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Mergers, acquisitions and takeovers: maintaining morale of survivors and protecting employees

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Executive Overview

Acquiring and merging companies are beginning to realize that maintaining the morale of surviving managers is vital to the successful conclusion of an ownership changeover. Downsizing, layoffs, and their concurring increased workload may, however, have some positive effects on the remaining staff. The key to morale maintenance is systematic preparation for change. This article discusses this need and recommends steps to assist companies in effectively implementing mergers and acquisitions. Communication must be planned and well executed. A new strategic plan should be developed and shared with the acquired and the acquiring company. Flexibility and creativity are needed when dealing with job changes. Finally companies must invest in development and retraining of the survivors of a merger or acquisition.

During the 1980s the proliferation of takeovers and acquisitions stimulated considerable debate about "stockholders" versus "stakeholders" and "Main Street" versus "Wall Street." Companies planning a merger often directed their best thinking and planning toward a smooth transition with investors and the financial world. Yet they readily acknowledged that maintaining employee morale was one of the most essential elements of success. Experts in the field have often warned that complex psychological adjustments necessary during ownership changes generated a need to integrate conflicting organizational values, structures, climates, and roles. In the 1990s companies engaging in mergers and acquisitions have an increased interest in responding effectively to these necessary adjustments.

One of the major factors to which employee unrest subsequent to acquisitions may be attributed is increased workload. Management consultants at Cresap, a Towers Perrin company, learned from a survey of more than fifty major U.S. companies which changed ownership that the typical work load increases greatly as a result of a takeover. Eighty percent of the companies responding initiated downsizing operations following the change of ownership. Most companies concentrated on the elimination of managerial and professional jobs. In more than seventy-five percent of the cases, the work performed by managers and professionals was shared by the remaining employees.[1] Similar scenarios have fueled the arguments of takeover opponents.

Not all mergers and acquisitions originate for the same reasons. A convenient classification is that of rescue, collaboration, contested situation, and raid.[2] Accordingly a financial *rescue* is a merger, such as the Northwest Airlines purchase of Republic Airlines, that includes an active and openly sought deal to bail a company out of difficulties. Company employees often feel a sense of relief when the buyout is completed, but this feeling quickly dissipates if downsizing and strenuous cost cutting begin. Many mergers may be characterized by *collaboration* in which one party wants to buy and the other party is willing to sell. Hewlett-Packard's purchase of Apollo Computer, Inc. to obtain first-place workstation market strength could be characterized as collaboration. A *contested merger* is one sought by only one of the two involved firms, thus making it difficult to obtain the cooperation of the acquired firm, as was the case with AT&T's takeover of NCR. During the takeover attempt, NCR Chairman and CEO, Charles Exley Jr., blasted AT&T for what he called threats and ultimatums which could "hardly be expected to create a feeling of confidence in AT&T on the part of NCR people." A *raid* is a planned hostile takeover by a company, usually with little regard for the plans of the acquired company, such as Ichan's purchase of TWA.

A major cause of negative feelings that ensue after a transition is the frequently resulting layoff. Employees retained after a layoff often experience feelings of guilt, anger, and/or relief. Guilt, or perhaps anger, is generated when a co-worker is laid off, and although the surviving employee may at first be pleased to have retained a position, the threat of future dismissals is usually present. Alternately, says Brockner, "survivors may feel pleased that the organization has finally rid itself of the deadwood."[3] The possibility of peaceful and positive relationships with employees following a takeover grows slimmer as one moves from the rescue agreement to the stormy takeover of a raid. Ichan learned this costly lesson after grabbing control of rough-flying TWA Airlines. In fewer than three months following the changeover, 6,000 flight attendants walked off the job. Next to leave were TWA's chief operating officer, general counsel, and most of the senior vice presidents. Federal Pension Benefit Guaranty Corporation is now threatening to charge Ichan with a $1.1 billion pension shortfall and to attach the debt to Ichan's non-airline businesses.[4]

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From previous discussion, it can be observed that the origin of mergers and acquisitions greatly influences their outcome. By examining the variety of feelings generated, one is better able to respond to the question, "Can a corporate ownership change result in sustained or improved morale of its survivors?"

A Tale of Three Companies

The authors examined, by means of a survey, the productivity and morale changes resulting from three different corporate transitions. The survey was administered to the supervisors, middle managers, and administrators of three recently acquired companies. One of the sample firms was acquired by *collaboration*, another by a *contested situation*, and the third by a *rescue* operation.[5] Two of the companies surveyed were manufacturing companies and the third was a service-based company.

Company A. This service company was acquired in 1990 by a larger operation which had been expanding through acquisitions of companies and the acquisition was a collaborative effort. Company A was a relatively small utility in the southeast with a closely held ownership. A progressive management had converted its generating plants from natural gas to coal, while retaining the flexibility to use natural gas when prices became attractive, but it possessed no nuclear facilities. The low cost of generated power made it a natural target for an expanding company. The track record of the acquiring company was excellent, thus the marriage was attractive to both parties. It appears that administrative functions will gradually be assumed by the corporate entity and that the company's distribution system and customer service facilities will remain autonomous.

Company B. Company B, a multinational manufacturing company, was founded by one of the great American industrialists and once consisted of plants and operations that spanned the globe. It 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. But the loss of the advantages of favorable energy and raw material sources in the early 1980s resulted in a decline which ended in the splintering of the enterprise and the severance of the company's top management team. In this same period, when company profitability turned sour, the company attempted to resolve cash flow problems by selectively selling off assets. Takeover attempts began in the late 1980s. After a lengthy takeover battle the company ownership shifted into what could be defined as a *contested situation*. The acquiring company implemented a downsizing operation, resulting in a return to profitability. The remaining personnel consist of long-term employees who have experienced the company's fall from power.

Company C. Company C is a high-tech aerospace manufacturer which was privately held by the CEO until the mid 1980s. It was acquired by a *Fortune 100* company attempting concentric diversification. When the parent company developed cash flow problems in 1990, it put Company C back "on the block." Following several failed divestiture attempts, the original owner was able to establish a consortium to repurchase the company under a highly leveraged buyout, thus representing a rescue-type acquisition. In the Company C acquisition, attention to "people concerns" was minimal. Little information was communicated about takeover details to the employees. Employee uncertainty about their future mounted and the work climate became threatening and stressful.

Survey Description and Basic Findings

From the companies surveyed, approximately 400 people divided almost equally across the companies responded. 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.

In Companies A and B more than fifty percent of the responding persons believed that company productivity had increased. But in Company C significantly fewer employees believed that productivity had increased, and a much greater number of people believed that productivity had actually decreased since the buyout. Most respondents who reported improvements in productivity from all three companies also reported an increase in job satisfaction. In other words, it was found that the perceived change in productivity for respondents in the three companies was correlated with their perceived improvement in job responsibilities.

Job Redesign as an Explanation of Survey Results

It appears that improved job satisfaction and company performance demonstrated by these surveys can be attributed to fortuitous job redesign changes. In many cases the excessive layers of management, turf protection, and jurisdictional disputes that had developed over the years prevented job satisfaction. The "bulldozing" of department lines and downsizing which occurred with an accompanying removal of layers of management produced an improvement in job content for many respondents. Employees in Companies A and B believe they are better utilized and more effective since the ownership change.

Preparation for Change as an Explanation of Survey Results
The company that acquired Company A was very experienced in acquisitions and perhaps for this reason gave greater attention to people concerns during the change than did Companies B and C. The method of communicating the Company A acquisition was more carefully planned than in the other two companies and it was publicized well in advance of the change. Monitoring employee attitudes began early and has continued.

Company B had been unprofitable for a number of years and the struggling company sold assets to remain liquid. Moreover, the acquisition became a hostile takeover that was resisted for a number of months, generating extensive publicity. Therefore, Company B employees could easily see the impending change and prepare for it.

In Company C, the ownership change surfaced quickly and was accompanied by a great deal of uncertainty. A number of potential suitors were interested in the company and the confidential nature of such bids mandated that employees be kept in the dark. Rumors about potential owners were rampant. Even when a former owner of the company regained control through a successful bid, information about the ownership change was not effectively communicated to employees.

A majority of respondents from Companies A and B indicated that they heard about their buyout through formal company channels—their boss or a company announcement. Conversely most Company C employees reported that they heard through a co-worker (the company grapevine) or from some source outside the company. A significantly higher number of Company C employees felt that the company withheld information and misled them.

It is difficult to discern perfectly the causes for the varying perceptions of respondents to this survey. As noted, the reasons for the acquisitions were different, and the manner of implementation of each acquisition was different. However it appears that the significant attitudinal differences on the survey for Company C employees may be partially explained by the differences in preparation for ownership change in the three companies. One thing does seem certain. Morale in Companies A and B, for managers and professionals retained, was well preserved and even improved for some employees, during the ownership change. Such was not the case for Company C. For these reasons we are stimulated by the survey to discuss from our experiences, our research, and the recommendations of others the way in which morale and motivation of managers and professional employees can best be maintained when a merger or acquisition is planned.

The Steps in Maintaining Morale of Survivors During a Merger or Acquisition
The effect on remaining employees after acquisitions and mergers, as viewed by this survey, would suggest that ownership transition, justified on the basis of

financial reasons, can also be conducted in such a way as to maintain or even improve employee morale for survivors. However, some firms engaging in acquisitions are concerned about the continuance of the acquired firm as a going concern, while others prefer to acquire firms but keep hands off operations. The former are characterized by what Siehl and Smith call a strategy of "pillage and plunder," illustrated by Texaco's takeover of Getty Oil simply for the purpose of replenishing depleted reserves.[6] Using a colorful metaphor of "romance, courtship, and marriage" to describe acquisitions, these same authors suggest that two of the latter type strategies are unlikely to call for much integration of acquired firms. The first strategy, "one night stands," describes purchases for portfolio management purposes only, exemplified by the Beatrice Food acquisitions of the 1980s. Another relationship, more like "courtship/just friends," is illustrated by acquisitions like Twentieth Century Fox's acquisition of Aspen Ski Corporation. In cases such as these, purchases are made for diversity only and buyers usually leave the acquired firms alone for a number of years at least.

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For the remainder of this article we are primarily concerned with an effective acquisition process which has been aptly captioned "love and marriage," a buyout or merger with the intent of leading to total integration of the management, organization, and product lines of the acquiring and acquired firm.[7]

Steps for Implementing Ownership Change that Improves Morale

The data obtained from our survey, the literature, and our experiences suggest that there are four key steps to establishing an effective acquisition plan.

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

Communicate the Impending Change

Meetings with employees, factual press releases, and accurate communication with local communities, suppliers, customers, and shareholders can do much to dispel rumors and anxiety during an acquisition. Unfortunately top management, when faced with uncertainty, often cloisters itself, cancels traditional plant or office rounds, and prompts rumors and anxiety that are unwarranted. This process is captured succinctly by Marks, who indicates that during mergers and acquisitions "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."[8] However, experience shows that it is important to *increase* communication and top management-employee interaction during the change. Employees desire to know what is being planned, as well as why drastic moves such as downsizing or layoffs are necessary. Shortly after Esmark's takeover of Norton Simon, Esmark's CEO, Donald Kelly, talked to more than 100 Norton Simon headquarters staff people. Kelly informed them that a number of holding-company staff positions would be eliminated simply because he could not maintain dual staffs. While the blow was softened by a generous severance pay plan and special performance bonuses for assistance in the integration of the two companies, Kelly's honest, straightforward treatment of the threatened staff seemed to maintain a much better relationship among remaining employees of the two companies than would have occurred without the interviews.[9]

One company, upon finding that definite announcements were legally and strategically prohibited early in the negotiations, organized managerial listening sessions. Managers were initially taught skills to prepare them to gather relevant information for use once communications were opened up. Next, weekly rap sessions were held over lunch during which management simply listened to employee problems and concerns. This courtesy improved employee attitudes and satisfied some of their needs for further communication.[10]

In a takeover, where retention of key personnel is desired, mixed signals should be avoided. The following description of the Steel Company acquisition of Petro illustrates the folly of ambiguous communications:[11]

In fact, the expertise was a major reason for the acquisition. Terminations and layoffs of other personnel, however, sent mixed messages to the very people Steel Company hoped to keep. The most talented left the company voluntarily to avoid being fired. Thus, the acquirer bought the firm but without the experts that made the firm desirable in the first place.

After a change, top management must continually monitor employee attitudes and feelings. Allowing human resource departments to administer periodic surveys may provide the factual information necessary to stay abreast of rapidly changing attitudes and morale. Successful communication attempts begin as face-to-face relationships with key managers and conclude with general memoranda, videotapes, brochures, newsletter articles, and telephone hot lines.[12]

Develop a New Strategic Plan and Communicate It

Strategic plans already in place seldom work for a merged relationship. For this reason management should develop, before the transition, a new plan that incorporates the dominant company's strategies. During or soon after an acquisition, employees from both acquired and acquiring organizations must be informed of the new strategy that has been devised.[13] 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.

The clash of cultures from merged companies, especially international mergers and buyouts, may make the consolidation of strategies difficult. Once the merger process begins, teams incorporating members from both companies should be formed and used to bridge communication among employees in both the acquired and acquiring firms. Periodic meetings with middle managers and the executive staff can do much to ease the transition.

One consulting firm dealing with the most difficult of culture clashes—a Japanese buyout of an American firm—held seminars to improve awareness of the cultural and human resource dynamics of the acquisition. The goal was to retain the best of both strategies, in this case the financial rigor of the Japanese company, without sacrificing the aggressive marketing orientation of the U.S. company. A process called "intergroup mirroring" was used. Participants were organized into prior company groups and asked to describe their view of themselves and how they thought their corresponding company counterpart perceived them.[14] Through an extensive development of this process of "intergroup" activity the best of both strategies was preserved.

Research shows that the more successful downsizers analyze areas designated for consolidation and redesign the organization to eliminate unnecessary functions, hierarchial levels, divisions, and groups.

One element of strategic planning often left ambiguous is the human resource plan for the total work of the company after downsizing and layoffs. Frequently employees at all levels will be working more hours, doing more work with fewer employees, and experiencing considerable stress. As an example, Control Data Corporation has downsized and restructured during the past several years, cutting the number of employees from 60,000 to 12,000. "Although survivors initially worked overtime to pick up the slack," said one CDC manager, "they're no longer willing to do that." The only motivator left in such circumstances is fear.[15]

Merger and acquisition planners can learn from previous downsizings, whether for mergers or business downturns. Research shows that the more successful downsizers analyze areas designated for consolidation and redesign the organization to eliminate unnecessary functions, hierarchial levels, divisions, and groups. GE's Jack Welch, referred to as "Neutron Jack" for eliminating some 100,000 jobs since the 1980s, has mastered the art of redesign to eliminate work, not just jobs. GE uses a process called "work-out," marshalling ideas from employees and other companies and focusing reorganizational energy on doing less work to accomplish the same tasks. Sea Land Services, Inc., the Edison, New Jersey-based shipper, chose to meet Asian competition challenge by developing a business plan that flattened the organization structure and tapped hourly employees for ideas to simplify production processes. Sea Land added another important element to strategic human resource planning for downsizing—the reevaluation of all employees and jobs. The total organization was reassessed and all employees required to requalify for their jobs.[16]

Be Flexible and Creative at Managing Job Changes—Soften the Blow

As previously noted, the majority of acquisitions include some layoffs and transfers of managers, including senior executives, and almost all require significant job alterations. Cabrera believes that the consequences of these changes are so unfortunate that we need a corollary to Murphy's Law to prepare for them: "The end of one man's deal is the start of another's ordeal."[17] Some companies, perhaps sensitive to this new law, have preserved reputations as caring employers, even while managing layoffs and cutbacks. Hewlett-Packard, faced with hard times in the 1970s, chose a ten percent pay cut for every employee from president to lowest paid employee, rather than a layoff.[18] During one layoff period Kodak made all company office services available to their employees being terminated. An outplacement officer was appointed to facilitate the development of resumes, mailings, contacts, and other helpful transitional services.

Early retirement offers have been amazingly successful, sometimes to the detriment of staffing. Dupont, anticipating that 6,500 employees would accept an early retirement offer, was bombarded with more than 13,000 acceptances.[19] For this reason, unnecessary jobs should be targeted for elimination rather than making across-the-board cuts. Successful early retirement programs usually offer employees a smaller actuarial reduction in retirement benefits, additional age or service credits, and other non-pension benefits such as one-time payments or post-retirement health care benefits. Southwestern Bell expects their early retirement program to save the firm $60-110 million in 1992, even though they will be enhancing pension benefits by as much as thirty percent for those who participate.[20]

Companies with strong stock option plans may find themselves in excellent positions to implement early retirement buyout of key executives. Stock value often increases during a buyout, thus making it less expensive to sweeten the buyout deal. During the buyout of NCR, stockholders saw the value of their shares rise from $48 to $110 per share from the time the buyout was first proposed by AT&T. These stock price increases, plus a "pewter parachute" clause that allowed him to be compensated due to the takeover, persuaded CEO Exley of NCR to shift from "blasting" AT&T to the role of transition consultant and spokesman for the newly combined company.[21]

Treating displaced executives fairly is not altruistic, but instead may be a critical survival tactic.

Firms can be creative in replacing jobs eliminated with contract-out work or with new value-added positions. Harley-Davidson, when faced with a severe threat from Japanese competition, sought company union assistance and was able to develop an "in-sourcing" program that created jobs for work previously done by suppliers. For years IBM has attempted to avoid layoffs by using transfers, although this option alone failed to satisfactorily accommodate their last cutback. Polaroid and Pacific Northwest have avoided outright layoffs by encouraging unpaid leaves of absence for specific periods with jobs guaranteed at the end of the crisis period. As have a number of firms, both have used mandatory redeployment to reduce the number of lower paying jobs.[22]

Often top executives are treated with the least respect during takeovers. Treating displaced executives fairly is not altruistic, but instead may be a critical survival tactic. Irate executives can cause considerable difficulty during the transition period, even when operating from their homes, and since they tend to relocate in positions in the same general industry, the terminating company may face them as future customers, suppliers, or competitors.[23] It is wise to bank all of the good will possible under such circumstances.

Interestingly, some companies with excellent employee relations are building in requirements for the previous considerations in case a takeover should occur. For example, Kodak created what has been called a "tin parachute" plan to protect employees in case of a hostile takeover, guaranteeing severance pay, health and life insurance benefits, and outplacement services.[24]

Invest in the Development and Retraining of Survivors

Firms engaging in downsizing are understandably reluctant to spend money on training and development; after all, they must show early some organizational cost savings to justify radical changes. But the changing corporate strategies, culture clashes, and organizational uncertainties brought about by ownership shifts dictate an urgent need for employee development and retraining, especially in the management ranks. To explain the way in which this can be done successfully, the experiences of two companies will be reviewed briefly. In both cases the companies wisely chose to orient acquired companies to new corporate strategy by linking strategy to management development activities.

The first case describes management development activities at Allied-Signal Corporation, a company that made forty-five major acquisitions during a six-year period. One of these, the acquisition of Bendix in 1983, was described by *Fortune* as "an almost textbook case of a successful integration." During the days of both Allied and Bendix staffs, a human resource director initiated an integrated process of preparing a three-step program for management development, including the following steps:[25]

- an external survey conducted to improve the company knowledge base and to review policies of other leading companies;
- an internal needs analysis, including an audit of existing management development programs within Allied and Bendix. (Both companies had developed entrenched programs that were a part of their existing cultures.) Key managers were interviewed to develop new programs that reflected the needs of the newly combined organization and to reinforce values appropriate for the combined organization.
- the appointment of management development program managers and executive development steering committees to evaluate the completed work and insure its usefulness and applicability to the new company. This program used a healthy balance of line managers to maintain relevance and integrate cultures and outside management development experts to bring in objectivity and prevent the duplication of mistakes made by other companies.

The second case illustration comes from an experience with ARCO Oil and Gas, ARCO Transportation, and ARCO Alaska following a series of mergers, reorganizations, and downsizing operations. The focus was on assisting middle managers, according to James A. Middleton, president of ARCO Oil and Gas, to "move out of their functional thinking and integrate the business. . . ."[26]

In the ARCO program the three corporate presidents travel to several sites yearly, meet with approximately thirty middle managers, review the results of a week-long management development program, evaluate their action plans, and engage in personal interviews. The work of the entire week is built around an informal case written by the Director of Planning, Tom Urban, from interviews with Middleton and includes concerns and thoughts difficult to express in a formal presentation. The managers spend one week with teams studying the case, concurrently moving through personal assessment and development projects, and reflecting on the match between their skills and company needs.

Concerns of these teams are presented to the presidents on Fridays, along with questions about company operations (Why did we utilize this type of financing? Why are we continuing with this appraisal system? and so on). Lists of items these managers can perform for the company are also presented, along with a very important list of hurdles and barriers to success which managers want the company to remove. Presidents listen patiently, respond candidly, and observe much about middle management thinking and behavior. Managers appreciate the opportunity to cut straight to the top of the organization with their feelings and concerns—but the week's format keeps them constructively oriented toward goals. Jim Middleton said in summarizing:[27]

We have made several radical changes in our organization in the past few years, and this program is helping us reestablish credibility with our employees. We have tried communicating fully, even "over-communicating." We often use these sessions to introduce new ideas or changes. It is amazing how such a small group of influential managers can spread the word of an impending change and help us pave the way. As this program has evolved . . . our middle managers have accepted more sense of responsibility. . . . This program is allowing us to teach middle managers to think like executives.

Summary

The effects of mergers and acquisitions are widespread and pervasive and require a planned integrated approach for success. Downsizing usually results, colleagues are often displaced, old strategies are no longer effective, and for most firms, a single integrated and focused culture must emerge. Communications before, during, and following the organizational changes must be highly effective. The new strategy to be implemented must be devised early and must be implemented through extensive management development efforts. Perhaps most of all, trust and loyalty to the organization must be preserved by demonstrating that changes made have relevance and that the new resulting organization will operate more effectively and efficiently. Organizations combined for relevant financial reasons can be successful at maintaining, perhaps even improving, morale and motivation of survivors, if the research and experiences of others are carefully utilized.

Endnotes

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[7] *Ibid.*

[8] M.L. Marks, "Merger Management HR's Way," *HR Magazine,* May 1991, 60-66.

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[12] E.A. Gall, "Strategies for Merger Success," *The Journal of Business Strategy,* March-April 1991, 26-29.

[13] For a discussion of cultural clashes during acquisitions and approaches to dealing with them, see: A. Imberman, "The Human Element of Mergers," *Management Review,* June 1985, 35-37.

[14] Marks, *op. cit.*

[15] C. Lee, "After the Cuts," *Training,* July 1992, 17-23.

[16] *Ibid.*

[17] J.C. Cabrera, "Playing Fair With Executives Displaced After a Deal," *Mergers & Acquisitions,* September/October 1990, 42-46, Quote p. 42.

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[21] R. Karpinsky, "AT&T and NCR: The Deal is Done," *Telephoney,* May 1991, 16, 18.

[22] Tomasko, *op cit.*

[23] Cabrera, *op. cit.,* 46.

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[25] R. Fulmer, "Meeting the Merger Integration Challenge with Management Development," *Journal of Management Development,* 1986, 7-16; See also H. Carol, "What Is the Role of HRD in a Merger?" *Training and Development Journal,* April 1986, 18-23.

[26] Personal communications with executives.

[27] Personal communications with executives.

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