there are no rules in M&As when the prescription drug developer was acquired by Bristol-Meyers.

Instead of remaining at the corporate level, as she had with Squibb, the merger meant that she would be placed in the new company's pharmaceutical group, one of three operating levels in the new organization. Although there was overlap in her job, she was not let go immediately. Instead, management kept her on as part of transitional team. Corey served as an ombudsman whose familiar face eased and assisted other employees who were being let go or who found themselves in a state of flux.

"I knew my assignment was only temporary," she says. "But it was a period of my life that I wouldn't have traded for the world, even though I am now on the outside looking in. Bristol-Meyers clearly wanted to set a tone that was fair." The company provided a severance package and outplacement services to those who were dismissed, Corey adds.

"Such an experience really teaches you about people and about life. Now I know that nothing is static, that a merger can happen anywhere...and it changes everything. Some people luck into being in the right place, and others don't. But you can never tell. Squibb was thriving the year before and now it is part of an entirely new environment."

By the very nature of two companies merging, the process is never as smooth as both parties would like. But there are some things the new management can do to make sure that the unfolding arrangement does not look like a wrestling match.

Most important, it must be kept in mind that whatever happens during the transition period is very hard to undo. First impressions become lasting. It is a time of major upheaval: Management is trying enthusiastically to implement changes while employees are feeling extremely tenuous about their job security and personal career plans. Moreover, the bigger and more complex the organization, the more important a clear and singular voice is needed to provide direction, clarify misconceptions and convey positive energy.

It is virtually impossible to do an in-depth human resources audit before the deal is struck. So, management must move quickly to identify the internal leaders and key contributors who can fill crucial roles in the new organization—not an easy task. In fact, one study has found that almost 60 percent of the top managers of acquired companies leave within five years of the acquisition. The challenge is to create an environment where people want to compete for a role, without making promises or causing defections.

In some cases, the management team of the acquired firm is the single most valuable resource to be gained. Therefore, it is important to take aggressive steps to ensure that key people are not discouraged by the acquisition.

Michael B. Jones, president of ProFinance Associates Inc., a leader in consolidation within the alarm industry, discovered that people issues are the most difficult and important aspect of a successful acquisition. "If I don't know the inherent strengths, limitations and motivations of each of the key managers, the deal will go sideways." He seeks people who "are global in their thinking, able to see opportunities where others just see problems, able to analyze situations clearly and succinctly, and, when it makes sense, able to take risks."

Michael Barker, a principal with Odyssey Partners, a New York-based investment banking firm, agrees. "We seek someone who is intrigued by being in a new environment, on a new playing field, and setting up new rules. Someone who cares about the game, plays it seriously, and wouldn't even think of walking away from it. Someone who is committed to winning."

The process of selecting the final management team focuses on assessing each senior manager's strengths and weaknesses. Emphasis should be placed on their potential to cooperate productively with their counterparts from the other company, as well as on technical and functional skills. Their ability to provide a strategic viewpoint on managing the merged operations also is crucial. Additionally, they need to be quick learners and genuinely excited by the opportunity to create a new organization.

The principal goals of the transitional management team are to manage organizational stress, establish performance criteria, identify who will stay and who will go, create a new organizational structure, and assume the leadership of the emerging organization.

Addressing employees' fears and concerns presents a tough challenge to many managers—one that balances optimism and encouragement with the reality that some changes will need to be made. "The worst part for employees is being in limbo. The worst part for us is the possibility that someone we want to keep will leave," Johnson says. "We tell them we have no specific plans to make changes, that such determinations will be made down the road, when appropriate. But we can't make false promises.

"The best thing we can do for everyone involved is to let them know that we understand that this is a trying time, then clearly convey the goals of the new venture and how we will approach these goals. We have to get people focused on solving external problems, rather than worrying about their seating arrangements. Our job as management is to try to set a tone that is forthright and caring, then make the transition as short as possible," Johnson says.

There are bound to be fears and conflicts throughout this volatile period. Ultimately, what will be remembered long afterward is the tone and the manner in which these situations were resolved. Nearly everyone understands early on who is in charge; the challenge is to win employees' cooperation and trust so that an accurate assessment of their capabilities can be made.

In cases of job overlap, it is assumed that the acquiring or dominant company's employees will fill the positions. This makes for a number of pre-planned, day one casualties. But if handled in a straightforward, sensitive manner, the outcome will be viewed by those who have to leave as well as those who stay as an unfortunate though necessary part of the merger. These changes, which usually can be determined during the pre-merger activities, need to be made as quickly as possible.

Other changes, however, are not as clear-cut and must be studied more carefully within the context of the transitional environment. As part of this assessment process, individual performance standards need to be established to reflect the goals of this new organization. These standards, if communicated effectively and monitored regularly, can convey the organization's desire to work cooperatively with employees through the difficult transition period. It is through this system that the new organization's emerging culture starts to become the shared experience of those who work within it.

As the transition begins to unfold, people will generally fall into three categories: those who resist change and can't or won't adapt; those who resist change but have the capacity to modify their point of view; and those who welcome the change.

If the transitional goals are clearly communicated, those who sign-on first will be the third group. Often these are the people who eagerly have been awaiting a change. These are the first active participants who must then be assessed in terms of their technical skills and talents. They are ready, but are they able? Are they technically capable or do they possess the long-term potential needed by the organization?

Those who resist change but are able to modify their point of view are the next group to focus on. These individuals are the "show me's." They require some time and persuasion to get used to an idea and to participate. In order to assess their technical abilities, it is important first to get them to buy into the transitional process and goals. Those who can't buy in will be unable to contribute to the new culture—and may have to be let go.

For those individuals who don't want to change, or don't have the technical ability to contribute to the emerging organization's new direction, cuts should be made quickly but with sensitivity and generosity. Outplacement is a valuable resource to aid in this process. How management lets people go will send a loud and clear message to the consolidated workforce and will say a great deal about the desired outcome of the merging organization.

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As the transition begins, the two cultures should combine to create a unique culture. This transitional culture exists for only a short period of time. It is distinct from the two original cultures—and from the culture that eventually will emerge.

At the onset of the transitional phase, the new owners have an idea of what they want to do, but there is already a culture in place—in fact, several cultures. Management has to define a transitional vision, and sell it within the organization, along with the promise that the final culture, goals and vision will be formed as a product of the transition. This may sound difficult because many people will be hanging on to their old ways. But the truth is that most employees will expect and accept change, as long as they have an opportunity to participate in its evolution. Many will even welcome it. As one executive said, "It is an opportunity to rearrange the chairs while everyone is up on their feet."

During this brief transition time, everyone involved must learn an entirely new way of relating. One corporate culture, for example, might be extremely bureaucratic, with an intricate network of rules and procedures and a relatively slow decision-making process. The other might be more participatory and entrepreneurial. Ideally a hybrid culture will emerge, stronger than either of the parent cultures. The synergies, if managed correctly, could lead to an organization with greater employee participation, flexibility and risk-taking and, where necessary, a higher degree of structure.

When Bristol-Meyers acquired Squibb, melding the two cultures presented a difficult challenge to management, Corey notes. "Squibb was a matrix organization with a lot of interaction up, down and sideways, whereas Bristol had a more traditional, hierarchal, pyramidal chain of command. So in the beginning, most Squibb people found it difficult to understand Bristol's formal approach to communication. It was not so much what was being said, but how it came across. Many Squibb people felt restricted by the new change of command."

In the long run, successful mergers occur when both sides are open to new possibilities. For an acquiring company, the most productive attitude is one of flexibility; for the acquired company, it should be one of cooperation. With cooperation, flexibility and accurate information, the planning and assessment process has the best opportunity to progress smoothly.

Otherwise, culture friction can result in an emerging organization as changes occur in the levels of authority, status and autonomy. A manager's personal prestige can be shaken when he or she moves from, for instance, entrepreneurial status to division management status. In such cases, where reporting requirements often perceived as excessive become the new norm and where one's autonomy is usurped, effective executives will feel stifled and, eventually, seek employment elsewhere.

One of the tasks of a transitional culture is to manage diversity by facilitating communications, consensus building and problem solving. Direct observation of these activities is the single most important method for identifying talent, selecting leaders, and making decisions about organizational structure.

Open lines of communication help minimize management problems after the acquisition. Everyone on every level is seeking information so he or she can gain a firmer understanding of the new rules of the game. Forgetting that the primary goal of a communication plan is to establish trust, many managers mistakenly perpetuate the informational shroud imposed on them during the pre-merger phase.

As Johnson explains, "Particularly in the beginning, how things are said can be even more important that what is said. I prefer meetings to bulletins, because meetings allow for an open dialogue with questions and answers."

By communicating constantly, he adds, and by providing an overall sense of the new-found purpose of the company, people will start to become more settled and focused. "Then you can begin to create the context in which change is feasible. You can start setting up new lines of authority and reporting relationships."

Once the leadership has set a course, tensions have been reduced, steps taken to establish a unifying culture, and a determination made concerning who will stay and who will go, the venture is ready to leave the transition stage and emerge as a new organization. At this point, management can begin to focus on the business of running the business, rather than the business of managing the transition. The new entity begins to move forward as operational policies and practices are developed, communication networks implemented, work flows established for efficiency, monitoring and tracking systems developed and consolidations effected for cost reduction.

It is at this point that the new organization's mission, philosophy, structure and staffing begin to emerge and are actively presented to the outside world.

In the best cases, the new organization proceeds with a fresh outlook and attitude, infused with energy. Substantial opportunities are created from the combined markets, economies of scale are created from downsizing, and, ultimately, the bottom line improves.

However, if the transition phase is not managed with openness and clear signals, cultures will clash, employees will scurry and jockey for power, the rumor mill will create confusion, the best people will pack their bags, crisis management will take over, and the downward spiral will begin.

Managing the first few months of a merger or acquisition is the most demanding challenge any corporate leader can face. It can be, to quote Charles Dickens, "the worst of times." Only through careful stewardship, over the long haul, can it become "the best of times."

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