Successful Workforce Mergers

The Power of Planning and Positive Engagement

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Based on an original research paper by Blacklarke Consulting

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Executive Summary

Business changes, particularly mergers, acquisitions and sales, have a huge impact on leaders and employees of an organisation. Uncertainty, tight deadlines and a clash of cultures can all combine to create an unhealthy and unproductive working environment. Yet getting to the bottom line through the financial and legal processes is still regarded as the primary objective, while ensuring sustainable success by having employees buy into the change, is often a secondary consideration.

For this report, we interviewed CEOs and HR Directors of a large number of companies which have been through mergers, acquisitions or sales over the past few years. The purpose is to establish whether there are any consistent themes to maintaining employee engagement during these periods of change and to identify a set of simple principles which the leaders of organisations should follow when embarking on a change journey.

We examined a diverse range of organisations, including family businesses with under 30 employees, professional services firms, charities and multinational corporations. Whilst the circumstances of each case were clearly different, what emerged was a set of clear and straightforward principles that are needed when approaching a project of this nature, particularly when considering the morale of the people impacted by it.

We concluded that confidence in the journey was key to success and more importantly, key to maintaining morale, even during a difficult period.

This involves the three Cs:

- Certainty
    - ensuring full due diligence is completed before finalising a deal
    - having a clear vision, goal and strategy
    - not being afraid to leave behind those who do not support the vision

- Communication
    - ensuring the strategy is articulated and emphasised
    - seeking feedback on the strategy from employees
    - following up with actions to demonstrate commitment to the strategy

- Consistency
    - ensuring follow up takes place quickly
    - ensuring follow up is in line with the articulated strategy
    - sticking to the plans unless there is a fundamental reason to alter course, which must be justified and communicated

Without these principles, a change programme may eventually succeed, but is likely to be a painful process with commercially detrimental legacy issues continuing to hamper progress over many subsequent years.

For more information on help with the three Cs on your business journey, be it a merger, acquisition, sale or change in strategy, contact Benjamin Black at Benjamin.black@gunnercookeconsulting.com

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Introduction

In this report, we examine best practice around engagement during change, particularly mergers, acquisitions and divestments. We consider how best to manage this in a way that puts an organisation on the path for success. Using specific case studies and examples collected from CEOs and HR Directors across a range of businesses and sectors, from buyouts of small family businesses to mergers between major international banks, a clear pattern emerges of lessons learnt and critical success factors, culminating in a surprisingly simple and consistent methodology for productive and long term people engagement solutions.

Mergers, acquisitions and disposals are part of corporate life. The majority of the workforce are likely to go through at least one of these transitions during the course of their careers. While commonplace, they can be a hugely challenging and emotionally difficult processes for all involved.

For employers, the focus is often on getting the process moving as quickly and seamlessly as possible. There are countless legal hoops to jump through and masses of due diligence to undertake. When it comes to people management, the typical headline activities include ensuring compliance with employment law, running a consultation process where needed and handing over the correct personnel data. Morale and engagement may factor in somewhere, but with the pressure to get the deal completed and the focus back to business as usual, the emphasis is placed on getting over that initial hump, rather than focusing on the more ethereal aspects of bringing people successfully along the change journey.

This paper starts out with the premise that long term engagement and people strategy must play a more central role and explains why this is the case. Is there an honest rationale for a people strategy if the future is still uncertain? How best to communicate a vision? If that vision involves job losses and difficult decisions, is it counterproductive to communicate?

Over a series of case studies, we will identify consistent themes which have led to positive experiences in major business changes. We will seek to clarify the main principles that any M&A specialist, CEO or HR Director needs to follow when leading an organisation through transition.

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Case studies

1. Sales

'Staff were gobsmacked – but they saw the future and realised this was a great opportunity'.

A small, successful family manufacturing and distribution business sold out to a multinational company. The company had a loyal base of employees with minimal staff turnover. In this case the two directors, a brother and sister, were to remain on board as consultants for two years after the integration.

Staff were deliberately not informed of the decision until after the sale had been finalised which meant it came as a shock to them, but a communications programme was then launched. For many of the team, the realisation that they were now part of a larger group meant greater career opportunities and there were no resignations.

The buyer immediately set about changing the culture and introducing their own processes and procedures. There was a clear direction and strategy. For the former directors, it was a personal challenge to let go of their old brand and identity, particularly due to the speed of the sale.

Within 18 months the original site had closed, as employees were moved to new offices, both in the UK and abroad, fully integrating the employees and clients into the buyer's organisational structure. The changes also resulted in redundancies and about 40% of the original team lost their jobs, with generous compensation packages. Those who remained had successful careers with the buyer.

Despite the pace of change, the former directors regard the sale as a success, with one even explaining that his admiration for the way the buyer handled the whole process made it a great experience to work with them.

Key points

- Having a buyer with a clear and determined plan to make changes and move forward, instantly created a positive experience. It provided an element of certainty and consistency, as well as strengthening confidence levels from staff.
- The lack of communication before the sale led to surprises and shocks, but had avoided morale issues and uncertainty during the negotiating period.
- Surprisingly, despite the initial reaction after the announcement, the vision was managed and communicated so clearly after the sale that the initial surprise did not impact the overall success of the integration.

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2. Mergers

Of the merger research carried out, two cases clearly articulate the complexity of the issues. They could not be further apart in terms of sector, one being between charities, the other between banks. However, the evidence clearly shows that that the merger which succeeded used all the tools and strategies that the failed merger neglected to employ.

a) *'It was crucial that we over-communicated'*

This merger took place between two welfare charities, one offering residential care for the elderly, and the other offering community welfare services for vulnerable people.

An 18-month integration programme was agreed, external consultants were engaged, and from the outset, communication plans were a priority. Some people resigned, but mainly at management rather than front line level, as the new culture became clear and they started to feel threatened by it, or realise that their roles had been duplicated. Redundancies were kept to an absolute minimum.

There were issues around sickness and holidays as well as an adversarial relationship with the trade union. These all had to be addressed to ensure a successful and engaged organisation for the future, which involved dedicating time and energy to training and professional development, performance management processes, investment in upskilling trade union representatives and Investors in People audits.

The integration team organised roadshows to explain the strategy and direction of the new organisation. They committed to never making promises they couldn't be sure of delivering and ensured mechanisms were in place to address concerns and feedback from staff. This led to a few surprises as new issues were discovered which were different to the ones the team had envisaged. This feedback contributed to the direction of the cultural change programme, one of the outputs of which was to ensure that complaints and issues were pre-empted before developing into anything more serious and that those who breached rules were dealt with effectively.

The CEO passionately advocated over-communication and involvement of employees, sharing and seeking information, good or bad, in order to ensure that the organisation understood the real challenges it faced. This enabled it to develop relevant and effective strategies for success.

Key points

- Communication and a clear, well informed direction led to a successful merger into an organisation where staff were motivated to deliver quality services and understand the need for excellence, sustainability and ownership.
- Positive engagement did not mean that management was not tough. The merger worked because the organisation was decisive about what it wanted.
- In retrospect, the integration team felt that it could have moved faster if they had been tougher more quickly on those who were underperforming or not buying into the change. Often the presence of these individuals had the effect of

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dragging others down, so trying to ensure as few job losses as possible in order to keep morale high actually had the opposite effect in some cases.

b) *'There was no employee journey – morale was appalling'*

This merger took place between two international banks and involved thousands of people across Europe. The merger itself happened very quickly and there was a determination to press ahead. This caused problems from the outset, as the due diligence failed to uncover constraints imposed by one of the European financial regulators which would prevent speedy unification of the two banks' processes, systems and controls. This further created complex and contentious issues around the integration of employees and cultures. It meant that employees of the leading bank had to be seconded into the other bank and essentially take over, rather than allowing all those concerned to work together and unify. This caused resentment and a general feeling of being undervalued. Coupled with a lack of any internal communications team handling the project, this loss of morale was impossible to reverse.

In addition, there had not been clear communication with the European Works Councils, and while the leading bank wanted a universal set of employment terms across countries, it was impossible to make this a reality, a problem which took several years to fix. There were resignations across the minority bank, including from their HR Director. Morale was at rock bottom, with sickness absence, underperformance and grievance levels at an all-time high, with no clear leadership or goals in sight.

While the merger eventually completed and some of the major issues died away, it was not regarded as a success and legacy issues continued to arise for several years afterwards.

Key points

- Proper due diligence beforehand would have been key to avoiding the problems, but in this case the deal had been rushed through with minimal planning or direction. A misplaced sense of urgency caused huge delays later on and a great loss of morale.
- Without a clear employee journey or communications strategy, employees felt lost, isolated and left to fend for themselves. Without a full understanding of where they were heading, there was little motivation to make the project a success.

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3. Acquisitions

We identified three acquisition cases which encompassed all of the issues uncovered in the research. Two were in the legal professional (one a barristers' chambers, the other a firm of solicitors) and the final case a large privately owned SME.

a) *'Communicate better with staff and be more open from the outset. Rumours are very damaging'*

A law firm was looking to expand by acquiring smaller practices. A senior member of staff from a smaller firm had left and joined the larger organisation as a partner. This caused rumours to fly, as it became apparent that this was a precursor for a buyout, although nobody was able to share any information due to non-disclosure agreements and a lack of certainty over what exactly would happen. However, the damage had been done and by the time the firm was acquired, morale there was at an all-time low.

The board decided not to make any major changes, but to run this firm as a separate business. However, due to the lack of trust that had already become embedded, this simply extended a period of uncertainty, as employees in the smaller firm were suspicious that this arrangement would only be temporary, and over 70% of them resigned in the first year. Despite attempts at communication, trust had been completely eroded which also led to a loss of clients. This meant that within a couple of years, there was no choice but to fully integrate, which resulting in the redundancy of some administration support staff. Essentially, the firm had been acquired as an established and respectable practice, but soon after all the positive reasons for buying it had evaporated.

Key points

- The firm should have defined and articulated a clearer strategy. Whilst the board did have a vision, their fear of communicating too early led to rumours which damaged everything about the very asset they were interested in.
- There was a need to move quickly and decisively. Whilst they initially wanted to run the acquisition as a separate business, the loss of clients and morale essentially made this impossible. Had they made a decision to integrate quickly, it may have mitigated some of the damage.

b) *'Communications – we need more, more and more'*

A barristers' chambers considered that they needed to expand in order to face upcoming structural changes in the Legal profession. They acquired approximately six other chambers, growing five times in size.

Each time they acquired new chambers, the main challenge was around the cultural integration as:

a) Barristers, whilst happy to become part of a bigger more powerful set of chambers, were used to working autonomously and needed to be brought along a cultural journey to understand the need for a vision for the whole Chambers and the part they would play in it, in light of the changing nature of the profession. This was addressed through

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engagement and the demonstration of how a strategic approach would bring a commercial advantage, thus benefitting everyone individually.

b) Clerks who previously managed their own offices, were essentially demoted to subordinates of the main CEO, which led to some resignations, redundancies and performance management issues.

c) Many of the staff were not previously performance managed, which took time to embed, but was eventually understood as being of vital importance.

Multiple acquisitions took place at the same time. This was difficult in terms of workload, but also created a more unified environment since everyone was going through the same issues at the same time.

The communication strategy was honed over time, with an appreciation that different employees and barristers had different needs. An element of this involved the chambers ensuring that their buildings and office facilities were of a consistent high quality, demonstrating investment, confidence and, from the point of view of barristers who had bought in from other chambers, showed a concrete example of how their money was being invested.

Key points

- In each situation, there was a clear strategy that once thorough due diligence had taken place, the chambers would be integrated quickly and efficiently. This demonstrated strong leadership and built confidence in the vision, enabling all involved to articulate and understand the end goal.
- There was a clear emphasis to ensure that cultural engagement was not forgotten. This did not just focus on improvement of administrative processes and individual performance, but also looked at peripheral issues such as consistency in the condition of the buildings and technology people used every day, which made a huge difference to morale.

c) *'Business is more open and departmental activities more transparent'*

A large privately owned SME, supplying into the retail market, acquired a company that produced similar products aimed at commercial contracts. This company was in administration but bought as a going concern.
The decision was taken to not integrate the new business into the existing company, but to capitalise on the identity it had built up for itself. There was also an immediate need to recruit staff since whilst in administration, there had been a skeleton workforce, meaning the size of the acquired company's workforce had to almost double in the first six months.

Whilst the acquisition was perceived as an opportunity by the acquired staff, particularly in terms of securing their jobs which had been at risk, there were still long term performance issues which led to dismissals. Whilst the brand's culture was to remain unique, there was a need to communicate a long-term vision and some of the more senior staff who didn't buy into this also left the business.

The main issue with morale happened across both businesses as there was a perception on both sides that staff in each business had more generous terms and conditions. Staff in the

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acquired businesses received more generous salaries, car allowances and free access to personal financial advice, while those in the original business did not but were eligible for bonus payments. This disparity was managed through clear communications and a strong belief by management that whilst different, the overall packages remained equitable and fair.

Communication between the businesses was managed by senior staff ensuring they were visible on site. There was an issue around people not being sure what other departments did, so an emphasis was placed on fostering closer relationships between areas and individuals and spending time together.

There were also some cultural issues between the original firm, where personal and attentive service to the customer was the priority, and the acquired firm, where professionalism, brand and process came first. It became apparent that the solution was not to merge, but for both businesses to understand and respect each other's operating models.

Looking back, the Director believed that if presented with the same opportunity again, he would have done more to integrate the two companies, primarily as a way of gaining operational efficiencies. However, by the time this was considered, doing so would have been counterproductive to the performance of the organisation.

Key Points

- The company had not decided on the level of integration it wanted at the start, and so initially kept cultures and T&Cs separate. This meant that they had to take the non-integration route by default. It is clear that if they had any intention of integrating at all, they should have done it early, clearly and decisively.
- By subsequently making the decision that it was too late to integrate, they ensured stability and took a consistent approach, which reduced the resources and time needed on a communications agenda, instead focussing on making the new organisation profitable.
- The obstacles to success were not those at the top of the organisation but at the local management level. In some cases, these managers left, but in other cases, more had to be done to ensure communication and the fostering of closer relationships.

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Bringing the Key Points together

Whilst all of these examples have very different contexts, there are a number of clear themes that emerge. These themes can be defined under 'three Cs'.

- Certainty
- Communication
- Consistency

Certainty

Leaders must have a clear vision and strategy for the business and stick with it. Even if it is not articulated until after the deal has been done, clarity of vision will drive people forward with one common goal. Certainty reduces instability and reduced low performance which are caused by stress and a fear of the unknown. The message may not always be a positive one and may require management to get tough, for example by making redundancies or cracking down on low performance, but employees will know where they stand and can look to the future, rather than worrying that they are treading water whilst awaiting their fate.

There is of course no crystal ball to see the future with 100% certainty, but providing a clear direction and a rationale if things do need to change, is the key to bringing people along a journey in a positive and productive way.

It is also important to be certain that the deal is going to be the right commercial decision. The research needed may mean delaying implementation, but doing the due diligence provides owners and board members with the confidence to press ahead. If those at the top are confident, this attitude will filter down to those on the front line.

In addition to this, a clear theme that has emerged is the threat to morale from mid/senior management in these situations, where the importance of their roles may diminish, or the length of service of the incumbent may make it difficult for them to accept cultural changes. Again, the necessity of getting their buy in to the strategy is essential, since front line staff often work directly for them and their negativity is likely to filter down. In some cases, the strategy may involve cutting them out altogether and dismissing them, which while painful in the short term, removes the potential for longer term issues which could fester and spread to the rest of the workforce.

Communication

Communication plans must be tailored for the audience, but not having a plan at all is a recipe for disaster. Having a strategic vision is essential, but if the board is not articulating it to the workforce, a huge opportunity is being missed and a vacuum created which will be filled by rumours. It is clear that there is no such thing as too much communication – as long as it is relevant, the better the understanding of what is happening, the more likely people are to buy into it.

Communication is not just about talking, but about following up with actions. In the case of the barristers' chambers we saw how making an improvement to office

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accommodation was seen as vital in emphasising the positive changes for the future, whilst in the charity communication was not just top town, but a two-way process, where feedback from front-line staff contributed to action plans and measures to ensure best practice.

Consistency

Consistency covers a number of areas, all of which are important to consider when looking at morale and engagement.

Firstly, it is important to ensure that the once a strategy is agreed and communicated, it is applied and followed up as promised. In the example of the solicitors, we saw how a lack of strategy and communication meant that there could not be consistency, as the firm's original intention to keep their acquisition separate was no longer commercially viable. At the other end of the spectrum, the electrical company made a decision not to integrate their businesses and communicated as such. Even though they later considered integrating, they realised that doing so would not be consistent, and would certainly be counterproductive.

Secondly, consistency is about following up as quickly as possible with action, rather than waiting until the message has been diluted. In the case of the family business which was sold, the new owner came in, communicated, and began to make changes immediately, rather than causing a prolonged situation of uncertainty. This is also the case with the merger of the care charities, where an 18-month action plan was created, followed up and completed collaboratively.

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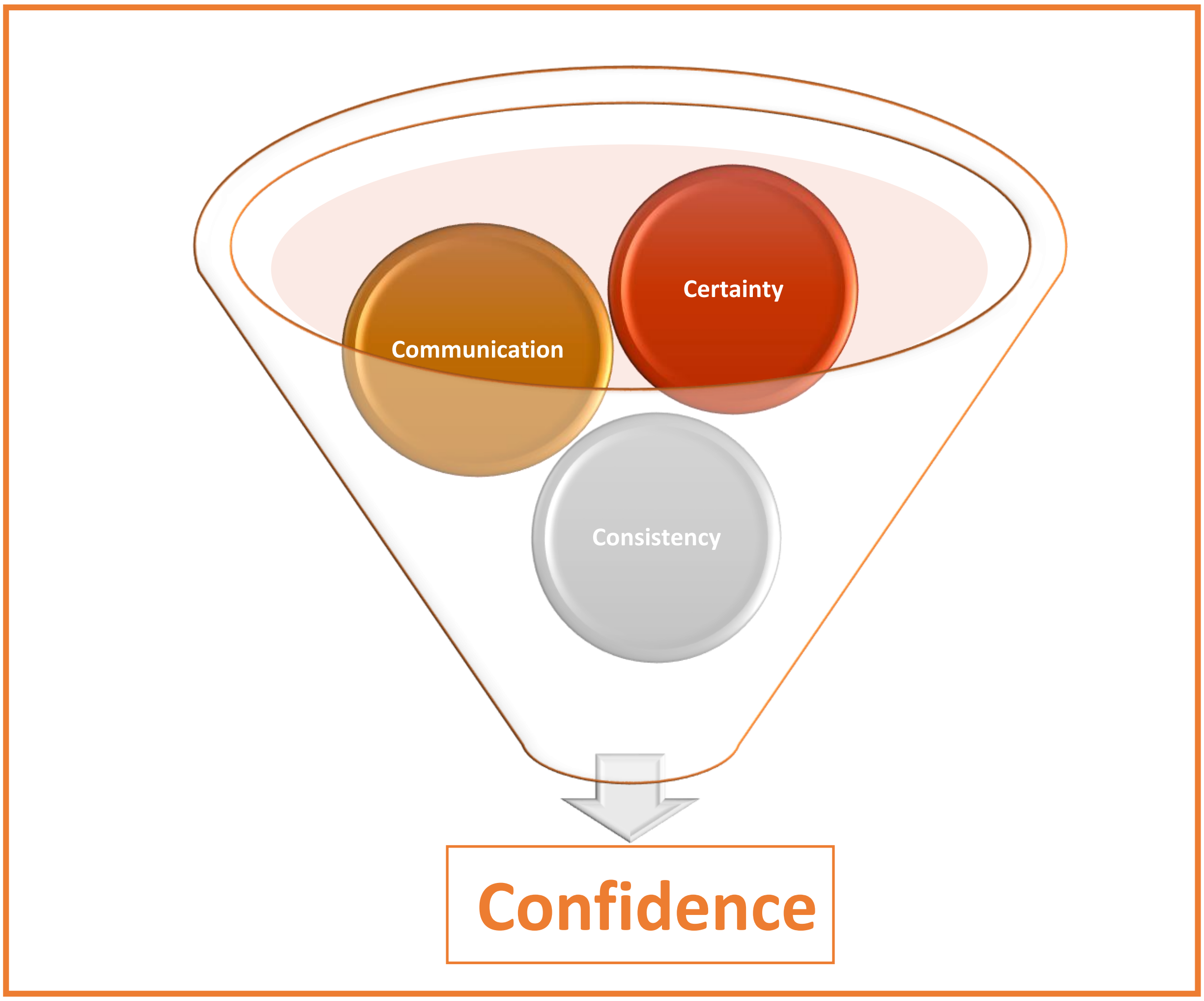
Conclusion

Whilst the actions under the ‘three Cs’ will always differ depending on the situation, without consideration of all three, a change programme will not be successful. This because an emphasis on the ‘three Cs’ establishes the biggest success factor in engaging a workforce and increasing morale: Confidence.

Without confidence in the organisation, its future and their place as part of it, people cannot perform their roles to the best of their ability or with a positive attitude. This can cause irreversible commercial and reputational damage to the organisation.



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Benjamin Black is an HR Consultant with extensive experience of managing the HR aspects of mergers, acquisitions and divestments. This includes employee engagement, changes to terms, conditions & policies and development of strategic recruitment planning. Benjamin's knowledge and expertise comes from in depth involvement in high profile change projects as an Accenture consultant, leading to in-house HR management roles, primarily in the oil & gas and financial services sectors. This includes experience of being an employee subject to a major acquisition he was also managing.

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