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The Carl and Winifred Lee Honors College

THE CARL AND WINIFRED LEE HONORS COLLEGE

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"Why Most Mergers Fail: An emphasis on the Human Factors"

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Why Most Mergers Fail:

An Emphasis on the Human Factors

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Introduction:

Recent studies have shown that 60-80% of all mergers are failures when measured by their ability to outperform the stock market or to deliver profit increases.[1] Mergers must create value and grow the business to have true success. Often mergers fail due to financial and market factors. Examples include a poor economy, market entry timing, unrealized synergies, or a saturated market. Often, these factors absorb all the blame for the failures. It is easy to overlook the human factors, the characteristics of people that need to be considered when implementing mergers in order for people to interact effectively. It is very hard to grow to such a size with mere organic growth. The vast majority of companies in the Fortune 500, for example, are the product of multiple deals.[2] In recent years the average deal size has nearly tripled to above $100 million.[3] In many cases, the CEO of the acquiring firm is the first to say, that the people are the most important asset, but when you ask these people, it is a whole different story. The frontline workers are usually the last to be told of a merger out of "protection". It is believed that the employees will fear their job stability and not be able to produce at the same rate they previously could. This essay is not to imply that mergers are bad, but rather to analyze the human factors associated with mergers. I will first discuss the motives behind mergers, why mergers may fail, and provide recommendations for overcoming human factor problems and provide examples of successful mergers. .

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[1] Key Strategy, "Why Do Mergers Fail? What Can Be Done to Improve their Chances of Success?" Key Strategy 14, (2006): par. 5, http://www.key-strategy.com/reports/mergers.html (21 March 2007).
[2] David Harding and Sam Rovit, Mastering the Merger: Four Critical Decisions that Make or Break the Deal (Harvard Business School Press, 2004),3.
[3] Max Habeck, Fritz Kroger and Michael Tram, After the Merger (Great Britain: Pearson Education Limited, 2000), 3.

Why Mergers Happen:

Mergers are often referred to as an act of lust. Two businesses fall so deep in love with the idea of merging, that often, many details are overlooked. It can be compared to a marriage. A unity of two companies, a decision made at the top, which many times leaves the "kids and the pets" out of the decision making process. Decision makers are also driven by the desire to pursue a strategy that would otherwise be too costly, risky, or technologically advanced to achieve independently.[4] Although there are many human motives, the most common include synergy, managerial self-interest, and hubris.

Synergy

Synergy is a belief that the value of two firms combined will be greater than the sum value of the two firms independently.[5] Cost economies, revenue enhancement, and geographic reach are just a few of the many aspects of synergy. Cost economies are easy to achieve because they focus on reducing redundant expenses such as personnel and overhead costs. These reductions help companies achieve lower per-unit costs. Revenue enhancing synergies are much harder to achieve. These are successful when each company can sell their products and services to each other's customer base. Another strategy to achieve revenue enhancement is to combine the two companies' capabilities, such as research or marketing skills, to significantly increase revenues.[6] Geographic synergies can benefit companies by expanding their market into different regions of the country and world. Benefits from synergies include: reduced threats from suppliers,

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[4] Mitchell Marks and Philip Mirvis, Joining Forces: Making One Plus One Equal Three in Mergers, Acquisitions, and Alliances (San Francisco: Jossey-Bass Publishers, 1998), 6.
[5] Ibid.
[6] Patrick Gaughan, Ph.D., "Mergers and Acquisitions: An Overview," 5, (2001): par. 5, http://media.wiley.com/product_data/excerpt/79/0714143/0471414379.pdf (11 April 2007).

increased market power, potential cost savings, superior financial strength, economies of scope and scale, and the sharing and leveraging of capabilities. The success of a merger should not rely only on synergies.

The example of AT&T and NCR shows that a successful merge must have more than just a good vision of a fit. In the late 1980s, American Telephone and Telegraph had a vision of a technological synergy between its expertise in telecommunications and NCR's proficiency in computer technology. NCR had successfully sold in the banking and retailing sectors. NCR, formerly known as National Cash Register, had made a successful transition to the computer industry and had a $6 billion business when AT&T came in and took over. After years of hard work, management changes, and cultural friction, no synergies were realized. The assumed fit between telecommunications equipment and computer hardware failed to turn up. AT&T sold off the remains of NCR around five years later at a loss of around $3.5 billion, nearly half of what it initially paid.[7] Following an unrealistic vision will lower the chances of a successful merger.

These are the spoken synergies. There are also unspoken synergies that are motivated by manager's self interests and hubris.

Managerial self-interest

By definition, "managerialism" is the tendency of managers to make decisions based on personal self-interest rather than the best interests of shareholders.[8] Executive compensation tends to be linked to firm size. Managers believe if they make their firm larger, that they will in turn make their paychecks larger. Likewise, bonuses are often

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[7] Habeck, Kroger and Tram, 24.
[8] Mason Carpenter and Gerard Sanders, Strategic Management: A Dynamic Perspective (New Jersey: Pearson Prentice Hall, 2007), 277.

linked to the firm's earnings, and mergers can diversify the firm's revenue sources. These actions do not always lead to increased shareholder wealth and often times can be done more cheaply and quickly. This plan only seems to work on paper.

Hubris

Exaggerated self-confidence can result in managers' overestimating the value of a potential acquisition, having unrealistic assumptions about the ability to create synergies, and be willing to pay too much for a transaction.[9] Hubris is like the honeymoon stage. All one can think of is how well the firm will perform post merger. With this type of mind-set, the acquiring firm often pays far too high of a premium. Managers' overconfidence in their own performance adds bias into projected outcomes.

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[9] Ibid., 278.

The Human Factors:

A survey of Forbes 500 chief financial officers discloses that the top ten pitfalls in achieving synergies are mostly due to people or to people-related organizational and cultural issues. Number one on the list was incompatible cultures.[10]

Culture

Each company is unique and has a different history, personality, product, market, and way of doing business. When employees who make up each company are proud of their company's culture they are confident and know how to operate effectively within it. When two companies merge, people first notice their differences and start to focus on what makes their own company unique. Culture shock can lead a merge straight into the ground.

There are three main types of culture shock: personal, organizational, and cultural. Lack of communication can accelerate the effect of personal shock and it is a key factor to why most mergers fail. Lack of communication can lead to reduced job performance and a strong resistance to change. When employees are left in the dark they begin to rely on rumors. Rumors consist of inaccurate and accurate information. The most common and threatening type of rumors pertain to layoffs or reassignments. Rumors drain employees' energy and productivity levels. People focus on the styles of their leaders, their products and reputations, the ways they make decisions, and the kinds of people who work in the two firms. When employees sense change, they have increased feelings of fear, betrayal, and anger.

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[10] Jeffrey Schmidt and others, Making Mergers Work: The Strategic Importance of People (A Towers Perrin/SHRM Foundation Publication, 2001), 32.

Organizational shock refers to the fact that the quality and the quantity of communication decreases, most importantly at all levels. A decentralized attitude often magically transforms into a centralized one. Information is held at the top, along with the entire decision making process.

Cultural shock is the hardest to control. Organizations should embrace different cultures rather than ignore them all together. Instead, employees magnify and over exaggerate the differences into "very different". In-group versus out-group biases increase, otherwise known as the "we" vs. "they" phenomenon. Stereotypes and chauvinistic biases become a source of hostility and distrust. Employees start viewing the other side as "one-type" of person. Employees from both sides look at the other side as inferior and believe that they are coming from the superior culture which often results in condescending talk.

Culture clash is a threat to people who see their company as a loser in the merger. They feel a sense of vulnerability and fear losing their culture. Instead of embracing new ideas they reject them. When one company's culture becomes superior it shows in their attitudes toward the other side. On the other hand, many companies take merging as a great way to proactively build upon and share cultures. Re-building a desired culture is difficult and complex. It requires breaking down old norms, articulating new ones, convincing people why the new way is superior to the status quo, being patient as employees experiment with bringing their on-the-job behaviors in line with adopted cultural norms, and reinforcing the new ways through rewards and recognition.[11]

The example of DaimlerChrysler shows how two companies created a compound culture to ensure success. Daimler-Benz of Germany and Chrysler of the US did not want

[11] Marks and Mirvis, 195.

to wait around for cultural differences to go away; instead the two companies focused on this topic during their post integration team meetings. With much criticism from major competitors in the industry, Daimler-Benz performed an in-depth analysis of culture as a success factor prior to completing the negotiations with Chrysler. Then the two companies focused on creating a new set of beliefs, assumptions and rules of behavior that exploit the strengths of both of the parent companies to create a new and better culture.[12] A consistent theme of successful mergers and acquisitions is that they gain a realistic understanding of the cultural gap before they start, and are happy to walk away if the gap is too wide.[13]

The Pacific Telesis and SBC Communications merger illustrates what happens when two cultures remain separate. PacTel had the stereotype of "California-West Coast" and SBC had the stereotype of the more down-to earth culture from Texas. On a more professional level, PacTel had followed a more cost-oriented strategy, while SBC had a reputation for being more market-and customer-driven. This equation for disaster was settled by the decision to let the two companies continue on as they were, though supported by a selected number of centralized functions. The $16.5 billion merger was driven by the need for growth and size. It is one of California's largest private employers. It created about 1,000 new jobs and increased job stability for those who were already there.[14] This positive outcome showed when during the same week the merger happened, the stock price had jumped to 33 1/4, up from 27 3/4 the week earlier.[15]

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[12] Habeck, Kroger and Tram, 93.
[13] Ibid., 96.
[14] Ibid., 92.
[15] Jeff Pelline, "PacTel Chief Faces Selling Job of His Career" San Francisco Chronicle, (1996), http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/1996/04/08/BU4395.DTL&hw=CSU+compensation&sn=041&sc=098 (15 April 2007).

Easing culture clash requires acknowledging its presence, educating employees, and preparing people to appreciate how initial impressions influence enduring cultural perceptions between the partners. Many misunderstandings and communication breakdowns result from manager's inability to decode, translate, and contextualize the blatant messages and publicly available information about their partners.

Relationships

Joining Forces points out that people have to let go of the old before they can accept the new.[16] Some people rely on their relationships with others as a way of identifying their own identity. People lose these relationships due to colleagues early retirement, voluntary leaves, or even lay offs due to mergers. This then increases uncertainty and loss of familiar methods and routines within the remaining individuals. These relationships can be compared to a divorce.

Every plan sometimes goes astray. Everything that is promised cannot be fulfilled to the fullest extent. If open communication can be maintained, they will be more willing to bounce back and give the company their all. When people feel as if they have been involved in a decision, they are more apt to settle into the new decision and work towards achieving business objectives.

Post-merger integration failure is displayed in the Penn Central merger. After six years of negotiation, the Pennsylvania Railroad and the New York Central Railroad merged in 1968 to form Penn Central, the largest corporate merger ever in US history at that time. Its vision was a seamless passenger and freight service along the east coast of the United States. The newly-formed company had assets valued at $6.3 billion and

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[16] Ibid., 21.

annual sales of around $2 billion. Penn Central was losing an estimated $1 million per day when it filed for bankruptcy on June 23, 1970. Its bankruptcy helped wipe an entire industry from the US business landscape. Reasons for the merger's failure include poor morale, incompatible computer systems and signals, poor maintenance, low customer demand, unreliable service, unmanageable debt burden, a national liquidity crunch, and regulatory interference and congressional indifference.[17] Under these circumstances the merge should have been foreseen as a flop.

Uncertainty and the likelihood of change, produces stress and can affect perception and judgments, interpersonal relationships, and the dynamics of the combination itself.[18] Leaving people in the dark fuels rumors and insecurities. This distracts employees from regular duties and causes them to obsess about the impact of the merger upon their personal and work lives. This reduces integration, productivity, and contributes to turnover of key people. People become obsessed with their own self-interest. People wonder what the merger means for them, their incomes and their careers. They focus on the costs and ignore the gains. They become distracted from their jobs.

The alliance of Ameritech and GE Information Systems shows how to overcome "water cooler" talk. To deter people from spreading rumors and to encourage practical discussion among frontline employees, sales personnel involved in the alliance took care to develop their conversation with a brief rundown that could be conveyed in the time of an elevator ride. In preparation, the sales executives and reps from each side prepared a pitch on the strategic intent of the alliance, its upside, and their own concerns. All forty of them made videos of these speeches and had their peers critique them. They gained

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[17] Ibid., 23-24.
[18] Ibid., 37.

practice and obtained feedback on relaying their story of the alliance. They broke into teams and highlighted hopes, fears, and unanswered questions and reviewed them with the alliance co-leaders. Then, with a spokesperson from each team and the two alliance leaders, they held an open and candid discussion of these matters seated in circles. The rest of the workshop observed. As a result, the alliance leaders got a clearer picture of what was bothering the sales force, who in turn learned answers to questions that had not been addressed. The sales team then relayed with their peers and held sessions featuring their speech plus in-depth questions and answers. The success came from their willingness to promote human purpose and understanding in building the alliance. They modeled effective communication, listened to upward input, endorsed and participated in courses to address both business and interpersonal issues, and brought attention to the requirements for effective combination. Successful groups like these guarantee involvement of everyone in the planning and implementing of the merger operations.[19]

Mergers also affect people's psychological and physiological wellbeing.[20] Reports of tension and conflict increase at the workplace and at home, because spouses and children grow anxious and worry about their fates. Rates of illness and absenteeism rise in workforces going through mergers. Research shows that mergers increase health care costs for organizations. A survey of 177 merging companies found that one-third reported an increase in workers' compensation claims over a fifteen-month period. One in five companies said their workers' compensation costs increased between 50 and 100 percent. This is in spite of the fact that 37 percent of the studied companies reduced their

[19] Marks and Mirvis., 136.
[20] Habeck, Kroger and Tram, 37.

employee head count by an average of 13 percent.[21] The studies show that it is not one certain personality type being affected by stress, but rather it is affecting the whole workforce within given organizations. If preventative measures are not taken, employees assume management is motivated by short-term greed rather than building long-term benefits for customers or employees.

The example of Pharmacia & Upjohn emphasizes the importance of using feedback to adjust communication goals and judge their success. CEO Fred Hassan's goal was to bring out the growth possibilities in Pharmacia & Upjohn and knew that feedback would give him great insight into how he was performing. He took the untraditional path. Instead of mailing out mass letters he went out and listened to people. These face-to-face meetings allowed him to get his points across clearly, while giving him a change to obtain feedback from key people. Then he used the input to integrate it into his own plans. [22] He was an effective communicator that respected the thoughts and ideas of those around him.

Uncertainty and Stress

Even when the majority of the employees understand the rationale for the merger and may even believe the high potential that can result, they still have a steady concern for self preservation and an equally steady desire for information about what is going on around them. It is so important to understand the causes of stress for employees during a merger. It is like a weed, you can not kill it by pulling off the top; one must dig down deep to capture it at the roots.

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[21] Ibid., 47.
[22] Ibid.,113.

Feelings of being overwhelmed result when there is more work to do and less time to do it. Staff and lower-level managers are often called upon to pull together information without answers to why, while employees are urged to focus on their work and ignore the uproar around them. These uneasy answers to difficult questions create uncertainty which leads to rumors and ultimately increases stress levels. Key employees lose confidence and worry that they will have to prove themselves to new leaders and teammates. People feel they have lost control of their situation and fate. Some people leave their job because that is the only way they can convince themselves of their control. The more changes a person goes through increases the overwhelming feelings and decreases one's ability to cope with stress. The negative effects of stress cannot be eliminated, but their impact can be calmed.

Hewlett Packard's acquisition of Apollo shows how HP handled the issue of employee retention. The underlying question was what Hewlett Packard was going to do to retain Apollo's top talent. HP was used to hiring recent college graduates from the Midwest so they could grow them the HP way. They paid competitively but not outstanding and offered a great benefits package. On the other hand, Apollo was staffed by high paid seasoned engineers who made up to 20-30 percent more than HP paid. Many had received shares of ownership with Apollo and expected as much or more to move to their new owners. When HP offered a gradual leveling pay rate system, they cringed and threatened to all leave. This created hard feelings for HP's underpaid engineers. This did the greatest damage to each company's morale and reputation. In the end, HP kept its pay

structure but agreed to make special deals with Apollo's top talent. They added bonuses and performance based incentives.[23]

Leadership

Leadership is the most urgent priority when a merger closes, but is often neglected.[24] Thirty-nine percent of all companies faced a leadership vacuum because they failed to make leadership a priority.[25] Naturally, CEOs and senior executives, having the ability and style to talk about the combination with evocative language and high energy, generate more enthusiasm among staff than those who rely on written messages and minimum communication.[26] People's faith in leadership and confidence in the future increases when they see the merger being well managed.

Letters of communication are not enough to settle the nerves of employees. Alan Mulally has a clear understanding of what this means. His speech to a gathering of Boeing and Rockwell executives generated a new positive outlook. He started with a clear summary of 1996 results for the businesses; pro forma combined, and then detailed the 1997 business plan. He told the employees the goals of orders and profits and of the cost-reduction plans for the future. He reviewed current customer commitments and recognized those who were working with them. He told of the synergies expected and who will be the key contributors in ensuring the successes. His speech was so successful because he first displayed his understanding of Rockwell's business and showed everyone how they could achieve more together than they could individually. Then he grounded the vision of the merger in short-term targets and deliverables. He emphasized

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[23] Marks and Mirvis, 98.
[24] Habeck, Kroger and Tram, 37.
[25] Ibid., 37.
[26] Marks and Mirvis, 134.

the critical need to keep the business going during the integration period. He struck the human aspects of the business and based his vision on the hopes and fears of the employees. He emphasized the importance for people to take care of themselves among their stresses and strains of integration. After the combination of the two companies a consulting firm was hired to advise on wellness, lead stress-management seminars, and promote emotional resiliency among employees.[27]

The case of Monsanto and American Home Products proves the importance of leadership. During June of 1998, Monsanto and American Home Products disclosed a $35 billion merger. It had plenty to offer both companies. The deal would have combined Monsanto's pipeline of drugs and biotechnology products with the sales and marketing strength of AHP. The merger fell through four months later. Neither side made a disclosure of the reasons, beyond the saying that the deal was no longer in the best interests of shareholders. However a power struggle was stirring between Monsanto's CEO Robert Shapiro and his counterpart at AHP, John Stafford. This major culture clash was masked by how well the companies complemented each other so well on the product and sales side. Monsanto is known more for its recent risk-taking, whereas AHP has a more conservative, cost-oriented reputation.[28]

The example of Pharmacia and Upjohn shows how leadership saved their company. Sweden's Pharmacia AB and US-based Upjohn Co created discrepancies between the managers during the November of 1995 merger. The decision to move the headquarters of the new company to "neutral" London was meant to show that neither company would have a clear upper hand in what was described as a "merger of equals."

[27] Ibid., 135.
[28] Habeck, Kroger and Tram, 40.

But the conflicts arose following the decision to make Upjohn's CEO, John Zabriskie, CEO of Pharmacia & Upjohn and Jan Ekberg, CEO of Pharmacia, the non-executive chairman. The Swedish managers were used to a more cooperative management style and so they became very dissatisfied and convinced many of the key people to leave. Zabriskie himself left the company in January 1997. In just over a year, the company's share price had fallen by almost forty percent to around $28. The new CEO Fred Hassan then initiated a new plan to focus on cost savings, R&D investment, and a larger sales force. The company's share price more than doubled between the second quarter of 1997 and the second quarter of 1999. He led Pharmacia & Upjohn to show consistent earnings growth. Hassan instantly took control, developed a strategic plan within nine weeks, and immediately named a new senior management team when he started.[29] This example shows how important it is to make quick decisions regarding management, even when there is an uncertain environment.

[29] Habeck, Kroger and Tram., 41.

Recommendations

Due-diligence, regular communication, valuable planning, keeping key people, managing cultural differences, training and developing, and implementing post-merger integration teams can all ensure a successful future.

Due-Diligence

Leaders who examine and evaluate the risks involved with merging are critical to the success of the companies. A Merging Cultures Evaluation Index (MCEI) is a useful tool and was very beneficial to CEO Ron Oberlander of Canadian news printing and publication paper producer Abitibi-Price. The MCEI analyzes several dimensions of corporate culture. It allows individual members of the executive teams from all potential partners to complete a questionnaire of cultural dimensions for their own firm and for the other company. Then individual scores are first organized into team rankings and gaps between the two sides' self-assessments, and second between both sides' self-assessments and the evaluation of them made by the other side. It shows the extent to which people within the companies agreed on the different dimensions of culture. The executives then prioritize those cultural dimensions most important to their success and analyze the results accordingly. A moderate degree of cultural distinctiveness is beneficial to a productive combination. If it were possible to find two organizations with completely identical cultures and values guiding their behavior, the combined organization would at best be not better than the sum of the parts.[30] Although too much distinction in underlying values and ways of approaching work is unhealthy, the best alliances and acquisitions occur when a fair amount of culture clash prompts positive

[30] Marks and Mirvis, 66.

debate about what is best for the post combination organization.[31] Ideally this debate includes consideration of cultural norms that may not be present in either organization, but that may be desired for the combined organization. Refer to the example of Daimler Chrysler to see how compound culture can lead to success.

Leaving the two cultures separate is an option aside from imposing one culture onto the other or creating a compound culture. Keeping separate cultures is difficult and will most likely reduce communication paths, and make synergistic benefits hard to visualize if not done properly. Sometimes it is better to let the companies work at separate paces and let them eventually grow together. If this is the case, it can become risky if the process is too drawn out and slow. It can also lead to uncertainty when trying to realize synergies. Refer to the PacTel merger about keeping two cultures separate.

Communication

Communication is more important than ever. This is the age of technology and information. The value of many firms lies within their intellectual capital. Human assets are more crucial to success than ever. Jobs are being replaced with computers and the importance of communication has become the most valuable asset to mankind. The same goes for merging cultures. It is up to management to take control of it, plan it carefully, and then back it with investment and commitment.[32]

Dan Stockdale makes a notable point, "rarely do those driving the process stop to think about the individuals within the company who make it run".[33] He explains that even when Human Resources departments are involved, they usually view the employees

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[31] Ibid.
[32] Habeck, Kroger and Tram., 101.
[33] Dan Stockdale, "Helping Employees Through a Merger or Acquisition" My Article Archive 6, (2007): par. 2, http://www.myarticlearchive.com/articles/6/042.html (1 March 2007).

as numbers rather than individuals. They may be given a budget and have to narrow down the number of employees in the specific departments, such as the marketing or accounting department. How executives deal with their employees can have a dramatic effect on employee productivity, morale, customer relationships, and ultimately the company's bottom line, both positively and negatively.[34] It is important to communicate at all levels and at all states of a deal. Most importantly the communication must not be sugar coated, but honest and clear, while focusing on the positive messages. Lack of news usually means bad news. Employees deserve accurate and up to date information, even if the news is negative. When employees do not receive information they assume the worst, which will affect productivity. All levels of employees must be aware of the merger's goals and the progress of these goals. Employees must also be able to communicate back with management and contribute their own ideas. The more that employees are involved, the more empowered they will feel.

It is not only important to communicate with employees, but it is also important to communicate with the other organization during the process of the merge. If both companies are on the same page then there will be more time for employees to accept and adjust to the change. This will also lower any feelings of barriers or separation created by not enough information.

Last, but not least, do not forget to communicate with customers. Reassure that their level of service will not be affected. Communication must not be far and few. This must be a continual process maintained by everyone's ideas and thoughts within the organization. The communication must reduce feelings of uncertainty to all parties. Listen for feedback from what is being said. Great indicators of communication

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[34] Ibid.

effectiveness are also found in indirect methods. Personal behavior, levels of absenteeism, and the share price can all be great measures to how effectively the company's message and goals are being portrayed.

"Not communicating" is still counted as communication because it still sends a message. This is an ineffective way of communicating because the company has no control over the message. Most people believe that "no news is bad news". When no communication occurs, people talk and unintended messages filter their way down through the grapevine. One way to use the grapevine to a company's advantage, the most effective communications medium, is by feeding it with positive and honest information.

Hierarchal communication is necessary but not effective alone. Peer-to-peer communication reaches everyone much faster, whether it is made up rumors or the clear message management intended. One study found hourly and clerical staff spending two plus hours per day talking about such matters over the first six months following a merger.[35] This is time away from day-to-day performance and often brings more attention to the negatives of the deal. Refer to the alliance of Ameritech and GE Information Systems of the importance of communication.

Eighty-six percent of companies said that they failed to communicate their new alliance sufficiently in their merger integration phase.[36] Mergers affect many relationships within the companies. Many will be destroyed and many will be created, depending on how actively the company communicates. A plan must be devised in order to manage the goals, content, and resources that need to be committed. The plan must follow through and ask for feedback, as well as continually be evaluated and changed

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[35] Marks and Mirvis, 135.
[36] Habeck, Kroger and Tram, 101.

accordingly to reflect the feedback. Management should speak with positive and forward-looking statements to ensure that doubts and uncertainty are much less likely to arise and grow.[37] The book, After the Merger, uses the example of "There will be no staff reductions." vs. "We all have important roles to play in the future." Both statements give off the same message, but the second statement does not blatantly come out and say the sensitive topic and it sounds more positive to the audience. Refer to the merger of Pharmacia & Upjohn to see the importance of communication and feedback.

A company can gain their employees' long-term support for the changes required to make a merger work through communication. Managers do not need to have all the answers. Not knowing an answer to an unanticipated question is okay. They can gain much more credibility by expressing their own commitment through a consistent, firm, and honest approach.

Planning

The amount of planning that goes into a merger will definitely reflect in the success of the deal. Many times the planning process will leave out daily business activities and fail to address serious HR issues that directly affect the company. Many plans set unattainable expectations to make the merger sound better on paper than in reality. Plans need to include realistic goals and reasonable timeframes, and should cover all the key aspects of an organization including people, systems and organizational processes. They should also focus on ways to align systems, work structures and processes between the merging organizations, and on implementing structures and

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[37] Ibid., 109.

procedures that will allow the organization to handle the changes brought about by the merger.[38]

Employee Retention

Management must focus on ways to retain the best people through the merger. This is why the communication process is so critical throughout the deal. Communication must be quick, up to date, and truthful. Dishonest communication will lose the trust of the best employees and cause them to leave, which will in turn, affect the rest of the work force's productivity. Management needs to answer employees' questions and concerns and explain why there are no answers for others. They also need to address layoffs and changes in pensions, work rules, compensation, and other factors that cause high stress levels and anxiety.

Pay and reward strategies are also an effective way to retain employees. Executives can not be the only people to receive raises. Employees at all levels should receive these benefits. Employees should understand the results they are expected to achieve and the rewards they will receive for their performance. Pay incentives are hard to juggle when job cuts must be made. It is important not to forget that the higher paid employees are usually the better performing employees. Job cuts should only be done once. When it becomes a reoccurring event, the remaining employees will feel less security, and productivity will go down. Employees that do keep their jobs are reluctant to abandon their old habits and accustomed ways. Many times, employees define themselves through the relationships they have with their other co-workers. When they lose these key relationships they become uncertain. In order to be successful,

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[38] Key Strategy, par. 6.

management has to accept this and take the necessary steps to help people get over these relationships and build new ones with the new employees. Management can help employees understand and cope with their situation and support them while they adapt to the transition. Leaders of the new organization must involve employees through the whole process so they can rebuild their confidence and trust in a winning team.

It is unrealistic to expect all key employees to remain with a company throughout the whole deal. It is important to keep these people because they are the human capital, and will leave with the success of the future company in their hands. The book, Making Mergers Work, points out that as soon as a merger is made public, employees, mainly those with the most valuable skills, are often targeted by aggressive competitor's recruiting teams or by executive search firms.[39] It is critical to identify these people, know how they value their self worth with the company relative to the deal, and persuade them to stay. These people must know their future with the company. Aside from their technical skills, they can help out on transition teams that will remind other employees of the excellent benefits of staying with the company. Maintaining a clear message and giving personal attention will play a critical part in keeping employees. Refer to Hewlett Packard's acquisition of Apollo for a great example of employee retention.

Employees want to have a purpose and feel like they contribute to decisions. People will not focus on the new organization until they have fully recovered from the past. No amount of rallying will direct and motivate people toward the desired future if they are angry, distrustful, and cynical about past leadership actions.[40] Empathy from leaders will help make employees feel good about their decisions to move forward with

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[39] Schmidt and others, 242.
[40] Marks and Mirvis., 133.

the company and assure them that better times are in the future. Even taking personal responsibility as a leader shows employees that they truly lived through a difficult time and that their leaders are personally taking different measures to pull them back up again. Refer to Alan Mulally's speech for a great example of leadership.

Cultural Differences

Differences within cultures are guaranteed, that is why it is so important to embrace them and find ways to resolve these differences. In order to accept each other, the merging companies must realize that they are different and they will have different cultures. They must have mutual respect. Workshops and training programs can make great contributions to help this issue. Another method is to use cultural audits. These can be a useful tool to uncover differences and similarities between the two companies. They can point out potential difficulties and allow the companies to develop ways to minimize culture clash when the merge is finalized. Part of this process may involve bringing people from both organizations together and encouraging them to take part in both social and professional activities together. Better results will occur, the earlier people from both organizations get to know each other the. Cultural awareness will prevent potential clashes and misunderstandings between the people in the two companies.

Training and Development

Training and development should start with management. They should be trained on all aspects of the merger process so that they truly understand and can comprehend it. They will better understand the key issues of the merger, and receive the confidence needed to be an effective leader. Management should be clear on each stage of the merger

process; and understand the meaning of the merger for the company, how it will affect employees at all levels, and how it will affect working conditions and the organization's structure. Managers must be able to communicate their knowledge to the rest of the organization as well. They should engage employees of all levels in order for the rest of the organization to feel part of the decision-making process. It is important to have the support of the whole organization, rather than just management level employees.

Training lower level employees will ensure their confidence in their own skills and give them motivation. The training can focus on technical skills, career-development and skills-enhancement programs, as well as smoothing over the transition period.

Post-Merger Integration Teams

Post-Merger Integration Teams are a tool to ensure that everything runs smoothly after the merge. All the employees are bombarded with new changes in structure, systems, procedures, expectations, and relations. The team should include people from all levels and all critical departments of the two merging organizations. The team must focus on getting everyone in the team to move forward to the new company's goals and offer support through all the new changes. Through team building activities and meetings, they should feel comfortable to communicate and give feedback, talk about personal growth and development goals, and give structure and clarity to the team's work. First, employees must let go of the old before they can transition into the new. Venting meetings are designed for people to work through their experience of loss or other negative emotions built up during the transition. Second, people move forward by receiving support and encouragement for succeeding in the new organization. This may be achieved through a training program that enhances employee's skills and capabilities

while proving their leaders understand their needs during the transition period. The third step is to form mental models regarding cause-and-effect relationships in the post combination organization by reviewing and revamping the rewards and incentives available to employees for behaving in desired ways. Refer to the Penn Central merger for a great example of post-merger integration failure.

Conclusion

Managing the human factors associated with mergers is essential and mistakes occur in even the most successful and value-creating mergers. The pain must be acknowledged and addressed, while the gain is identified and realized. Good leadership will boost employees' self-confidence as their ability to cope with stress and adapt to change increases and as they are involved in building the new: generating ideas, working proactively with counterparts and customers, and living out the values and behavior of the desired culture. Executives must keep planning and maintaining review sessions to develop methods for monitoring progress of communication over time. Keeping the human factors of a merger at the forefront of the strategy will separate the failures distinctly from the successful mergers of tomorrow.

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