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Mergers and Acquisitions: A Primer for Successful Employee Transition

Jan Dunlap

MERGERS AND ACQUISITIONS:

A PRIMER FOR SUCCESSFUL EMPLOYEE TRANSITION

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ABSTRACT

This thesis will focus on the 'human side' of mergers and acquisitions. It will show the impact on employees and ways in which management can ease these employees through the transition.

Research has shown that there are many more failures than successes, when it comes to mergers and acquisitions. Even with all the failures that exist, mergers and acquisitions are more prevalent than they have been in the past. Everyday the newspapers, news casts and radio stations mention a merger that is in the works.

If mergers and acquisitions are going to continue, and research shows that they will, then what can management do to give the merger a chance for success? The purpose of this study is to give top management a starting point with regards to the 'human side' of the transition when their corporation begins the merger and acquisition process.

Using the data compiled for this thesis, a manual was devised for management's use during the merger and acquisition process. This manual was sent to three readers, including the CEO for a major corporation who has been involved in several mergers. All the readers evaluated the manual, using a questionnaire on various aspects of the 'human side' to mergers and acquisitions. In all cases the readers felt that the manual would be a good starting point for management to use in a merger situation. They also agreed that this manual should be used in

conjunction with other readings on the subject of mergers and acquisitions.

The results of the evaluation shows that the manual met its purpose in helping management with regards to the 'human side' of a merger and acquisition.

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Dan Kemper
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Dan Kemper has been my advisor for both my Bachelor's degree and Masters. His knowledge and expertise, as well as his dedication to the students of Lindenwood College, compliment the LCIE Program. Dan is a willing resource for his advisees, many of whom would not complete their programs if it were not for his encouragement.

DEDICATION

To my husband and best friend,

Thomas L. Dunlap,

who has lovingly given me the support I needed to see the process through. Tom has been both my inspiration and my source of encouragement, and without his love, guidance, and insistence that I pursue these goals, this achievement would not have been possible. It is to him that I dedicate this thesis.

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Chapter I

INTRODUCTION

Mergers and Acquisitions

Mergers and acquisitions have taken place for centuries. The most strategically challenging means for a company to restructure is a **merger** of a company's operation with those of an **acquirer**. The company that wants to sell is classified as the merging company. The company that wants to buy is classified as the acquiring company. Depending on what company is referenced determines the classification of the term merger or acquisition. Mergers and acquisitions are a game of "acquire or be acquired" (Farrell, et. al. 36).

Merger and acquisition activity has been considered the market for corporate control, yet the modern market of today did not take form until around 1980. In the world today, this is the market that counts. The market of mergers and acquisitions is a volatile one, as companies are involved in broad-based deal making. With outside forces impacting this market, companies continue to increase their activities. These forces include technological advance and convergence; globalization; industry consolidation, maturation and growth; the need for economies of scale and wider market share; new forms of distribution, retailing, and business procurement; automation; and regulatory policy shifts. Still others originate in segments that pervade all businesses and markets–the availability and price of financing, the level and direction of the stock market, the heightening influence of the institutional investor, government tax policy, the pace of the economy and inflation (Shooting the... 57).

The incredibly broad sweep of mid-1990's deal-making – big, small, and the vast mid-sized market between the two flanks, strategic as well as financial acquisitions, cross-border as well as in-country transactions – signals the 30-year graduation of mergers and acquisitions from a fuzzily conceived, opportunistic afterthought to a highly-disciplined, finely-tuned initiative at the front ranks of business development (Sikora 47).

In the 1960's firms acquired companies in other industries, because antitrust enforcement policies did not allow inside market mergers. Companies believed that acquiring in different industries would allow for higher growth and returns; even when the economy was recessionary. ITT was considered the company that heightened the visibility of mergers and acquisitions. This company was most aggressive in acquiring across industry lines. Some of the areas ITT became involved in were: overseas telephone companies, electronics, hotels, publishing, lending, insurance, home building, car rentals, and industrial products (45-46).

The early 1970's were a waste land in terms of merger and acquisition activity. Companies were turned off by the way deals were handled. They were shown to be haphazard in context, from start to completion. Companies were trying to complete deals overnight, without knowing all the facts. What did take place in the 1970's were hostile takeovers. This includes companies purchasing enough stock in another company to take majority control. "By the late 1970's, there was actually a modest deal-making revival that proved to be the spark plug for the next decade. It was not driven by straight-up mergers and acquisitions but by the advent of corporate restructuring" (50).

Everything came together in the early 1980's for the merger and acquisition market. The harsh experiences of the 1970's became the learning tool for what would take effect in the 1980's. This decade was a time when there was a deal to fit every purpose. After the learning experience of the 1970s, this era was when merger and acquisition techniques were refined, skills were honed, business plans were sharpened, and formalized markets based on demand and supply of buyers and sellers were established. This era lead to the current merger and acquisition climate of the 1990's. "Mergers and acquisitions are the preferred device of the 1990's for positioning business to both handle the concurrent challenges of competition and ensure their survival in an often uncertain future" (New Frontiers... 69).

Over the past several years, merger and acquisition activity has heated up. Stephen B. Blum, national director, corporate finance, and a partner at KPMG Peat Marwick LLP, has identified three reasons for this increased and continued activity. First, as companies merge, they will then sell those units that are not a part of the company's core business. This means other companies will acquire these businesses. Second, interest rates are low, and the dollar is steady, causing the United States and Europe to expand their merger and acquisition activity overseas. Finally, Japan is starting to become more involved in merger and acquisition activity. Through September of 1995, Japanese cross-border merger activity went to twelve billion from nine billion dollars one year ago, showing that merger and acquisition activity will be on the horizon for some time to come (26-27).

According to Russell J. Warren, an advisor on middle-market acquisitions, at the end of 1994, ninety percent of reported mergers and acquisitions were valued between five million and $100 million, the size most often associated with the term "middle-market companies." These middle-market companies include both family-owned, privately-owned stand-alone companies, and operating units divested by major corporations. Typically, these businesses are manufacturers and distributors of a myriad of consumer products and industrial goods which permeate the U.S. economy and provide a significant number of good-paying jobs (12). Today, companies in all industries are becoming involved in the merger and acquisition market. According to Mergerstat, a research firm; in the 1990's the number of transactions showed these indutries as the leaders in the merger and acquistion market: banking, health care providers, telecommunications, computer software concern and media, and entertainment giants (Zweig et. al. 122).

"Merger and acquisitions activity is on track for a one trillion dollar year. So far this year mergers and acquisitions announced total $492.6 billion. This is a twenty-seven percent increase over the first half of 1995". There are several reasons for this increase. First, there has been five years of economic growth coupled with low inflation. Second, there has been an increase in global competition. Third, industries like telecommunications, utilities and finance have been deregulated. Finally, stock prices are on the rise as companies increasingly use their shares to buy other companies (Bloomberg C).

The total number of completed deals between 1965 and 1995, ranged from 1,893 in 1965 to 2,524 in the first half of 1995 (Table1). From 1965 through 1990, the totals include deals valued at one million dollars or more. From 1991 to the present, only deals valued at five million dollars or more are included. If all deals were classified the same, the increases would be even greater. Even so, the table clearly shows that merger and acquisition activity is on the rise. Divestitures and leveraged buyouts are also included in these totals.

Table 1

COMPLETED MERGER AND ACQUISITION DEALS–1965 to 1995

Year	No. Of Deals	Year	No. Of Deals	Year	No. Of Deals
1965	1,893	1975	981	1986	2,523
1966	1,746	1976	1,145	1987	2,517
1967	1,354	1977	1,209	1988	3,015
1968	1,829	1978	1,452	1989	3,810
1969	1,712	1979	1,531	1990	4,297
1970	1,318	1981	2,328	1991	3,536
1971	1,269	1982	1,617	1992	3,719
1972	1,263	1983	2,087	1993	4,081
1973	1,064	1984	2,255	1994	4,797
1974	926	1985	1,731	1995	2,524

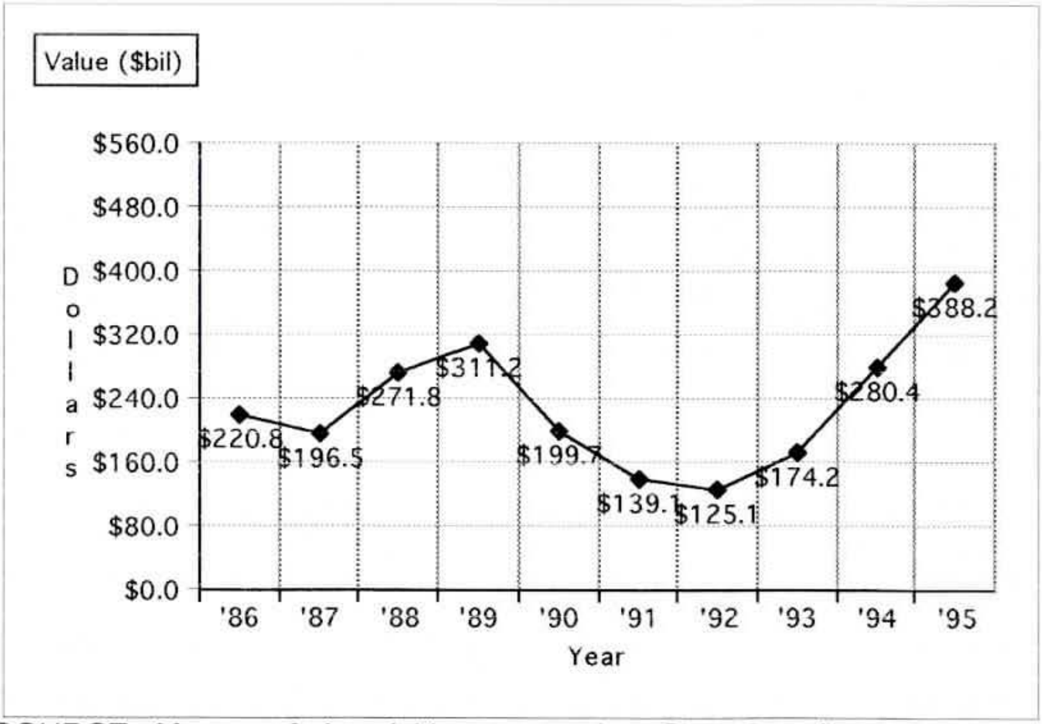
SOURCE: MERGERS & ACQUISITIONS magazine. Exhibit from "The Winding Trail: A 30-Year Profile of M&A Dynamism." by Martin Sikora (1995). The data for 1995 is only for the first half of the year.

Table 1 only lists the total number of deals that have occurred over the past thirty years. What it does not show is the dollar value of the deals that have occurred. Over the past ten years the dollar value of mergers and acquisitions has gone from \$220.8 billion in 1986 to \$388.2 billion in 1995 (Figure 1). This information is based on all completed mergers, acquisitions, and divestitures priced at five million dollars and over, as well as purchases of partial interest that involve at least a forty percent stake in the target company or an investment of at least \$100 million.

Figure 1

10-Year Merger Completion Record

1986-1995



SOURCE: Mergers & Acquisitions magazine. Chart from "1995 M&A Profile." Data supplied by the SDC Mergers and Corporate Transactions Database of Securities Data Co.

The previous two tables show the number of deals and the dollar value of these deals. Mergers and acquisitions are not just occurring within the United States. Mergers and acquisitions can be U.S. acquiring U.S. companies, U.S. acquiring Non-U.S. companies or Non-U.S. acquiring U.S. companies. Table 2 shows the breakdown of the activity on mergers and acquisitions based on the above. Included are data from 1993 to 1995, and data from January/February of 1996. This includes both total number of transactions and dollar value.

Table 2

Mergers and Acquisitions Activity by Number of Transactions and Dollar Value

All Activity	Jan/Feb 96		1995		1994		1993	
	No. Of Deals	Value ($bil)	No. Of Deals	Value ($bil)	No. Of Deals	Value ($bil)	No. Of Deals	Value ($bil)
US. acq US.	699	$64.4	4,465	$285	3,748	$205	3,096	$131
NonU.S. acq US.	112	17.7	551	50	454	44	355	22
US. acq NonUS	128	11.3	871	53	721	31	591	17
Total	**939**	**88.4**	**5,887**	**388**	**4,923**	**280**	**4,042**	**170**

SOURCE: Mergers & Acquisitions magazine. Exhibit from "1995 M&A Profile", "1994 M&A Profile", and "1996 M&A Activity". Data includes Divestitures and LBOs.

These statistics show that mergers and acquisitions have been continually on the rise. There are also statistics, however, that show that the success rate is not increasing in conjunction with the continued rise in these mergers and acquisitions. "In the 1980's and 1990's, very few mergers and acquisitions have been successful, only one in five" (Creating Excellence... 7). In takeovers between 1981-1988, post performance shows that mergers are not successful. Twenty of thirty-eight failed, nine were marginally successful, and only nine were successful. "Out of every one hundred companies that cut a deal, seventy-five percent get cut to shreds in the months that follow" (Prichett and Pound 0). Even today, most mergers and acquisitions still fail to deliver.

Over the past thirty-five years or so, mergers and acquisitions have hurt more than helped companies and shareholders. Most mergers and acquisitions do not work for different reasons. They are:

> First, there is inadequate due diligence by the acquirer or merger partner. Second, there is a lack of a

> compelling strategic rationale. Third, there are unrealistic expectations of possible synergies, Fourth, companies are paying too much. Fifth, There are conflicting corporate structures. Finally, the acquirer fails to move quickly to meld the two companies. (Zweig 122)

Companies performed better, however, in the wake of the 1990's deals than they did after the 1980's transactions. Most were done, ostensibly for business reasons, and a high portion were financially driven. Even though companies have performed better, most of the 1990's deals still have not worked. Of the 150 recent deals valued at $500 million or more, about half destroyed shareholder wealth, judged by stock performance in relation to Standard & Poors industry indexes. The performance has been poor, because melding two companies is enormously difficult and only a few are very good at it. The real deal killer is companies who acquire others, but fail to effectively integrate the two companies (124).

In cross-border mergers, forty percent ended in total failure, with the acquiring company never earning back its cost of capital. The reasons for these failures are: differences in distance, language, and culture lead to serious misunderstandings and conflict. Of all the mergers and acquisitions over the years, "those that have worked well are the ones where one company buys another to strengthen its product line or expand its territory" (125). Even though there are successful mergers and acquisitions, the failures have outweighed the successes. Companies may need to be skeptical with regards to mergers and acquisitions, as they may not be good for the U.S. economy. "The inevitable results will be a new round of downswing and layoffs, as companies find ways of cost savings" (Mandel 1). Even though there have been many failures, companies still continue merging. This analogy sums it up:

> A merger can be thought of as a marriage. The best ones start with an open and honest courtship that blossoms over time into a serious relationship. The worst ones end in divorce–by whatever name. (The Urge to Merge 54)

Reasons to Merge or Acquire

There are different reasons why companies merge and acquire. Earlier mergers and acquisitions were done for financial reasons, while the merger and acquisitions of today deal mainly with the competitive nature of the market. Companies feel that it just makes good sense.

> In the 1960's too many companies, flush with cash, success and high-share values, over diversified their operation. The mergers of the 80's and early 90's, were the marketplace 'fixing' of the past excesses-usually breaking the acquired company into pieces and selling off non-performing assets. The perception of this type of merger was of a negative nature, although the results were more favorable than the mergers of today.
> (Foster-Keddie 17)

Today, most mergers and acquisitions are carried out for competitive reasons. Companies feel that the "bigger the better" is the best competitive advantage they have. In the banking industry, for example, there are pressures to becoming bigger at all costs; as bank mergers and consolidations are announced daily. Companies need to realize that being bigger does not necessarily mean they will become successful. When mergers and acquisitions are announced they make references to synergy, positioning and new technologies. Whatever the reason for the merger and acquisition, it is important to understand that they are not going away. Mergers and acquisitions will become even more prevalent in the future. This is confirmed in the M&A Scoreboard, in the January/February 1996 issue of Mergers and Acquisitions. For the first ten months of 1995, the total value of transactions was $283.9 billion. This total was more than the $280.2 billion reported for all of 1994 (59). The total transaction value for all of 1995 was $388.2 billion, and for the first two months of 1996 was already at $88.4 billion (M&A... 60).

In the 1920's companies wanted to get richer, therefore, they acquired other companies. In the 1960's and 1970's companies were conglomerate building. The 1980's were the era of the leveraged buyout. In the 1980's there were financial raiders, greenmail, two-tiered bust-ups and takeover defenses–all of which led to the leveraged buyout. The 1990's, however, produced a different game in the merger and acquisition market (Kelly 30).

Strategy is the name of the game in the 1990's. The current environment helps companies to look at mergers and acquisitions more strategically. Since the U.S. is not in a recession, there is a good equity environment, a good debt environment, a good bank financing environment and a high yield market; companies are continually looking for more mergers and acquisitions. With the good financing market, such activity is completed easily and quickly. "Companies are taking advantage of deregulation to make even larger combinations" (Mandel 1). The corporate customer wants to deal with fewer, therefore bigger, suppliers.

There are different reasons for mergers and acquisitions, depending on the author that is read. Christopher Farrell, Phillip Zweig, Joseph Weber and Dwyer Paula from an article in Business Week, entitled "An Old Fashioned Feeding Frenzy" offer these reasons:

1. CEO's are caught up in a Darwinian struggle for survival in a world of international competition, deregulation and technological upheaval.

2. Mergers and acquisitions expand global market share and improve earnings.

3. The dollar's steep fall adds further incentive for corporate combinations.

4. There are good cash flows and banks are eager to lend (34-35).

Managers use mergers to gain control of large corporations, since the benefits accorded by the increased jurisdiction are identical to those of a promotion. They also use mergers to improve the financial condition of ailing firms in order to reduce risk to their careers. Managers have an incentive to use mergers to increase management discretionary pay outs and reduce risk to their careers. Francis Achampong and Wold Zemedkun from their article "An Empirical & Ethical Analysis of Factors Motivating Mangers' Merger Decisions," state the following as the four main reasons for mergers and acquisitions:

1. A firm may acquire another if the target is perceived to be underutilizing interest-tax advantages.

2. Debt capacity of the merging firms is consummated, may be greater than the sum of debt capacities of the firms before the merger, resulting in a more favorable view of the merging firms by creditors.

3. A solvent firm merges with a potentially insolvent one.

4. Tax incentive by not paying out dividends on which shareholders will be taxed. Companies would rather retain earnings and acquire shares of other firms. This enhances their net cash flow (856).

Other reasons for mergers and acquisitions include companies that must sell because they have reached the limits of their capacity to finance growth; companies that are trying to jump-start top-line growth after restructuring; private companies with owners who want to retire; diversified companies that want to narrow their core operations; and reshaped customer markets that demand bigger suppliers (Sikora 50).

Employee Impact

Mergers and acquisitions cause layoffs because of duplication of efforts and because the acquiring company wants its own people in charge of the acquired company. Intergra's merge with National City Corporation caused an elimination of 1,200 jobs (Massey and Gannon 307); 19,000 workers lost their jobs when Lockheed merged with Martin Marietta Corporation in 1994 (Keefe 109); and if Union and Southern Pacific merge, there is a planned elimination of 3400 jobs (Associated Press 6C). These are just a few of the merged companies where employees lost their jobs.

It is important for companies to change, even if the change is the result of a merger and acquisition. If companies do not change, they cannot survive. According to Mitchell Lee Marks, author of "From Triumph to Turmoil", change is the healthy side of mergers and acquisitions. Companies must change in response to economic, legal and technological changes. Mergers and acquisitions are necessary to enhance the competitiveness and survivability in the ever-changing business environment. Some examples of healthy change are:

1. Molson Breweries' merger with Carling O'Keefe. This was an essential move in a quickly consolidating business.

2. AT&T acquired NCR. This was a necessary change to rejuvenate AT&T's computer business.

3. General Motors has repeatedly downsized. This has enhanced the likelihood that General Motors, and their remaining employees, will continue to endure in the car industry.

It is not a matter of changing, it is the way in which the change is handled. The poor handling of mergers and acquisitions has diminished motivation, eliminated the corporate team concept, and damaged the overall effectiveness of the organization (14-15).

From the moment that employees hear of the possibility of a merger or acquisition, they start thinking and acting differently. These psychological reactions are not something that just wait around until the deal is announced. These reactions occur at all levels of the corporation, and immediately. Prichett and Associates have been consulting on merger integration longer than anyone else in the world. Price Pritchett's involvement in mergers and acquisitions, shows that psychological shock waves run rampant throughout the corporation. These psychological shock waves occur in three different areas. First, there is uncertainty and ambiguity. Employees do not know what their role will be over the next few months. They are concerned about the future of the company. The company will always have more questions than they have answers. Management makes decisions, announces them and they are promptly changed (2).

Second, there are feelings of mistrust. This mistrust occurs because employees feel betrayed by the company for whom they work.

Employees, at one time, expected to start to work for one company and stay with that company until retirement. Now employees feel there is no loyalty in the work force, which causes mistrust. This mistrust leads employees to become suspicious of the actions of upper management. Even in current problem areas, as management changes with the transition employees will feel there are ulterior motives for making changes. It does not matter if the changes are good, bad or indifferent, the employees will still become suspicious. Employees will also have expectations that any news that is to be announced will always be bad news (3-4).

Finally, employees feel the need for some form of self-preservation. Employees believe that the company will no longer take care of them, therefore, they start taking care of themselves. This can cause the employee to start participating in activities that are not in the company's best interest. The employees start looking at the 'me' in their work habits, instead of the 'we' in teamwork. What employees will do is blame others for problems occurring in their work area, only do what is necessary to get the job done, and will forget what they really need to accomplish on a daily basis (4).

In his book "The Employee Survival Guide to Mergers and Acquisitions," Price Prichett gives three emotional stages that employees go through:

1. State of disbelief and possible anger and outburst. Employees do not know what to think, so they say bad things about the new organization and its management.
2. Suffering happens when employees come out of their state of disbelief. What has really happened, finally hits them. This stage is the most critical of the emotional reactions. Employees feel impotent and helpless. This stage is where employees may just give up. This stage is

also very troublesome and emotional for the employees. Management may not like this stage, but this is how employees vent their anger. Managers must be trained on how to deal with the suffering stage.

3. Resolutions show that the organization is doing better. This causes employees to start feeling better about the new organization. It is at this point that the employees consider the potential benefits of the merger (8-9).

With these emotional reactions come decreased productivity. It is known that productivity decreases in the first several months of a merger and acquisition transition. Unless management responds to this reduction, employees will continue with decreased productivity. Individuals lose their lack of commitment as they no longer know if they will still have a job.This decrease in productivity leads to a secondary dilemma: failure that feeds itself. (Prichett and Pound 4)

The decreased employee productivity is reiterated in Price Prichett's book. He states that, decreased productivity may be caused by information channels not working. If the employees are not being kept informed as to what is going on, they become anxious about the entire situation. Employees will spend too much time speculating on what is going to happen, instead of continuing to perform their job duties. If employees can not get answers to questions they have, they become more aggravated. This causes employees to waste time thinking, talking and worrying about the merger. Also, employees are fearful for their jobs; therefore, they become more willing to do nothing rather than do wrong. Risk taking involves changing things and making decisions, even if they are wrong. All of these areas hamper the productivity of the employees and the longer it takes to consolidate, the less productive employees become (5).

Employees, no matter at what level they are, will react in different ways. Some employees will always have a gloom and doom attitude. This attitude will be self-destructive to those employees who feel this way. Others will take charge to make the merger work. These people understand there are things beyond their control and do not try to change them. They will assess situations and act off those they can influence. These people do not consider themselves victims. They seek out challenges, knowing they can learn new skills from the new environment. The problem here is that these individuals are the exception, not the rule.

The employees who create a successful or damaging merger acquisition, become the company's first line of defense. This study will give employers a primer for successful employee tranistion, starting at the time the merger and acqusition is announced.

Chapter II

LITERATURE REVIEW

Human Resource Issues

Mergers and acquisitions have been around for a long time, yet not until recently have concerns about their effect on employees been considered. Several research articles state that human and organizational factors tend to take a back seat to marketing and financial aspects. Top executives are most involved with the financial and legal issues, making sure that all the details are properly worked out. They do not stop and take the time to consider the "human side" of mergers and acquisitions. According to Warren Buffet, one of the most successful investors in the US, "in the process of deal making, acquirers often ignore the difficulties of integrating the operations and people" (Achtmeyer and Daniell 37).

According to Nancy K. Napier, Department of Management-Boise State University, there is usually little mention of the human resource aspects of planning a merger and acquisition. They are not among management's priorities during the acquisition phase (274). John E. Gutknecht and J. Bernard Keys found in their research that top executives are so worried about a smooth transition with investors and the financial world, they forget about keeping the morale of the employees intact (26).

Through the means of a survey, Gutknecht and Keys, examined the productivity and morale changes resulting from three different corporate transitions. The surveys were given to supervisors, middle managers, and administrators of three acquired companies. The survey was not given to the employees within the ranks (27).

Company A is a service company that was acquired in 1990 by a larger operation which had been expanding through acquisitions of companies and the acquisition was a collaborative effort. The track record of the acquiring company was excellent, thus the marriage was attractive for both parties. Company B is a multinational manufacturing company. This company had risen in the ranks to become a Fortune 500 company and earned sustained profitability in the 1960s and 1970s. The company then diversified into a number of businesses, and this became the downfall of this company. When this company became unprofitable, takeover attempts started occurring. Finally, the takeover attempt came into place. Company C is a high-tech aerospace manufacturer. It was acquired by a fortune 100 company attempting concentric diversification. Because of cash flow problems, the owners decided to sell the company (27-28).

Of all the surveys sent out, approximately 400 people responded, divided almost equally across the companies. The thrust of the survey was to determine perceived changes in morale in the face of perceived changes in workload, job satisfaction, opportunities for advancement, company productivity, and retention of job security (28).

The survey indicated that in Companies A and B, more than fifty percent of the responding persons believed that productivity had increased. In Company C, however, fewer employees believed that productivity increased; they felt as though it had actually decreased. In these companies, job redesign occurred. This eliminated excessive layers of management, turf protection and jurisdictional disputes that had developed over the years, this reducing job satisfaction (28).

The acquirer of Company A was very experienced in acquisitions and perhaps for this reason gave greater attention to people concerns during the change. In contrast, the other two companies did not give great attention to people concerns. The communications process for Company A was planned and publicized well in advance of the change. In Company A, monitoring of employee attitudes began early and continued throughout the change. Company B's acquisition became a hostile takeover. The employees knew the company was in trouble, so when the takeover occurred they saw the impending changes and were prepared for them. The acquisition of Company C occurred quickly and was accompanied by a great deal of uncertainty. The rumor mill was rampant in this company, and employees heard about the acquiring company through fellow employees: not management. Information about the ownership change was not effectively communicated to employees. The employees in this company felt that information was withheld and that the employees were misled by top management (29).

The way that each of these companies handled given information to employees, shows that this has an impact on the morale and productivity of the employees. The results of productivity and morale are based on what managers and supervisors believe to be true of their employees. The survey was not given to the employees; therefore, what management perceived as the outcome may not be what the employees think or feel (29).

Based on the outcome of this survey, Gutknecht and Keys have come up with four steps for implementing ownership changes that improves morale. These steps are:

1. Communicate the impending change as soon as negotiations will allow.
2. Develop a new strategic plan and share it with both acquired and acquiring company employees as soon as possible.
3. Become flexible and creative with necessary job changes. Soften the blow for victimized employees in every way possible.
4. Invest in the development and retraining of the survivors. (30)

In their study Gutknecht and Keys broke each of these four areas down, to give management more information on what opportunities they will have during the change process. First, communicating the impending change as soon as negotiations allow by; meeting with employees, generating factual press releases, administering accurate communications with local communities, suppliers, customers, and shareholders. Accurately implementing this stage will help dispel rumors and anxiety during an acquisition. At this stage top management typically stays away from the working environment, which will only increase rumors and anxiety that is unwarranted. Mitchell Lee Marks, principal for William W. Mercer, Inc. and co-author of Managing the Merger, captured this process. He states that "CEOs and other senior executives are surrounded by investment bankers, lawyers, and other professionals who are paid to make a deal happen, not to make it work" (30).

The outcome of this research, done by Gutknecht and Keys, shows that communications and top-management employee interaction needs to increase during the change. Employees are looking to top-management to be honest and straightforward in their treatment of threatened staff. Gutknecht and Keys reiterate the fact that top-management must maintain relationships, even in the midst of layoffs. They must also listen to employee problems and concerns. This will help to improve employee attitudes, showing that management really does care (30-31).

According to Gutknecht and Keys, the second step means that management needs to develop a new strategic plan and communicate it to employees in both companies. Since a current strategic plan rarely works in a merger situation, executives must have a new strategic plan developed before the announcement of the merger. Gutknecht and Keys contend that, if major changes are presented as part of an integrated strategy, they are much less likely to be perceived as capricious behavior directed toward a conquered group. Part of the strategic plan should include a section for human resource planning. In their research Gutknecht and Keys found that after downsizing occurs the surviving employees are asked to do a great deal more work. This is fine for a short period of time, but can not continue indefinitely. If there is a reduction in staff, there should also be a reduction in the amount of work performed (31-32).

In the third step Gutknecht and Keys found that management should soften the blow by being flexible and creative at managing job changes. If layoffs are necessary, consider attrition through people leaving and early retirement. Employers must take care to ensure that not too many employees leave before the transition is complete. This could be devastating to the company and remaining employees (32).

Finally, after the merger is complete and all the layoffs have occurred, Gutknecht and Keys suggest that management invest in development and training of surviving employees. There will be new jobs created, new systems developed and restructuring of job functions. Employees need to be prepared to handle the new responsibilities and management needs to help, through the development and training process (33).

In summary to their research, Gutknecht and Keys found that trust and loyalty to the organization becomes important during the merger process. The company can preserve these by demonstrating that the changes made have relevance and that the new resulting organization will operate more effectively and efficiently. Management should monitor employees' attitudes and reactions throughout the merger process (35). Napier agrees that employee reactions and attitudes should be monitored, and states that this should be done up front and during part of the merger process. She recommends that measuring employee reations should be done over longer periods of time. Mergers take eighteen months to two years to complete, therefore the monitoring process should go on for three years (276).

According to Mitchell Lee Marks and Philip H. Mirvis, co-authors of <u>Managing the Merger</u>, many firms do not realize all the synergistic benefits and the competitive advantages they hoped for. Top managers fail to consider or are unable to manage the numerous complex organizational and human resource issues that arise during the merger and acquisitions process. It is apparent that organizational and human resource issues have not received the level of attention from top managers that they should (Schweiger and Weber 70)

Research has shown that when mergers occur, there will be layoffs. "Eighty percent of the companies responding from a survey done by Management Consultants at Cresap, a Tower's Perrin company, initiated downsizing operations following the change in ownership" (Gutknecht and Keys 26).This is because if two companies are going to integrate, there will be a duplication of efforts. Companies will eliminate this duplication by placing all activities in one area, and terminating extra employees. In Joseph H. Astrachan's article, "Organizational Departures: The impact of seperation anxiety as studied in a merger and acquisition simulation," found that:

> In 1993 600,000 jobs were lost due to companies closing their doors, employees losing their job in the name of efficiency and employees terminated as the result of mergers and acquisitions. A total of 68,000 jobs were lost, in November alone. In the first seven months of 1994, 615,000 jobs were lost. (32)

At this rate it is no wonder that employees feel fear when a merger is announced. Norman Augustine, CEO of Lockheed Martin, states "reductions should not be dragged out. There are jobs to be done and as long as they are necessary the company needs its employees. Try to eliminate duplication as quickly as possible" (Vogl 23). According to John E. Gutknecht and J. Bernard Keys, the major cause of negative feelings that ensue after a transition is frequently caused by these layoffs. They maintain that employees remaining with the company feel guilt, anger and sometimes relief (27).

Research done by Marks shows that the two stress-inducing qualities that are most frequently associated with mergers and acquisitions are uncertainty and insecurity. As a merger is announced and consummated, fears and anxieties are fueled by lack of certainty regarding what the combination may bring; how it may change one's work situation; and by feelings of personal vulnerability and loss of control. Mergers mean change and even if the acquiring firm says that no changes are planned, employees still feel fear, suspicion and personal or vicarious recollections from merger horror stories (41). Also, according to Marks, the effect of a takeover on morale is substantial and negative. People become preoccupied, causing both the quality and quantity of their work to drop. People spend time talking in the coffee room or running off copies of their resumes at the copy machine (Stuart 84).

Harry Levinson, a psychologist and professor at the Harvard Business School, agrees with Marks but stresses the psychological destructiveness of the merger experience. He states that a merger, even when it includes new opportunities and escape from old commitments, tends to be perceived as a threat to one's equilibrium–accustomed relationships, norms, status, and work behaviors must give way to new role demands in the changed organization. Whether a merger is for the better or worse, the change associated with it produces lost sources of support, and a sense of having lost the capacity to act on behalf of one's self or one's situation. These psychological losses, if not addressed, can prompt immediate and chronic problems in attitude and behavior (41).

Different authors' research shows what the employees reactions are at the time of the merger announcement. Mitchell Lee Marks states that the employees' reactions include uncertainty, defensiveness, denial, tension, distrust. The uncertainty is not knowing what the new company brings to their environment. Defensiveness comes when employees say that their way is better than the other company's. Denial results when the merger is announced, as employees do not want to believe that the company has just been acquired. Tension is caused from the uncertainty. Finally, distrust comes with denial as employees feel they have been betrayed by their company (38).

Napier states that there are not only negatives, but there are positives to a merger and acquisition. The negatives of a merger are anxiety, stress, concern about job security, sense of loss, unproductive work time, absenteeism and higher turnover. Researchers compare the sense of loss to grieving that is associated with death. The positives of a merger are greater job satisfaction, prospects for promotions, compensation and more job security. Unfortunately the employees do not see any of these positives (282-84). Theodore Berk, President of Franco-Berk & Associates, Inc., a New York Communications firms, adds to the negative feelings by stating that, "employees of both companies consider the merger a win/lose situation, where each side considers themselves the loser" (31).

David M. Schweiger and Angelo S. Denisi, agree with Napier, stating that employee uncertainty creates stress and anxiety. It is not the change that causes these employee reactions. The stress and anxiety created from the merger announcement generates job dissatisfaction, low trust in the organization and low commitment to the company. These scenarios lead to lower productivity, increased turnover and absenteeism (111). Similar research by Schweiger and Weber cites health problems as a result of employee uncertainty and anxiety.

In the article titled "Rebuilding after the merger: dealing with 'survivor sickness'," Mitchell Lee Marks and Philip H. Mirvis state that top executives do not give people time, space or support. Instead they pressure them for performance and start pointing fingers. This type of behavior causes fear and resentment inthe ranks. Employees' reaction to this will be to think of their own self interests. They reiterate this by showing that the fear and resentment cause employees to become preoccupied in not knowing if they will still have a job. Mergers produce an "us versus them" relationship. Survivors of the merger often feel threatened by the new systems of beliefs and values regarding the best way to get things done (20-21).

There is much more than success or failure with regards to mergers and acquisitions–diminished loyalty. A Harvard University study showed that "sixty-five percent of middle managers sampled in Business Week's 1000 top companies believe salaried employees are less loyal to their companies today than ten years ago" (Marks and Mirvis 19). Because of this lack of loyalty, employers must regain people's energy and commitment in the post-merger phase.

According to Marks and Mirvis, the pre-merger phase of a deal can be the time where the acquired companies become resentful of the acquiring company. Dealing with people at this point will be critical throughout the remainder of the merger process. Marks and Mirvis state that employers should provide full and timely information to employees, help them cope with stress, and be sensitive to the "culture clash." Not only should the "human side" of a merger and acquisition be considered from the start, it should go well beyond the post-merger period (20).

In another article by Mirvis and Marks, "The human side of merger planning: assessing and analyzing 'fit'," they assess potential risks caused by a merger and acquisition. These are human and logistical problems: turnover of key people; people refusing assignment; relocation costs/downtime; post merger performance drops; lost customers, capacity and synergies; morale problems (80). An example of problems caused by a merger and acquisition is Hewlett Packard's (HP) acquisition of Apollo Computer.

HP conducted research to insure Apollo was going to fit into their organization. Line managers were involved in the search process. HP looked at both the good and bad sides of the acquisition. They put together internal task forces to study the company's financial status, assess personnel costs and market conditions, and to evaluate Apollo's field operation. Employees from both organizations were involved. This was the final step–when these task forces said OK, the deal was made (70).

HP's workstation management team was to develop a plan on how to integrate the two organizations and cultures. Their analysis emphasized on how to combine product lines and marketing directions not on how to combine the human aspects. In the crucial areas of structure and culture, however, the assessment was proforma and integration planning was deferred to the post-merger period. Today the use of cross company task forces to plan the details of integration is considered one of the best practices in merger management, but in this case, the absence of a "first pass" of integration framework created an analytical vacuum subsequently filled with dilemmas and conflict. Everything was going in the right direction for the merger and acquisition planning, until the human factor emergerd, which was considered too late (72-74).

In their research Mirvis and Marks assessed the acquisition of Kings. Kings was a privately owned company, which after several years decided to sell out. They would not sell until a company that was buying them agreed to treat their employees right. There was a survey completed by forty top senior managers about the reactions to the possible sale of Kings. Table 3 shows the outcome of this survey. In most cases the survey indicated that the feelings are worse or much worse than usual. There are only two incidences where this is not the case; "the morale of the managers who work for me" and "employee comments about leaving the company." Most respondents said that these two areas were the same as usual.

Table 3

Kings Acquired Company's Reactions to Possible Sale – Top 40 Senior Managers

	Same as Usual	Worse/Much Worse Than Usual
My own morale & enthusiasm for the job	46%	54%
The morale of the manager who works for me	56%	44%
The morale of employees in my work area	42%	58%
Level of rumors	28%	72%
Tension and anxiety	23%	77%
Employee comments about leaving the company	50%	50%

Source: Human Resource Planning. Exhibit from "The human side of merger planning: assessing and analyzing "fit." By Philip H. Mirvis and Mitchell Lee Marks (1992)

Because of this concern for their employees, Kings had a grieving ritual meeting. In this meeting top managers educated themselves about people's reactions to a combination and marked their passage to an uncertain fate. Each executive contributed personal memorabilia to a cenotaph. This marked their burial of the past. The session concluded with managers drawing a "ritual mask" highlighting their fondest memories of King. Holding their masks, they relived their hiring, key career moments and events of significance. Now the management employees of King were ready to move on. A well prepared work force at King led to a smooth transition and minimal upset (94). Once again, however, the reactions were only recorded for those employees in top level positions.

In Peggy Stuart's article, "HR Actions Offer Protection During Takeovers," a study of British acquisitions found that companies that gave their post-merger structures and systems a clear "people shape" had better results than companies that did not. She adds to this by what Marks and Mirvis wrote, "it makes sense, therefore, to involve human resource executives from both sides in early dealings and to gather their counsel; not only on human resource matters but also more broadly, on the human side of the combination" (86).

Stuart states that acquisition teams go into talks thinking only about financial aspects. Without the human side, the information they gain may be incomplete; therefore, the human resource executive must be part of this team. Human resources must be responsible for developing people to their fullest capacity. This department is the function most in touch with the morale or temperament of management and the work force. Stuart suggests that companies should have a contingency plan prepared prior to a merger, as employee strategies need to be developed ahead of time. The human resource executive can help to accomplish this task. According to Stuart, Marks stresses that, "organizations must think about how the takeover is likely to affect the company and how people are going to react. Then they must make preparations to deal with the effects" (86-87).

Stuart recommends that managers be educated with regards to the merger and acquisition process and how to deal with the human and cultural aspects. According to Stuart, top-level executives and managers should follow these recommendations:

–Make communications top priority-do not keep people wondering.

–Keep employees informed.

–Tell people what to expect–if companies do not, their credibility will be lost.

–Sell employees on the new organization.

–Culture-if changed properly can work for the good of the organization.

–Make sure the right people stay with the new company.

–Treat everyone fairly.

–Ensure work force is not demoralized.

–Protect the good people.

–Get employees input-two way communications and find out what employees think about the merger issues.

–Walk around and talk to people.

–Hold group meetings.

–Watch for high signs of stress.

–Let people know it is normal to be upset.

–Be aware that employees lose the control they once had (94).

These researchers have shown that they have found similar and dissimilar employee reactions to mergers and acquisitions. Yet, all of their research shows that the announcement of a merger is very devastating to employees. Merger experts Micheal Carre and Philippe

Bouvard make a good point regarding mergers and acquisitions. They state, "all the ... plans or predictions in the world will be useless if, on announcement, the management and workers leave to look for jobs elsewhere (Mirvis and Marks 80)." Napier, also found that several researchers have discussed the importance of preparing and communicating information about a merger as a critical aspect for employee morale and productivity (282). Even when efforts to communicate appear very thorough, employees will still feel fear and have anxiety about the merger.

Communications

Mergers hurt normal methods of intelligence gathering and two-way information exchange. Many of the problems associated with employee feelings develop from the lack of sufficient information--information that is communicated to the employees from when the merger announcement is made through the post-merger stage. Employees are seeking information and the company, because of the timing, is restricting information. Some research even shows that management should not communicate with employees. The fear here is that employees will talk to competitors and possibly leave, avoiding change.

If employees do not receive information from top management, according to David M. Schweiger and Angelo S. Denisi, they will look to other sources for information. This could be the rumor mill or other informal communications. The problem with the rumor mill, according to Schweiger and Denisi, is that it focuses on negatives, therefore, it is not effective in reducing stress. It will actually produce more stress.

Schweiger and Denisi reiterate this by stating that the repetitive nature of the rumor mill will have employees believing that the rumors are true. The reason why communications may be bad, is that management does not know what the outcome of the merger will be. They are afraid that if they say something and it does not work that way, then employees will think they have been deceived (111-12).

In their article "Communication With Employees Following a Merger: A Longitudinal Field Experiment," David M. Schweiger and Angelo S. Denisi did a study that examined the impact of a realistic merger preview. According to Schweiger and Denisi, the realistic merger preview is a program of realistic communications, for employees of an organization where a merger has just been announced. Realistic merger preview includes communicating as soon as possible about all anticipated affects of change. It involves communicating what is known and explaining to employees that the company is not intentionally deceiving them. Realistic merger preview should involve communications about areas that directly impact employees: layoffs, pension, work rules, compensation (111).

Schweiger and Denisi state that realistic merger previews came from the concept known as realistic job previews. These previews provide realistic information about a job, including both its positive and negative aspects, usually in the form of a film or videotape. According to Schweiger and Denisi, they are usually used for new employees, but may be another alternative method to reducing stress and anxiety in a merger and acquisition situation. They are generally used to reduce overly optimistic expectations, but some authors have suggested they can function effectively to raise the overly pessimistic expectations likely to occur during a merger and acquisition (112-13).

Schweiger and Denisi found that realistic job previews function in two ways for new employees. First, they reduce uncertainty by providing realistic information about the job. Second, they communicate to the employees that the organization they are entering cares about them and can be trusted. They reiterate clearly that these functions are important to employees facing mergers and acquisitions; and that providing realistic information will give employees a better basis for action than rumors. This should reduce uncertainty; and the communications process, which symbolizes an organization's concern for its employees, elicits increased commitment (113).

Realistic merger preview, according to Schweiger and Denisi, uses the concept applied in the realistic job preview, since, at the time this research was done, there was no evidence showing the mergers and acquisitions were a source of uncertainty for employees. They did a study, using two different plants from a currently acquired company to determine if merger and acquisition activity does lead to uncertainty and its associated dysfunctional outcome (113).

Schweiger and Denisi collected data in the two seperate plants The realistic merger preview was introduced in the experimental plant. In the control plant, the merger was managed in a more traditional way. The data was collected at four points during the merger process: before the impending merger was announced; following the announcement of the merger but before the implementation of the preview in the experimental plant; three days after the introduction of the preview and; four months later. This study was not designed to show that the realistic merger preview would eliminate all the problems associated with a merger, only that it will enable employees to deal with those problems better. Schweiger and Denisi state that, "this in turn will make the problems less severe" (113-14).

Figure 2 shows the timeline of when the data was collected. At the first point, a survey was administered to employees by the vice president of human resources. It was not unusual for surveys to be administered, therefore, the employees were unaware that a merger was about to take place. Four weeks later the merger was announced via a memo from the CEO. This memo was given to the employees before the news was announced to the media. This letter informed the employees as to why the merger was going to occur and that duplicate jobs would be eliminated. At point two, which was two weeks after the merger announcement, the same survey administered at point one was again given to the employees. This survey was to show management how the employees felt about the merger announcement. One week after this survey was administered, the realistic merger preview program began in the experimental plant. Three days after the merger preview program was implemented and ten days after the second survey was administered, the employees received a third survey. The data collected from this point showed the short-term results of the merger preview process. Three months after this point another survey was administered. At point five on the timeline, the manager of the control plant saw that employee morale was declining and became alarmed. Even though no analysis had yet been completed, the vice president of human resources felt the merger preview program implemented in the experimental plant, helped to reduce employee trauma that had resulted from the merger. At this point, which was before the study was complete, the merger preview program was put into effect in the control plant (117).

Figure 2

Timeline of Major Events

--------4 Weeks_____2 Weeks______1 Week_______3 days_______3 months___

Time 1	Time 2	Time 3	Time 4	Time 5	Time 6
Baseline Survey	Merger Announced	Survey Admin	Realistic Merger Preview Program Begun	Survey Admin.	Survey Admin

Source: Academy of Management Journal. Exhibit from "Communication With Employees Following A Merger: A Longitudinal Field Experiment." By David M. Schweiger and Angelo S. Denisi (1991)

In this study, done by Schweiger and Denisi, the experimental group had 125 employees, and the control plant had 146. There were 82 respondents to the survey in the experimental group and 86 in the control plant. There were changes in employment prior to the administration to the final survey, leaving a total of 75 respondents in the experimental and 72 respondents in the control group. According to Schweiger and Denisi, employees in the experimental plant received communications on a regular basis. The types of medium were newsletters, weekly meetings and a telephone hotline. The employees in the control plant did not receive any type of formal communications regarding the merger and what it would cause. This approach had been used in the past, throughout the company (118-19).

The surveys that were administered provided data to Schweiger and Denisi on perceived uncertainty, satisfaction, intentions to remain with the organization, global stress, self-reported performance, and perceptions of the company's trustworthiness. The final survey included information about turnover and absenteeism. The data that Schweiger and Denisi collected from the survey that was administered after the announcement to the employees showed significant increases in global stress, perceived uncertainty and absenteeism; significant declines in job satisfaction, commitment, and perceptions of the company's trustworthiness, honesty and caring; no significant changes in self-reported performance. When the surveys were administered at times five and six, after the realistic merger review instituted, employee perceptions in the experimental group changed. The data Schweiger and Denisi collected showed that the employees were significantly lower on perceived uncertainty and significantly higher on job satisfaction, commitment, and perceptions of the company's trustworthiness, honesty and caring (122).

According to Schweiger and Denisi, the realistic merger preview appeared to stabilize the levels of dysfunctional outcome, and this effect should continue over time. They reiterate that this experiment shows, in the short-term, that changes do occur with the introduction of the merger preview program. Unfortunately Schweiger and Denisi could not determine the long-term impact of the merger preview program. The company would not wait any longer than the three month period, before implementing this process in the control group. The perceived perception of the merger review process from management's point of view was that itworked well. Schweiger and Denisi state that the company was afraid if they waited to implement this process their profits and credibility would decline. Schweiger and Denisi could not implement some of their recommendations, because of the short time-frame of the study. Once again, perception of the outcome of the merger preview process stopped the completion of the study (123).

The research done by Schweiger and Denisi, shows that communication processes are important through the merger transition. Their research found that realistic communications can help employees get through the merger process, that management must apply open communications and a fairness program and; that the value of communication itself is as important as the content of the communications. Finally, Schweiger and Denisi contend that communicating care and concern to employees in the message, is much more important than the content of the communications (131).

In another article by David M. Schweiger and Yaakov Weber, "Strategies for Managing Human Resources During Mergers and Acquisitions: An Empirical Investigation," employees may hear about the merger through the grapevine, before management can inform them as to what is happening. Schweiger and Weber state that, unfortunately employees often hear through the grapevine, because management can do little to communicate to employees. The Securities and Exchange Commission limits the information that managers can communicate to its employees, before first notifying the public. According to Schweiger and Weber, it does not matter if management communicates, as employees will find other ways to get information. The rumor mill, which rarely gives realistic information, will heat up. This will cause employees to worry more and encounter more anxieties (71-72).

With this in mind Schweiger and Weber suggest the following ways to reduce employee anxieties:

1. Curbing the rumor mill is important. Communicate to employees–even if they are told "there is nothing to tell" at this time.

2. Communication is critical during implementation. Employees now start thinking about how the changes will directly impact them.

3. Promote learning and joint problem solving between executives and managers of both firms.

4. It is inevitable that mergers and acquisitions cause a reduction in the work force. Use voluntary turnover (early retirement, attractive severance) as a means for this reduction. Also, remember that this reduction impacts both the employees that are terminated and those who remain with the company.

5. Some programs to offer employees: stress management training, career counseling, merger sensitization workshop, small group meetings and retraining programs (72-74).

In 1988, Schweiger and Weber administered a survey to 178 human resource managers affiliated with HRPS. These managers were chosen from the Merger and Acquisition journal, after it was determined that their firm had been through a merger and acquisition. According to Schweiger and Weber, eighty percent of the people surveyed responded: this is a forty-five percent response rate. Ten people wrote letters stating that neither they nor their staff had the time to respond to the survey. On average all of the respondents had some degree of involvement during the planning stage and significantly more involvement during the implementation stage. The respondents were asked to answer the questions, based on one recent merger that they were involved in (73-74).

Table 4 shows the responses to the survey administered by Schweiger and Weber regarding the form of communications media that was used throughout the merger process. The table shows that several forms are used, with small group and/or one-on-one meetings in which the acquired firm's managers/supervisors met with their own employees being used most.

Table 4

Communications Media

Type Of Communications	**Percentage of Firms Using Approach**
A merger or an acquisition newsletter.	32%
Information concerning the merger or acquisition presented in the company's regular newsletter.	60%
Town hall meetings in which the acquired top management met with their own employees.	60%
Town hall meetings in which the acquiring firm's top management met with the acquired firm's employees.	63%
Letters, memos and/or videotaped messages from the acquired firm's top management to their own employees.	60%
Letters, memos and/or videotaped messages from the acquiring firm's top management to the acquired firm's employees.	58%
Small group and/or one-on-one meetings in which the acquired firm's managers/supervisors met with their own employees.	70%
Small group and/or one-on-one meetings in which the acquiring firm's mangers/supervisors met with the acquired firm's employees.	52%
A 24-hour telephone "hotline" to answer questions employees have about the merger/acquisition.	17%
Exchanging literature between acquiring and acquired firms.	53%
Funneling information through the firm's informal "grapevine."	32%

Source: Human Resource Planning. Exhibit from "Strategies for Managing Human Resources During Mergers and Acquisitions: An Empirical Investigation." By David M. Schweiger and Yaakov Weber (1991)

The other area surveyed by Schweiger and Weber that pertains to communications, is the philosophy used by the acquiring firm to communicate with acquired employees. Table 5 shows the responses to the types of philosophy that the company used. As shown in this table, most firms attempted to communicate information with employees honestly, accurately and as soon as it was known. Most firms attempted to be optimistic and avoided being pessimistic. There were discrepancies on whether communications should occur in advance or at the last minute.

Table 5

Communication Philosophy (Percentage of Firms Responding)

	Not At All	To Some Extent	Precisely
Communication with employees is done as soon as information relevant to this is known.	3%	44%	53%
Communication with employees is done at the last minute so as to avoid disruptions.	28%	54%	18%
Communication with employees is based on honest and accurate information.	10%	26%	74%
Communication with employees is optimistic so as to build hope.	16%	51%	33%
Communication with employees is pessimistic so as to avoid building expectations.	69%	25%	6%

Source: Human Resource Planning. "Strategies for Managing Human Resources During Mergers and Acquisitions: An Empirical Investigation." By David M. Schweiger and Yaakov Weber (1991).

The other area of importantce, is what is communicated to employees. A final survey done by Schweiger and Weber shows the results of exactly what companies communicate. Not all employees receive the same information. Top level managers may hear the specifics as to why the merger occurred, changes in executives and changes in firms' goals and strategies. If companies do not inform all of the employees, in all areas, then the lower levels of employees will end up hearing through the grapevine. Table 6 shows that most of the communication is done at top levels of management.

Table 6

Communicated Information (Percentage of Firms Communicating with Each Level

	Top Managers	Other Managers/ Supervisors	Non-Exempt/ Hourly
Reasons for the merger/acquisition	100%	83%	77%
The nature of the agreement between the two firms	98%	52%	35%
Changes in executives	89%	70%	48%
Changes in corporate name	82%	74%	72%
Changes in firms goals and strategies	90%	72%	51%
Changes in benefits	90%	88%	79%
Changes in corporate policies	90%	81%	60%
Personnel reductions/job security	95%	74%	60%
Career opportunities	81%	67%	47%
Changes in immediate superior	91%	77%	61%
Changes in work systems/procedures	84%	83%	68%
What the new work environment will be like	71%	67%	49%
What the other firm's culture is like	81%	65%	39%
Personnel transfers	81%	72%	36%
Relocation benefits	75%	68%	27%
Benefits for terminated employees	77%	67%	55%
Changes in salary	73%	60%	40%
Changes in performance appraisal	70%	61%	40%

Source: Human Resource Planning. "Strategies for Managing Human Resources During Mergers and Acquisitions: An Empirical Investigation. "By David M. Schweiger and Yaakov Weber (1991)

Mitchell Lee Marks and Philip H. Mirvis, in their article "Track the Impact of Mergers and Acquisitions," give the following reasons for communications breakdowns:

1. Executives are too busy with planning and overseeing the merger process.
2. Managers are too busy and will avoid loose talk.
3. Employees at all levels will become more cautious.
4. Trust must again be developed.
5. Employees are stressed, which impairs their perception and judgment (70).

According to Marks and Mirvis, these breakdowns in communication will cause important information to either be overlooked or misinterpreted. They state that there are certain questions that are important for management to ask their employees during the implementation stage of the merger. First, do employees understand why changes are occurring and do they support these changes? Second, what are the employees' early impressions of the combined company? Third, how is implementation going and what is needed to improve things? Fourth, how are the employees coping with the stress and what can management do to help relieve some of this stress? Fifth, are the employees showing signs of commitment to the new organization? Finally, how do the employees perceive and evaluate the new management team? Marks and Mirvis show that management can track these questions by administering surveys throughout the merger process and for months after the merger is complete (70).

From their research, Marks and Mirvis found that the tracking of employee feelings will not eliminate problems. What it does is give management the opportunity to correct the problems before they become detrimental to the organization. They found that tracking employee feelings will show employees that management does care about them and their opinions. Marks and Mirvis reiterate that, asking people how the merger has affected them, their coworkers and their ability to perform; demonstrates that management is interested in the human side of change (75).

Mirvis and Marks suggest that tracking can be done through interviews and surveys. Employee attitude surveys should be administered early to assess employee expectations. They should be administered during, to evaluate how change is being handled. Finally, they should be administered after, to determine levels of satisfaction or discontent. Confidential interviews should be done by internal people, as this shows genuine interest in employees (76).

In his article, "Sending the Right Merger Message to All Employees," Theodore G. Berk states:

> Employees are fearful and resentful. They are trying to protect themselves. They know things are going on, but they have little concept of how the changes will affect them. Worst of all, they know there are new rules but no one will even tell them what the rules are. (30)

According to Berk, the results of poor communications can be disastrous. He gives an example, in his research, of two banking institutions merging. Both had a seemingly complimentary client and deposit base. When the merger was implemented, deposits slipped and clients were lost. Instead of two $500 million companies combining to create at least a billion dollar business, what was being created was a $900 million business. Berk's research shows that companies too often have a tradition of giving employees very little information. The problem with this is employees, vendors and customers, without communications on what the impact will be to them, will let their imaginations run wild. Absence of communications leads people to suspect the worst (31).

Berk gives ways to create an effective plan for communicating the facts to all affected audiences. He states that a good merger communication plans begins by:

1. Identifying all the major audiences to be reached.
2. Focusing on concerns of each audience.
3. Drafting position statements to address these concerns (31).

Next, Berk states that it is important to quickly derail the rumor mill. It is no secret that a merger often leaves employees of both companies uncertain, anxious and worried about their future. His research shows that companies that do not recognize the business implications of the negative emotions that risk rampant rumors, low morale, sagging productivity, and a bad start to what was conceived as a promising union. According to Berk there are tools and expertise that are available to direct internal communications efforts at the work force and deal with many, if not all, of the employee concerns. Berk gives these tips:

1. Try to identify the worries by imagining a conversation between two employees.
2. Coordinate the internal program with communications efforts aimed at the public and other stakeholders.

3. Prepare managers and supervisors to answer questions from their departments.

4. Use as many tools as needed to reach employees including printed material, telephone hot lines, meetings, and either personal or videotaped talks from the CEOs.

5. Most importantly, do not lie (31-32).

The audiences not reached properly include employees from rank and file to senior managers, labor unions, customers, vendors, and communities in which the company has significant facilities. Berk reiterates that if any one of these audiences is not handled well, the implementation of the merger can suffer (32).

The final outcome of Berk's research shows that in the communications process employers should tell the audiences how the merger will affect them, since this is what they want to know. If the answer does not exist, acknowledgment of the questions and concerns is important. Berk suggest that it is extremely important for management to be consistent in the messages to all parties. If they are not consistent, it will look like the company is misleading people. Berk recommends that there be a corporate communications person. This person should ensure that the communications plan runs smoothly. Organizations must have effective communications plans. The cost of communicating effectively, according to Berk, is minuscule compared with the cost of correcting a negative situation after the fact (32).

Culture

Differences in culture will hamper an effective communications process. In a merger of related industries or businesses, the employees of the acquired firm will more likely have to conform to the culture of the acquirer. When two organizations have dissimilar cultures the clash between them can produce feelings of hostility. They also produce significant discomfort, which lowers commitment and cooperation. Any cultural differences in top management will make their way down to all levels within the company. "Management of a buying firm should pay at least as much attention to issues of cultural fit during the pre-merger search as they do to issues of strategic fit" (Chatterjee, et. al. 321).

Culture will affect the way people respond and act in given situations. Anything that threatens a company's existing culture will result in feelings of confusion, insecurity, resistance and anger. Each side will try to get "their way" of doing tasks. A combination is important to make both sides better–as one. In the article "Organizational Fit and Acquisition Performance: Effect of Post-Acquisition Integration," Deepak K. Datta states that the primary objective in post-acquistion integration of operations is to make more effective use of capabilities. However, while in theory integration should result in benefits, in reality the picture is often very different. Impediments associated with the integration of operations can result in the acquiring firm being unable to manage the integration of the target firm effectively. This is especially true when organizational incompatibilities exist in areas such as management styles, reward and evaluation systems, organizational structures, or organizational cultures: incompatibilities which may negate the potential benefits associated with an acquisition (283).

Amy L. Pablo, in her article "Determinants of Acquisition Intergration Level: A Decision-Making Perspective," agrees with Datta. She states that:

Culture is important in integrating two organizations. It

> has an impact on both the coordination and control functions of integration. It can operate to generate commitment to the larger organization. It can enhance organizational stability in a situation of dramatic change. Finally it can convey a sense of identity to organizations members. (809)

According to Phil Simshauser, president of consulting for Drake Beam Morin, the organizational fit is important, but so is the cultural fit. The emphasis often is on integrating the systems. Integrating people is equally important. If the organization has high morale and good productivity it will not guarantee a rise in stock value, but if there is an absence of morale and productivity it will guarantee a loss in stock value. Stuart agrees with Simshauser and states that, "if companies do whatever they can to align the organization's values to what they think the new values of the long-term organization will be, companies can accelerate the performance carryover of the merger" (95).

A recent survey of Forbes 500 companies conducted by the Bureau of Business Research at American International College concluded that organizational problems, much more than financial and planning mistakes, are the biggest factors preventing mergers and alliances from achieving the desired synergy. Incompatibility of the corporate cultures between merging firms was seen as the most damaging factor. This finding was according to the CFO and other top financial executives of the forty-five firms that were surveyed (Smolowitz 30).

In the area of culture, the research done was limited and usually combined with other areas. Culture leads back to communications, which inevitably has a direct impact on the employees of the companies. The research did not discuss ways to merge two cultures. It was mainly a topic of discussion. More research needs to be done to see how this area affects the overall impact of mergers and acquisitions.

Justification for the Manual

According to Marks and Mirvis in their article, "Rebuilding after the merger: dealing with 'survivor sickness'," judged against any financial yardstick–combined earnings, sales or growth rates–between two-thirds and three-fourths of all corporate mergers and acquisitions fail. In doing their research they found that statistics show that one in three acquisitions is sold off within five years. Most observers point to high levels of debt, the absence of a sound business strategy, or simply bad timing in the market place as reasons. Organizational specialists, however, make the case that how the merger is managed also contributes critically to its success or failure (18).

According to Marks and Mirvis, in the first several months after the deal, merger related dynamics can set the newly combined enterprise on the wrong course. The rumors running rampant throughout the "new" company make it stressful for everyone (20). Napier found that this stress created human resource related problems. During her research, she found evidence that thirty percent of mergers and acquisitions end in divestiture and up to fifty percent are regarded as generally unsuccessful, because of the human resouce problems (272). Research done by Professor Carol A. Beaty shows that the success rate for small companies is twenty eight percent, sixty percent for all sizes–like companies, and thirty-five percent for all sizes–different companies (52). Finally, in their article "Relationships Between Type of Acquisition, The Autonomy Given to the Acquired Firm, and Acquistion Success: An

Empirical Analysis," Deepak K. Datta and John H. Grant state that studies show that acquisitions are associated with a high failure rate and though some eventually do turn out to be brilliant successes, more than forty percent of all acquisitions fail to live up to expectations (29).

In another article by Marks and Mirvis, "The human side of merger planning: assessing and analyzing 'fit'," they state that Haspeslagh, in a study of eleven acquisitions made by diversified multinational companies, found that most of them had developed a systematic process for selecting and handling acquisition candidates. Few of these companies followed these steps, because human factors–in the formation, operations, and analysis of an acquisition team–colored assessments of a candidate and complicated plans for putting two firms together (70).

According to Terry Patterson, executive Vice President of Strauss Discount Stores, cultural and people problems are the major reason that acquisitions prove to be disappointing. The socus is often too much on "paper"-- the financial statements. Too little attention is given to the amount of work required to meld the two companies (Kaufman 12).

Nancy Napier gives four reasons why understanding human resource issues in a merger is important:

1. Until recently, much of the available information on human resource impacts was dated.
2. Much of the information on mergers and their impact is anecdotal or unrelated to theory and thus cannot be applied broadly.
3. There is criticism of generally accepting approaches to planning for and implementing mergers and acquisitions.

> 4. There is little in the way of conceptual frameworks or theories differentiating mergers and how they affect human resource issues. (272)

Napier's general findings suggest that well-planned, well-communicated mergers generate higher satisfaction and less anxiety. She reiterates that mergers can create value. The source of the value depends on the ability of managers in both firms to recombine resources to enhance competence. It is the "work in the trenches" that creates this value. According to Napier, there are no set rules on what makes a merger and acquisition successful and this is particularly true for human resource related issues (275-76).

Mergers impact all areas of the organization: morale, productivity, work processes, quality control and group/inter-group relationships. Schweiger and Denisi state that:

> Negative effects, in these areas, do not go away with time, they become even more serious. Employee reactions to a merger or acquisition could be extremely costly to an organization and could easily undermine aspects of the corporate strategy that led to the activity in the first place. (132)

Mirvis and Marks agree with Schweiger and Denisi, and state that companies will continue to merger and acquire for two reasons: to further strategic purposes and to achieve global presence. Success in the first area, meeting strategic objectives, depends on mutual synergy–the buyer and seller have to transfer technology and know-how across company lines. This means carefully knitting operations together and keeping talented people loyal and motivated (18).

Managers must understand, prepare for and manage these factors that can contribute to the success or failure of a merger. A recent study of

101 CEO's and senior managers of large companies by the management consulting and executive search firm, Egon Zehnder International, found that the most commonly cited cause of acquisition failure was "people problems." During a five year period Schweiger and Weber conducted interviews with numerous acquiring top managers. They found that almost all of the top managers reported they underestimated the impact of, and difficulty in managing, organizational and human resource issues. The respondents were asked if they would manage future mergers and acquisitions differently. According to Schweiger and Weber, most responded that people issues would have much higher priority in the future than they had in the past (70). Without employee support, the expected performance from a merger is rarely realized.

Without the people affected being committed to the new organization, the merger will not work. They must be kept informed as to what is going on, as these are the people who keep the company running. If they feel management is deceiving them, they will more than likely deceive management. Having a human resource plan at the start of the pre-merger stage is important. It may not eliminate all problems, but it will reduce their impact on the merger companies.

Chapter III

METHODS AND EVALUATION

Materials

"Management's Merger Guide to Successful Employee Transition" (Appendix A) begins with a brief synopsis of what the importance of successful employee transition means for organizations that are merging. It states that the "human side" of a merger and acquisition is important, as companies need commitment and support from both organizations to achieve successful integration of employees. This manual will help management become more aware of the "human side" of mergers and acquisitions at the onset of a merger. It will also provide management with steps to use–creating a smooth transition for the employees.

This manual is divided into two different sections. The first section is the three merger stages. The merger stages consist of the pre-merger, the merger process and the post-merger. The pre-merger stage is where management must first be aware of the "human side" of the acquisition. Here is where dealing with people will be even more critical than throughout the remaining stages. The pre-merger stage gives management steps to follow with regard to helping employees look toward the future of the "new organization." This section includes: creating a new strategic plan, including human resource directors/vice presidents as part of the acquistion team, management preparing themselves for employee reactions, and having a grieving ritual.

The merger-process sections of the manual gives management steps to follow to create trust and loyalty with the employees. These steps can help management meet its objective for a smooth transition, as this stage is where all the processes are combined as one. The steps include: never lying, empowering managers and supervisors, selling employees on the new organization, promoting a win/win scenario, creating cross-company task forces, becoming an effective listener, making sure the right people stay with the new organization and ensuring that the work force is not demoralized. In the final stage, post-merger, management must continue receiving commitment and support for the employees. This stage is where management continues showing it is aware of and cares about the "human side" of a merger.

The next section of the manual considers processes that will be used throughout the merger stages. These processes are relevant in each area of the merger stages. Using these properly will help management through the merger stages, to the completion of successful employee transition.

The first process is communications. Without effective communications, the merger process will suffer. Ineffective communications will only result in more people problems. Without proper communications, the merger will likely fail. Management can use the steps in the communications process to ensure employees will believe in the merger that the two organizations are joining in. The important steps for communications include: making communications top priority, communicating impending changes as soon as negotiations allow, keeping employees informed, curbing the rumor mill, communicating on a regular basis, promoting two-way communications, showing care and concern in communications, and employing a corporate communications person.

The second process is layoffs. This area is the most difficult for the employees of the organization–those who leave or stay. With this being one of the most delicate areas to handle, management needs ways to make this transition while maintaining relationships. The steps to consider here are: do not drag out reductions and be creative and flexible with necessary changes.

The third process is employee programs. There are many disruptions during a merger and acquisition. Employees can not maintain the status quo under these circumstances. Management needs to offer programs to the employees. The manual gives different programs for management to consider.

The final process is monitoring employee attitudes and opinions. For management to understand what is occurring throughout the merger stages, it must track employee reactions and attitudes. This can be done by using surveys and one-on-one interviews. This monitoring process shows the employees that management does care about them and their opinions.

Subjects

Three evaluators were selected to read and evaluate "Management's Guide to Successful Employee Transition." The first evaluator is Mr. Michael W. Wright; Chairman, CEO and President of Supervalu Incorporated. Wright resides at Supervalu's home office in Minneapolis, Minnesota. Supervalu is the second largest food wholesaler and the fourteenth largest food retailer in the country. Before joining Supervalu as senior vice president in 1977, Wright practiced law for thirteen years with Dorsy & Whitney, in Minneapolis. He was elected president and chief operating officer in 1978 and became chief executive office in June, 1981. He assumed the responsibility of chairman of the board in October 1982.

Wright also serves on the board of Norwest Corporation, Honeywell Inc., Musicland Stores Corporation and Cargill, Inc. He is a member of the board of directors of Food Marking Institute, The International Center for Companies of the Food Trade and Industry and Food Distributors International. Wright also serves as a Trustee Emeritus of the University of Minnesota Foundation; is on the University of Minnesota Carlson School of Management Board of Overseers; and the St. Thomas Academy Board of Trustees. Recently, Wright was named Executive of the Year for 1997 by <u>Corporate Report</u>, a local Minneapolis magazine.

The second evaluator is Ms. Marlene L. Gebhard. Gebhard is Regional Vice President and Vice President of Strategic Planning and Labor Management for Shop 'n Save Warehouse Foods, Inc.. Shop 'n Save is the largest retailer supplied by Supervalu-St. Louis and is owned by Supervalu but operates as its own entity. Gebhard joined Shop 'n Save in June, 1979 as a Front-end Manager. She held other positions at Shop 'n Save, including, Co-manager, Store Manager and Manager of Training and Development and Front-end Operations. In 1991, Gebhard was named Director of Corporate Retail Training and Program Development. In 1992, she was promoted to Vice President, Development and Training of the Corporate Retail Group of Wetterau Incorporated. Gebhard returned to Shop 'n Save in 1993 in her current position. Gebhard has been involved with the merger process since Supervalu acquired Wetterau in 1992.

The third evaluator is Ms. Jane Williams. William's background includes working for five different companies that were bought or acquired. Most of the positions she held were administrative. Her current position is Communications Coordinator of Supervalu-St. Louis Distribution Center, reporting directly to Human Resources. With Supervalu's advantage endeavor, Williams has been named an OAR (On-Site Available Resource) for the St. Louis Distribution Center. OAR's are employees who communicate and train others on the programs being instituted within Supervalu. Williams has seen from the employee side, on five occasions, how a merger will impact an employee.

Instrument

The manual evaluation questionnaire (Appendix B) was designed to allow the evaluators the opportunity to make suggestions for improvement in the "Management's Guide to Successful Employee Transition." Their expertise in the field of corporate organizations, mergers, strategic planning, communications and human resources affords them the ability to evaluate this manual.

The evaluation questionnaire was designed to allow the evaluators to provide their inputs regarding successful employee transition during mergers. The lead in to the questionnaire informs the evaluators why they were selected. It also informs them of how important their honest answers and opinions are to this research. There are seven comprehensive questions for the evaluators to answer. Each question had a yes/no response, requiring the evaluator to explain the reasons for their response.

Procedure

A cover letter (Appendix C) was sent to the evaluators with the manual and the evaluation questionnaire. The evaluators were asked to return the survey within one week from the time they received the information. A follow-up phone call was made one week from the date of the mailing, to insure the evaluators received the information. Questions about the evaluation procedure where answered and respondents were reminded of the evaluation time line.

Chapter IV

RESULTS

According to all three evaluators, "Management's Merger Guide to Successful Employee Transition," did in fact provide a broader perspective on successful employee transition. Williams stated that, "human resources should be part of the acquisition team, yet they are usually thought of as a clean-up team and are not involved in strategic business planning. Gebhard agrees with Williams on including human resources as part of the acquisition team. She states that "involving human resource executives would 'add value' to this team, as their view of changes will always be leaning toward how to help employees." Williams also believes that "cross-company task forces could be a great strengthener if the right people are involved." One last comment made by Williams regarding the manual providing a broader perspective on successful transition, is that "the grieving/burial ritual could help employees put the changes into perspective."

The questionnaire asked the evaluators to give "real world" examples for successful employee transition, if they felt the manual failed to broaden their perspective on this subject. Even though Williams did not believe the manual failed to meet its objective, she still cited a "real world" example for successful employee transition. Regarding communications, Williams states that "employers must give good, accurate information. If the details are not absolutely concrete, management should not give too many too soon (i.e. time lines), as this could backfire for a company.

Wright stated that "the manual showed terrific focus on employee concerns and communications in a merger," helping to provide him with a broader perspective on successful transition. He also stated that "the manual was a great check list of do's and don'ts in mergers, for management to follow." Gebhard also stated that the manual provided a host of suggestions on how to diffuse fear of the unknown.

Gebhard felt, however, that the guide did not provide a broader perspective on successful employee transition, because "the document did not provide success stories or examples of businesses that employed these methods." Gebhard further stated that, "the manual did not address the varying needs of all levels of employees. For example, every company is different with the level of employees they have; like union and non-union, exempt and non-exempt and, middle management and senior management." At each of these levels the employees needs will be somewhat different and management must address each seperately." An example given by Gebhard is that "organizations should select one spokesperson in each company to address employees and the media. These individuals should deliver the same messages to both organizations at all levels." She believes this method will assist managers through to successful employee transition.

In the merger stage section all of the evaluators felt that there was not enough information to guide managers through to successful employee transitions. Wright stated "it was a very good guide–but to cover the subject a book could be written. This represents a great outline. Also, in every merger there are two managements and both must be speaking from the same page in a book. This is often hard to do as the selling management wants to tell employees nothing will change, and the buying management is cautious and often can not speak openly until the deal is done." Wright believes these are very tough times for employees and managers and supervisors must be trained to deal with their needs.

Williams on the other hand stated that "the manual would need to take ideas and expand, doing further reading and evaluating;" in order to help managers completely through to successful employee transition. Examples would be how should top management prepare these individuals to lead–empowering managers and supervisors?" Williams states "selling employees on a new organization is very tough to do. Time and "proof is in the pudding" sometimes become the only sales agent. The communications must have meat or the employee's perception becomes this is talk, just to be talking and management is hiding the real truth. If there is no news, communicate just that." According to Williams, the merger section of the manual also provided enough information to guide managers through to successful employee transition stating that "the guide gives insightful information as an overview. The guide is a very good highlighter of the merger process and gives the reader a base to draw from. The manual is not a stand-alone document."

Gebhard also felt that the merger section did not totally meet the need to lead managers through to a successful employee transition. What would help lead managers through to a successful employee tranisition, according to Gebhard would be "preparing for employee reaction, as it is critical and can help to curb the rumor mill." She also states that "it cannot be overemphasized that lying is both dangerous and damaging." Gebhard states that the shortcomings of the merger section are "in order to empower managers and supervisors, they must be provided with clear and concise limits of authority and responsibility. If they are not they may unintentionally imply or say things that are not true." Another shortcoming of the merger section according to Gebhard is that "cross-company task forces are only good, if the participants clearly understand their role. If that role is to combine departments and processes then they must be prepared to deal with the consequences. These consequences could include job eliminations, program changes and most importantly that their peers may not agree with them."

All evalutors believed that the information in the manual would be useful in their future dealings with employees and mergers. Wright stated that "the manual covered a lot of excellent points and the emphasis on employee treatment is very, very important. Also, the comments about seeking employee feedback are excellent, both before, during and after the merger." Williams agrees with Wright giving post merger meetings, walking the property, encouraging one-on-one conversations as ways that upper management can make themselves more human in nature instead of being seen by the employee as a figurehead. Cross-company task forces, according to Williams, "created early on unites teams into one front, as long as parties are open to each others' ideas and truly keep the 'best of both worlds'. Management should not reject ideas from either organization to quickly, as there is good in both organizations."

Gebhard felt the the manual would not always be useful in future dealings with employees and mergers. Gebhard cited two reasons why the manual would be useful in future dealings. They are that "regular communications are critical toward preserving the integrity of the company and the consistency of information, and monitoring is a very effective tool to understanding the concerns and issues that are lingering and have not been clearly addressed." There were also reasons why Gebhard felt that the manual would not be useful in future dealings. One concern, according to Gebhard is "the issue of potential layoff. She states that there needs to be incentives to keep 'critical' employees from leaving the company. Next, an effective listener must do more than listen. They need to be able to bring concerns to the decision makers and then respond to the employees. Finally, it may be necessary at times during the process to say, there are open issues that have not yet been resolved."

All three evaluators felt that the manual was well organized. Wright felt that the manual flowed well and gave a lot of information in a short period of time. Gebhard also felt that the manual was easy to follow though the various steps to consider prior to a merger. "The manual would be helpful to anyone going through a merger regardless of the size,' according to Wright. The manual according to Williams states the problems, causes and effects of a merger situation.

All three of the evaluators would recommend the use of this manual by other professionals in management positions. Wright said the manual "is to the point, offers very valuable information and makes managers aware of how important the people issues are." Williams said that "it contains good, viable ideas for helping make a transition stand a chance of being successful. She states that the manual is "well organized, that it summarizes ideas, is easy to read and serves well as a guide with supplemental reading." Although Williams believes the manual "is succinct in stating its purpose and reaching its goal, it would be helpful to include a list of suggested additional sources."

Gebhard recommends the use of this manual to other professionals in management positions because "the manual does an excellent job of clearly dealing with the emotional side of employees reactions in a merger situation. It offers sound suggestions for communicating with employees and, finally, the emphasis placed on the post-merger is a vital piece for management to recognize to help lead both organizations towards a new company." On the other hand, Gebhard would not recommend this manual to some professionals because "in the 'real world' it is very difficult to clearly identify a strategic plan that incorporates all major changes." In the area of lay-offs, Gebhard states that "it may be beneficial to set up programs to assist laid-off employees in preparing for re-entry into the work force."

From a corporate management perspective, all three evaluators do feel they have learned something about what it takes to achieve successful employee transition (that they did not already know) from reading the manual. Wright said there is "a need for more post merger employee communications and meetings and there is a need for more one-on-one and small group input, and that it is important to listen better." According to Wright, "trying to curb the rumor mill will create effective communications as soon as possible.

Williams learned three things about what it takes to achieve successful employee transition. First "human resources should be part of the acquisition team and that they should be thought of as part of the action as opposed to strategic planning, except in areas of hiring and benefits. Second Williams "would have never thought of a grieving ritual.

Finally, monitoring employee reactions over time is important, as management gets caught up in day-to-day business; forgetting to take care of business."

From a corporate perspective, Gebhard feels that she partially learned what it takes to achieve successful employee transition and there are other areas to consider. Gebhard states "we tend to view a merger from our own experience and I found myself wondering how others above and below my level would be affected." If Gebhard was given a chance to replicate this study she said she would "include senior management issues and concerns, because the decision makers tend to be the CEO, President and the Board of Directors." Whenever possible, Gebhard would "include 'real world' examples of successes and failures with quotes from affected employees at all levels about what their company did right and wrong. Finally, she would prepare readers for the repercussions of selling the new company, if they have not done a good job of communicating throughout the pre-merger process."

Chapter V

DISCUSSION

Summary

Overall the three evaluators approved of "Management's Merger Guide to Successful Employee Transition." In all but one area of the questionnaire the evaluators responded positively to the manual. The area where none of them responded positively was whether or not the manual gave enough information to lead managers through to a successful employee transition. One of the evaluators in every instance, except this one, gave a yes and no response, with reasons for each.

The comment that Wright made with regards to the manual meeting its goal in providing a broader perspective on successful employee transition," a great check list of do's and don'ts in mergers for management to follow," shows that the manual did what it was intended to do; that is, give managers a guide to start with in a merger situation. Williams agreed that the manual gave insightful information as an overview and that is was a good highlighter of the merger process. She concluded that it gives a reader a base to draw from and a place to start, noting that it is not a stand-alone document. Both Williams and Gebhard agree that the manual provided a host of information for managers to follow; giving suggestions on including human resources as part of the acquisition team and showing managers ways in which to diffuse employees fears; like cross-company task forces and grieving rituals. In contrast Wright felt that it did not provide enough information to lead managers to successful employee transition, saying a book could be written on the subject. The intent of this study, however, was not to create a book, but to give managers a starting point when moving into a merger situation. Both Williams and Gebhard agreed that more information was necessary to help managers through to successful employee transition. To address this area, the manual was changed to inform the reader that the manual is to be used as a starting point. Williams also recommended that a list of references be included for the reader to use, as a guide to achieving successful employee transition.

In the merger process section of the manual; Empower Managers/Supervisors and Create Cross-Company Task Forces, will be changed according to the evaluators' suggestions. Williams and Gebhard believe that these sections should give more information regarding empowering managers/supervisors. Both respondents believe that top management must do extensive training with managers and supervisors prior to starting the merger process. According to these respondents, it would also be beneficial to send these same employees out for stress training. To provide proper training, management should use a professional company to do the training. Another change to be added to the "Empower Managers/Supervisors" section of the manual will be that top management must provide clear and concise limits of authority and responsibility to their management team.

Gebhard suggests that cross-company task forces are only good if the participants clearly understand their role; no matter if the role is combining departments, making suggestions for job eliminations or suggesting program changes. The manual recommends that management must set specific guidelines for any given cross-company task force. Each task force should have a specific set of guidelines for the project they are working on.

The comments made by the evaluators, relative to the manual providing information that is helpful in future dealings with employees and mergers were good. Communication and employee concern were among the responses. Communication helps to enhance the integrity of the company. Employee concern is shown by getting employee feedback before, during and after the merger. This is done by post-merger meetings, walking the property, encouraging one-on-one meetings with top management, and being highly visible during the entire merger process.

The manual is weak with respect to future dealings and potential layoffs, effective listening, and the possibility of open issues. The first area of discussion is potential layoffs. Gebhard states that incentives need to be given to keep "critical" employees from leaving the organization. This is definitely true for employees whose jobs will be eliminated. Those who will not be eliminated may or may not stay with the company; their incentive is to continue having a position and an opportunity to grow with the new organization. Ways to keep good employees with the organization is discussed in "Make Sure the Right People Stay with the New Organization" part of the manual. To include the recommendation by Gebhard a third option was added to the "layoffs" section of the manual, regarding the offering of incentives for jobs to be eliminated.

The next area of discussion is effective listening. Gebhard believes that there is more to this than just listening. Management must not only listen, they must be able to take concerns to other management employees and respond to the person asking questions of them. Under "Be an Effective Listener", taking questions and getting answers for employees was added.

All the evaluators thought the manual was well organized and recommended its use by other professionals in management positions: the answer here was a 'yes' in all evaluator's cases. The comments made by all three evaluators show that the guide offers valuable information with regard to the employee side of mergers and acquisitions. Williams stated that the manual had "good, viable ideas for helping make a transition stand a chance of being successful. More importantly than anything for management to consider, she said, is making the merger work. The communications section also gave valuable information on what and how to communicate to employees throughout the merger."

Finally, all three evaluators found that from a corporate management perspective, they did learn what it takes to achieve successful employee transition from reading the manual. This included, more post-merger employee communications and meetings, more one-on-one or small group input, listening better, preparing the reader for the repercussions of selling the new company, and including human resources as part of the acquisition team.

The results of this study shows that this guide will help managers with regards to merger processes, specifically including the human aspect. It will not give managers all the answers needed, but it will start them in the right direction. Starting in the right direction will only foster a smooth and successful transition.

Limitations

One of the problems encountered while doing research was finding information regarding the "human side" of mergers and acquisitions. It seems that researchers are more interested in how the merger affects the company, rather than the employees. What is important to understand is that without keeping good employees the company will not succeed. When the research was done on the "human side" of mergers, most of the individuals who were talked to were upper level management. The way that they see a merger affecting the employees may be different than how the employee feels.

On the questionnaires sent to the three evaluators, one section was omitted. There should have been two questions regarding the manual, as it is divided into two sections. The question that was included on the questionnaire was "In the merger stage section, is enough information provided to guide managers through to successful employee transition?" The question that was omitted from the questionnaire was "In the merger process section, is enough information provided to guide managers through to successful employee transition?" Even though the second question was eliminated, the evaluators provided enough detailed information when responding to other questions that the omission did not deter from the evaluation of the manual.

Suggestions for Future Research

More research needs to be done on the "human side" of mergers and acquisitions. Not only should researchers talk with and monitor reactions of upper -evel management, they should talk with employees throughout the entire organization. Both companies that are in a merger and acquisition situation are impacted, so employees from both sides should be interviewed and monitored throughout the process.

Another area to consider is what the employees can do to help themselves in a merger situation. Research shows that a merger and acquisition requires a team effort; therefore, the employees also need to know their strengths and weaknesses, including ways to make the transition smoother.

A final area to consider in future research is more success stories identifying what has worked for companies that have merged. Research has shown a tendency to depict what organizations do incorrectly in a merger situation. If a manual is to help companies through to a smooth transition, research can give them ways to do this. Using real life success stories will provide management with proof that certain procedures will help them through to successful employee transition.

Appendix A

MANAGEMENT'S MERGER GUIDE
TO
SUCCESSFUL EMPLOYEE TRANSITION

In making a merger work, the easiest part for management is making the deal. In the deal-making stage there are relatively few individuals actually involved. When it comes to making the merger work, every level within two organizations becomes involved. Without support and commitment from all levels in both organizations, the merger will likely fail.

The area that will have the most effect on the success or failure of a merger, is the "people problems." At times, top management under estimate the impact and difficulty in managing human resource issues. This is why the "human side" to a merger must have the same priority as other areas of the process. All too often management expects employees to just change. It is not that easy.

This guide will be divided into two different areas. The first will discuss the three stages of a merger. The second area will discuss areas for management to consider during all stages of a merger, with ways to help employee transition.

This guide will help management be more aware of the "human side" of mergers and acquisitions, from the time the merger is announced–until well after the merger is complete. There are no guarantees to successful employee transition but, without management being proactive, employee transition will be difficult if not impossible. The steps in this guide will help management smooth the transition for employees. It does not eliminate the chance for failure, but will help to minimize this chance.

MERGER STAGES

Pre-Merger

The pre-merger stage is where the deal is made between two companies. Starting right in this stage will be the determining factor on the outcome for successful employee transition. It is in this stage that management must be prepared to handle the employee's reactions. They must consider the "human side" to the merger, from top management through all levels of employees. Dealing with people at this point will be critical throughout the merger process. Here are some steps for management to follow:

1. Create a New Strategic Plan. This should be done prior to the merger announcement. Include major changes in this plan, so employees will know at the onset what will occur. It should tell employees exactly what to expect. If companies do not, their credibility will be lost. This plan should be shared with employees from both companies, immediately following the merger announcement, whether the information in this plan is good or bad for the employees. This shows management's openness and honesty.

2. Include Human Resource Directors/Vice Presidents. Make Human Resource Directors/Vice Presidents part of the acquisition team. They can develop people to their fullest potential–even in the midst of a merger.

3. Prepare for Employee Reactions. Think about how people are going to react and be prepared to handle these reactions. Management should put themselves into the employees' environment. This will help them anticipate the employees' reactions. Think about what two employees or groups of employees might discuss after the announcement. Give this information to the employees up front. This will show management's sincere concern for its employees.

4. Have a Grieving Ritual. A merger can be considered similar to death, with regards to the impact on employees. A merger can become very devastating, and employers must help employees through their time of need. This can be done through a grieving ritual. This is where companies bury the old organization and create the new. This can include employees reliving their hiring experience, career moments and events of significance. This can be done in one large group or smaller groups, depending on the size of the organization. This grieving ritual will prepare employees for the new organization, which helps lead to a smooth transition and minimal upset.

Merger Process

When the deal is complete, top management then become concerned with combining the two organizations. Trust and loyalty to the organization becomes extremely important here. The company can preserve these by demonstrating the changes that are being made have relevance and the new resulting organization will operate more effectively and efficiently. They can show this by continuing to consider the "human side" of the merger. Suggestions for management to follow include:

1. Never Lie. This is the most important step. If management is caught in even one lie, the employees will never believe anything management tells them.

2. Empower Managers/Supervisors. The managers and supervisors are the individuals in closest contact with the employees. Top management should prepare these individuals to lead their employees through the merger process and help them cope with the stress caused by a merger situation. Commitment and support at this level will filter down to the employee level.

3. Sell Employees on New Organization. Show employees where the new organization is headed. Show them that the reason for the merger is to make one bigger and better organization–the best in the industry.

4. Promote a Win/Win Scenario. Management must show employees from both organizations that their systems and processes are important. The company needs to integrate the systems and processes that will fit the new organization. Using both will enhance the win/win scenario. Promote learning and joint problem solving between executives and managers of both organizations.

5. Create Cross-Company Task Forces. Place people together from both organizations to plan the details of the integration. This allows for a more effective use of capabilities and will blend two organizations into one. These teams will learn how each other operates and move them toward working together in the new organization. A combination is important to make both sides better–as one.

6. Be an Effective Listener. Spend time with employees and listen to their concerns. This will show employees that management does care, improving employee attitudes.

7. Make Sure the Right People Stay with the New Organization. The right employees are those who enhance the organization's capabilities. Without these people, the new organization cannot live up to its expectation. Keep the good employees loyal and motivated. Get the people involved at the onset of the merger process. Talk with them and let them know what crucial part they will play in the merger process and the new organization. Let them know if their job is being eliminated, that there will be other opportunities.

8. Ensure Work Force is Not Demoralized. This can be done by treating everyone fairly. Talk with employees from both organizations, inform people of changes as soon as possible, and never withold information pertaining to employees.

Post Merger

When the merger process is done, it does not mean that it is complete. Management must continue looking at the new organization to ensure the objectives are being met. Management must continue looking at the "human side", even after the completion of the merger. Here are two steps to follow:

1. Have Post Merger Meetings. Get input on how the new systems and processes are working. Ask for and implement suggestions for improvement.

2. Take Time to Talk with Employees One-on-One. If the employees want to talk with management, management should take the time to listen. This instills a belief in the employees that management will continue caring about them and their opinions.

MERGER PROCESSES

Communications

The communications process that management uses will symbolize its concern or lack of concern for the employees. Management wants to employ a process that shows concern. Most negative feelings employees have developed are caused from the lack of sufficient information given to them by management. Management is all too often afraid to divulge information. This will cause feelings of distrust. A poor communications process can be very disastrous to the merger cycle. The cost of communicating effectively to employees is minor, compared to the cost of correcting a negative atmosphere, as a result of poor communications. The negative of ineffective communications is low employee morale and productivity. A merger can create value and communicating properly will show the employees what the value is. Some important steps that management may want to consider are:

1. Make Communications the Top Priority. Do this by communicating full and timely information. Never keep employees wondering.

2. Communicate Impending Changes as Soon as Negotiations Allow. Normally management closes off from the working environment when a merger is announced. Do not do this, as this will make employees feel that management is hiding something and rumors will increase. Meet with employees, generate an accurate and factual press release, administer accurate communications with local communities, suppliers, customers and shareholders. Accurately implementing this process will help dispel rumors and anxiety during an acquisition.

3. Keep Employees Informed. Walk around and talk with employees. Hold group meetings. Let people know it is normal to be upset. Communicate information that directly impacts the audience being addressed. Absence of communications will lead people to suspect the worst.

4. Curb the Rumor Mill. Management does not want employees to get information from the rumor mill, since much of the nformation obtained from the rumor mill is incorrect. Getting information from the rumor mill will cause more stress and anxiety. This stress and anxiety will create even more human resource problems. Curbing the rumor mill means giving employees as much information about anticipated changes, as soon as possible. This includes communicating about layoffs, work rules and compensation. Communicate the positives and

negatives about the merger. Finally, communicate to employees–even if they are told "there is nothing to tell" at this time. These recommendations will help reduce employee uncertainty.

5. Communicate on a Regular Basis. Communications should be well planned and publicized. This will generate higher satisfaction and less anxiety. There are several forms of communication, in order to get information to employees. They are:

   - Newsletters
   - Weekly Employee Meetings-with both organizations
   - 24 hour Telephone Hotline
   - Question and Answer Pamphlet
   - Letter or Memos
   - Videotaped Messages
   - One-on-One Meetings
   - Exchange of Literature between organizations

6. Promote Two-Way Communications. Do not assume that the merger is running smoothly. Ask questions of employees who are directly involved in the process. Some questions to ask employees might be:

   Do employees understand why changes are occurring and do they support the changes?

   What are employees' early impressions of the combined company?

   How is implementation going and what is needed to improve the process?

   How are employees coping with stress? What can management do to help employees relieve this stress?

   Are employees showing signs of commitment and support to the new organization?

   How do employees perceive and evaluate the new management team?

7. Show Care and Concern in Communications. Communicate care and concern when presenting information to employees.

Employees are more concerned with how management presents the information, rather that the content of it. This shows management really does care about how the merger will affect the employee.

8. Employ a Corporate Communications Person. This individual would be responsible for ensuring that communications run smoothly.

Layoffs

When there is a merger, there is inevitably a duplication of effort. With this duplication of effort comes employee layoffs. Management should take care and concern when employees are being displaced. These layoffs not only impact employees who are terminated, it affects employees who remain with the company. Management must maintain relationships, even in the midst of layoffs. Management should follow these steps:

1. Do Not Drag Out Reductions. There are jobs to be done and management does not want to make reductions while employees are needed. Quickly eliminate duplication of effort, allowing reductions to occur in a timely manner. Proceed with caution, as the employees are needed throughout the merger. Management does not want employees to leave too soon.

2. Be Creative and Flexible with Necessary Changes. Management should soften the blow for laid-off employees in every way possible. Consider layoffs through people leaving early, early retirement and attractive severance. Although not all layoffs can occur though these options, an effort on management's part to consider these measures will ease employee anxiety.

Employee Programs

Employees from both organizations may need help through the merger cycle. Survivors of the merger need development and retraining. Employees need to be prepared for new endeavors and new responsibilities. The employees should be from all levels within the organization. Programs for management to consider include:

- Stress Management Training
- Career Counseling
- Merger Sensitization Workshop
- Small Group Meetings
- Retraining Programs

Monitoring

Monitoring the merger steps will help to ensure successful employee transition. Management should monitor employee reactions and attitudes over long periods of time. This should be done from the time the merger is announced, throughout the merger process, and at least one year after the merger is complete. Monitoring does not eliminate problems. What monitoring does is show employees management cares about them and what opinions they have, increasing morale and productivity. Monitoring should be done thirty days prior to the announcement to get employee's reactions to the current organization. Next, monitoring should occur when the announcement is made to get the employee's reactions to the merger; and during the merger process to evaluate how changes are being handled, and finally; after the merger is complete to determine levels of satisfaction or discontent. Monitoring can be done by:

1. Administering Employee Surveys and One-on-One Interviews. These should include employees at every level in the organization.

Appendix B

AN EVALUATION QUESTIONNAIRE
FOR
MANAGEMENT'S MERGER GUIDE TO
SUCCESSFUL EMPLOYEE TRANSITION

Dear Evaluator,
You have been selected to complete this questionnaire because of your valuable expertise in the area of this study. Please give each question serious thought and offer only your honest answers/opinions to these questions. Feel free to use additional paper as necessary in order that you may give a thorough and complete answer. Keep in mind that the purpose of this study is to create a reliable tool that will prove to be an asset to managers involved in the merging of two organizations. Avoid the "halo-effect" and offer candid responses to the following questions. Your opinion counts, and your participation in this study is greatly appreciated.

EVALUATOR______________________________ DATE_____________

Did the manual meet its goal of providing you with a broader perspective on successful employee transition?

______Yes ______No

IF YES, please offer at least two reasons on how this manual broadened your perspective on successful employee transition:

1. ____

____

2. ____

____

3. ____

____

IF NO, please offer at least two reason why this manual failed to broaden your perspective on successful employee transition. In addition to your reasons for failure, please cite "real world" examples for successful employee transition that <u>you believe</u> might be of assistance to other managers:

1. ______________________________

____

2. ______________________________

____

3. ______________________________

____

Example One______________________________

Example Two______________________________

In the merger stage section, is enough information provided to guide managers through to successful employee transition?

______Yes ______No

IF YES, please offer at least two reasons on how this section can help managers through to successful employee transition:

1. ______________________________

____

2. ______________________________

____

3. ______________________________

____

IF NO, please offer reasons why this section did not provide enough information to help managers through to successful employee transition.

1. ______________________________

____

2. ____

____

3. ____

____

Did you find the information in this manual useful in your future dealings with employees and mergers?

_____Yes _____No

IF YES, please offer at least two reasons why you believe the information in this manual will be helpful in dealing with employees and mergers:

1. ____

____

2. ____

____

3. ____

____

IF NO, please offer at least two reasons why you believe the information in this manual <u>will not</u> be helpful in dealing with employees and mergers:

1. ____

____

2. ____

____

3. ____

____

In your opinion, is the manual well organized?

_____Yes _____No

IF YES, please offer at least two reasons why you feel the manual is well organized:

1. ______________________________

____

2. ______________________________

____

3. ______________________________

____

IF NO, please discuss in detail what is wrong with the organization of this manual, and what <u>you would do</u> to correct this problem(s).

____

____

____

____

____

Would you recommend the use of this manual by other professionals in management positions?

______Yes ______No

IF YES, please offer three reasons why you would recommend this manual, emphasizing the strong points of this manual as it relates to successful employee transition:

1. ______________________________

____

2. ______________________________

____

3. ______________________________

____

IF NO, please offer three reasons why you would not recommend the use of this manual, emphasizing the weaknesses of this manual as it relates to successful employee transition:

1. ______________________________

   ____

2. ______________________________

   ____

3. ______________________________

   ____

From a corporate management perspective, do you feel you have learned anything about what it takes to achieve successful employee transition (that you didn't already know) from reading this manual?

______Yes ______No

IF YES, document what you have learned from reading this manual:

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________

IF NO, document what you would do, given the chance to replicate this study, to create a manual of this type:

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________
4. ______________________________
6. ______________________________
7. ______________________________

8. ______________________________

9. ______________________________

10. ______________________________

AGAIN, THANK YOU FOR YOUR PARTICIPATION IN THIS STUDY. RESULTS OF THIS EVALUATION WILL BE FORWARDED TO YOU ON REQUEST.

Appendix C

COVER LETTER

Dear

As per our conversation, enclosed is the "Management's Guide to Successful Employee Transition" and a questionnaire. The questionnaire is to be filled out after reading the manual. This manual was written to help managers understand the human aspects of a merger and acquisition. It was also written to give management ways to smoothly manage the "human side" of the acquisition.

This questionnaire is designed to allow you to provide valuable information regarding successful employee transition during a merger. The information obtained from your answers will help to enhance this manual and any further research regarding mergers and acquisitions.

Please return the questionnaire in the self-addressed, stamped envelop, no later than one week from the day you receive this information. If you have any questions regarding the questionnaire or manual, please call me at 314-595-1922.

I am extremely grateful for your participation in reading and evaluating this manual. Thanking you in advance and anxiously awaiting the return of your comments, I remain,

Respectfully,

Jan Dunlap

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