After the Acquisition

Recognizing and Minimizing the Impact of Ownership Changes on Personnel

By Dexter W. Braff

The ink is dry on the definitive purchase agreement. Monies have been wired to the seller's bank account. Now the real fun begins -- the integration of a home care company acquisition.

Although it is tempting to focus on financial and operational issues during integration, studies show that a more pressing but overlooked issue exists: guiding personnel through the acquisition process. But just how critical are these people issues? According to researchers, people problems are the reason one-half to two-thirds of all mergers and acquisitions ultimately fail. Such failures can be costly for parties on both sides of the bargaining table.

For buyers, a failed acquisition can be extremely costly, both financially and strategically. For sellers with substantial monies tied to future performance, it can ruin an early retirement. But even if a seller walks away from a deal free and clear, watching the demise of a firm that took years to build can be very disheartening. Thus, it is critical that both buyers and sellers anticipate the likely people problems and develop a proactive strategy to manage them effectively.

Anxiety and Uncertainty Prevail Among Employees

Not surprisingly, the inevitable changes acquisitions bring can cause a great deal of anxiety and uncertainty among personnel. Employees often feel helpless, their ability to control their own destinies curtailed. Taken one step further, personnel might anticipate a loss of status and importance in the new organization and feel rejected or displaced.

After an acquisition, employees are often particularly concerned about their new employer's downsizing and restructuring decisions-and for good reason. Granted, buyers are normally cautious about cutting personnel such as customer service reps, drivers, marketing personnel and respiratory therapists because of their relationships with home care patients and referral sources. However, given the opportunity to reduce costs by eliminating staff duplication, layoffs are almost inevitable and painful.

Layoffs create a host of problems not only for employees who are eliminated but also for those that survive the cuts. Furthermore, these problems ultimately affect the company. For example, employees experience tremendous distress while they wait to see where the ax will fall. If layoffs are not carried out according to reasonable criteria or if they are handled insensitively, survivors often become angry. Many cope with this anger by looking for another job, psychologically quitting or even sabotaging the operation. Productivity is also likely to decrease as employees devote time and energy to speculation and commiseration about the future.

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Robert M. Fulmer and Roderick Gilkey

But even if the downsizing and restructuring process is handled well, the resultant instability and sustained anxiety can lead to an exodus of key managers and employees. In fact, according to an executive recruiting firm study of 150 large mergers and acquisitions, nearly half of the senior executives in an acquired company will leave within one year of the merger. Furthermore, almost 75 percent will leave within three years.

To complicate matters further, changes in supervisor/employee relationships usually occur. This means employees of acquired firms must not only determine where their loyalties should lie but also balance, modify or perhaps reject their previous loyalties. Power struggles often ensue as managers and supervisors seek to maintain their status. This weakens attempts to develop a new management structure.

A merger's inevitable restructuring results in an immediate questioning of basic policies and procedures. No matter how accommodating a buyer is and no matter how justified the new policies, change tacitly suggests the previous way of doing things was wrong, which can create significant animosity. As such, every aspect of day-to-day business requires clarification or discussion -- from critical issues, such as decision-making authority, salaries and benefits, to more mundane issues, such as dress codes and coffee-break policies. Managers should recognize that acquired employees often react defensively to even minor policy adjustments and make every effort to reduce such reactions.

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Academy of Management Executive; November 1988

Finally, buyers and sellers must be wary of corporate culture clashes. Although cultural issues are subtle, they can nevertheless be extremely powerful and pervasive. Attempts by the buyer to impose its corporate culture on its new employees too quickly can lead to damaging conflict.

Proper Timing, Open Communication Improve Acquisition Process

The timing of acquisition announcements can have a substantial impact on the success or failure of an integration. Contrary to popular wisdom, breaking the news sooner might not necessarily be better. In an effort to "protect" employees, many sellers inform key personnel of their decision to sell before a deal is closed. Although such an approach is admirable and well-intentioned, it can cause substantial problems. From the time that key employees are notified of a possible sale until they hear word from the buyer, they are left to speculate on their future with the firm. The longer that time period, the greater the anxiety--and the greater the likelihood employees will seek positions elsewhere. Furthermore, a premature disclosure can leak to other staff members, with the same results.

Because a seller can never be sure if or when a deal will close, and because a buyer might not want to purchase a firm if key employees depart prior to closing, it is often prudent to wait until a deal is finalized before informing any employees of the sale. To help minimize stress, the buyer should be introduced to all employees immediately following announcement of the sale. This way, questions and concerns can immediately be addressed.

Perhaps the most critical ingredient for ensuring a successful integration is consistent, timely, honest, and empathetic communication about restructuring decisions, new policies and procedures, and new corporate goals and objectives. Although such communication is not always pleasant, especially when it relates to restructuring and downsizing, it is crucial to alleviate the damaging uncertainty employees are certain to feel.

To help reduce as much of this discomfort as possible, it is important that buyers and sellers conduct a joint pre-merger meeting on personnel issues. Policies and procedures, management style, corporate culture and organizational structure should be evaluated so plans can be made in advance and questions can be answered honestly and expediently. In acquisition situations in which massive restructuring and downsizing are expected, or in which popular programs, policies or procedures will be eliminated, it is important to realize acquisition "survivors" can feel real emotional loss. Buyers must recognize this loss and handle it sensitively.

Management also must ensure that verbal and written directives are consistent with their actions and behavior. For example, making broad, reassuring statements that business will "proceed as usual" but then implementing branch or department closings will only increases hostility among employees and diminish credibility. Although general assurances of this type might buy time, they are ultimately extremely damaging--and rarely forgiven.

Retaining Key Employees Critical to Success

To maintain the organization's stability and avoid interruptions in referral patterns, it is important that buyers retain key management personnel. They must also determine what role, if any, the seller will play after the transaction is closed.

But first, a reality check. No matter how well the buyer and seller get along and no matter how much they agree on strategic objectives and implementation, the seller must recognize that it is extremely difficult to make the transition from entrepreneur to corporate executive. Because of this inherent difficulty, if the seller has a strong middle management team in place, it can be to the buyer's and seller's benefit for the seller to remain only for a short, 60- to 90-day transition period. If, on the other hand, the buyer believes the firm's success depends on the seller's presence, the parties should agree on employment terms and conditions long before a deal is consummated.

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Middle managers often feel particularly vulnerable to layoffs because such positions are often absorbed into existing management structures. Thus, to prevent an immediate and perhaps unwarranted exodus of key employees, it is important that buyers quickly identify those managers who will be retained and inform them of their status as soon as is practical.

Even departing managers may be critical to ensuring a successful transition. For example, although their positions might ultimately be eliminated, billing managers are essential to the successfully conversion to new billing systems. To encourage these individuals to remain with the firm, companies should consider offering substantial performance incentives and bonuses tied to specific transition milestones. Not only does this improve integration but it also gives departing managers financial rewards, which can help cushion the blow of a layoff.

Clearly, mergers and acquisitions invite a host of organizational and human resource conflicts and problems. However, if buyers and sellers are sensitive to them and work together to develop a proactive strategy for dealing with them, a successful integration is indeed possible-one that can protect and perhaps enhance the long-term value of the entire transaction.

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