

## HOW TO USE THIS BOOK

**M**ergers and acquisitions have a life of their own. No one, not even the chief executive officer (CEO) of the company, can control the changes taking place once an acquisition or merger is announced. Employees often feel like pawns in a chess game, but so do senior managers. Yet in the midst of all this chaos and turmoil, it is possible to bring more control to your future if not even improve your position with the new company.

Two companies merge. Or a big company takes over a smaller one. Sometimes it's two competitors, or maybe it's a company buying just one division of another. A hedge fund or private equity firm acquires a start-up or failing firm. Possibly even three similarly sized companies come together to create a new organization. No matter what the form of the merger and acquisition (M&A) deal, what's one of the first things to happen? An announcement by the new management that there will be a round of layoffs. Employees are fired. Whole teams are made redundant.

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In different companies and countries it's called different things: jobs cuts, layoffs, redundancies. But they all mean the same thing: people are losing their jobs. The official announcement will typically say that somewhere around 5–15% of the total workforce of the two companies will be made redundant.

### **The painful truth about most mergers**

“It's inevitable. If we acquire a company, we'll make people redundant.”

*Michel Akkermans, Chairman and CEO, Clear2Pay*

A survey conducted in 2002 by consultants Towers Perrin found that 46% of companies going through mergers and acquisitions made immediate job cuts; further layoffs followed because of the deals, often several years later. In the USA, over 150 000 redundancies annually are due to organizational changes including mergers and acquisitions, according to the Bureau of Labor Statistics in 2008. These numbers are huge. During times of recession (and, in some industries, depression) such as the economic downturn that started in 2007, the number is likely to be even higher as yet more firms merge or get acquired as they run into financial difficulties.

Emotions run high when there's news – even just a rumor – of a pending M&A deal. Such news can be “toxic” to a work environment which was once attractive to employees who had been committed to the company and engaged by their work. That previous employee engagement is replaced with selfish concerns about individual job security and other personal objectives such as which position they will assume in the new organization. From the company's perspective, it becomes very difficult to retain employees or attract new employees until the deal is completed and, often many years later, settled. Even in more benign mergers,

where the promise of the deal is high, staff fear that there's a hidden management agenda to cut headcount or to use the acquisition to claw back attractive employment conditions. It's no wonder that employees are concerned. *The New York Times* reported in 1998 that over 75% of laid-off women do not have another job after one year. Other studies claim that nearly 75% of all Western households have a family member or neighbor who has been laid off.

Most employers do have the best intentions in mind: they want to treat all employees fairly, but are also under pressure to show cost savings through layoffs. Managers try to be fair, focusing on a "correct" selection process (frequently asking outside consultants to advise and assist) and providing compensation above the statutory minimum in combination with counseling and outplacement support. Others, however, don't realize the side-effects of conducting redundancy badly. They communicate poorly, comply only with the minimum law requirements, and stretch the process out over time, making the experience even more stressful for redundant employees. They cause an even greater amount of stress, fear, and even resentment not just in the people being told to leave, but also for those who remain.

**Anything seems better than living through the hell of a merger or acquisition ...**

"I'm going to wash beer mugs in a biker bar – better pay, better hours, and a better class of people!"

*A banker following redundancy, as quoted in Here is the City, a London-based news and careers website*

Everyone reacts differently to the news of an M&A deal affecting their company, and they react differently again when they are told how it might or will affect them personally. Why do some people do better in a deal than others? Does it depend on whether

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you work in the front office or back office? Are some types of people able to exploit the situation more effectively? Is it purely a political game? Or is it just luck?

Many books have been written about how companies can be more effective at merging – focused on the organization, longer-term strategic positioning, cultural integration, and the financial results of the proposed M&A deal. As it is important to the companies in structuring a deal, those books will also make a distinction between a merger (usually when the two organizations are of similar size and when they together create a new third company so both prior companies cease to exist) and an acquisition (when one company, typically the larger one, acquires the second company and then the second company ceases to exist and becomes part of the first). Those distinctions are not critical in this book – as no matter how structured, people are fired in most deals. Accordingly, most of the comments in this book relate to either situation.

Instead of a focus on the companies merging or acquiring, this book focuses on the personal situation of employees who are experiencing an M&A deal right now or who have recently been told that their company will be acquiring, taken over, or merged. It is intended for use by individuals as a guide to how to exploit for personal benefit a situation of corporate change which, in this case, is caused by a pending M&A deal. As many corporate or private equity (also including venture capitalist and other financial) buyers have discovered, one of the greatest challenges within the M&A process involves people-based decisions – who to retain and who to keep.

### **A common wedding joke applies to mergers as well**

A wise person once said that a beautiful marriage is one in which two people become one. The trouble starts when they try to decide which one.

The personal impact is significant. Following redundancy, employees suffer both financially and socially (including lack of self-esteem and standing among friends and colleagues). This book will hopefully provide people facing this situation with a practical guide to various situations and illustrate scenarios with “sound-bites” from people who have had personal direct experience in being survivors or victims of mergers and acquisitions.

The reason for layoffs is often the result of a very rational strategic process within the company making the acquisition. From a financial perspective, the reason for many mergers is to improve the company’s competitive advantages and to benefit from economies of scale. One way to achieve the necessary and promised cost savings from a merger is via downsizing the workforce: firing people who thought they had secure jobs. Some people made redundant – usually in senior management – will receive attractive severance payments and retain some of their corporate benefits including medical and life insurance or share bonuses.

Even for those who gain some benefits and definitely for those who find themselves with no work at all, it will be a traumatic experience. While many employees may prefer to drag out the redundancy process and stay with the company for as long as possible in order to maintain their current pay and benefits until they find a new job, others prefer to be put out of their misery and go quickly as they feel that the waiting and not knowing is even worse. The Chartered Institute for Personnel and Development (CIPD) found in its 2008 annual survey of absence management that organizational change and restructuring, including acquisitions and mergers, can be the largest cause of work-related stress in some organizations.

There are thousands of M&A deals annually, even in years when the level of M&A activity is “slow.” These deals are often front-page news and, especially when there are many layoffs as part of the deal, they receive intense media focus. Mergers and acquisitions therefore have become an inescapable part of most people’s lives – directly or indirectly. Few employees anywhere

will have a career in which they don't face a situation when their company merges, acquires, or is acquired – or faces the possibility of one of those. How you react will affect the outcome for you.

This book focuses on layoffs due to mergers and acquisitions, but the larger number of employees facing redundancy for other reasons may also find helpful tips in this book. Although up to one-third of a company's workforce may involuntarily or voluntarily leave because of a merger or acquisition, most redundancies do not take place because of M&A but rather for general business reasons such as a decline in sales, changes in technology leading to discontinued products and services, outsourcing, and other factors. Research at Cranfield Business School on executive redundancy and outplacement in 1993 in the UK showed that only 7% of redundancies were due to restructuring following a merger or takeover, yet, almost a decade later, in 2002, a CIPD redundancy practices survey found that this figure had almost doubled to approximately 12%. Since the UK Office for National Statistics places the number of redundancies in recent years at around a half million employees annually, this means that over 60 000 people have their employment terminated each year in the UK because of mergers or acquisitions. Thus, together with the figure of M&A redundancies in the USA mentioned earlier, these two countries alone have up to 200 000 people fired annually because of M&A deals. Again, the number is likely to have grown significantly when taking into account the more recent impact of M&A deals during the economic downturn that started in 2007.

This book isn't really designed for employees whose future with the company is dependent on the negotiating talent of others. Thus, if you are a member of a trade union or represented by a works council or other multi-employee bargaining representatives (or their equivalent, as these differ by country), then although the first part of this book might provide some useful background to situations you find yourself in, it is unlikely that you will be able to employ many of the suggestions that have been made by those

interviewed. Unionized workers were not interviewed; union negotiations during mergers are beyond the scope of this book.

This book does not look at factors where it would be illegal in most countries to discriminate in favor of or against a group of employees or any individual, such as sex, race, country of origin, age, sexual orientation, physical or mental disability, or religion. I can say that in the research conducted for this book, no such widespread discrimination was uncovered, but it was also not the focus of the research and the interviews and surveys did not ask about it.

Most of the interviews for this book have taken place in Europe and the USA, although many of those conversations have been with individuals who have worked in multiple locations around the world or who had started their careers elsewhere: from throughout Asia, South America, Russia and the former Soviet republics, Australia, and Africa. Research has been conducted to ascertain whether the comments made are generally applicable to other non-US or Western European cultures. In many cases they are not, but then many of the comments are company specific or even specific to a particular group or situation within one organization.

Although cultures differ, the general recommendations from this book are applicable globally. For example, in a study of a merger between two Chinese internet companies conducted at Cass Business School, target employees were found to have much lower job satisfaction after the deals were completed than the acquirers, which is consistent with “Western” deals. Remarkable consistency does exist where I have looked at different countries and cultures. Where there are differences, these will be noted.

## **HOW THE INFORMATION FOR THE BOOK WAS COMPILED**

Prior to the publication of this book, the extremely broad M&A landscape has been evaluated predominantly from the corporate

and human resource management perspectives with many of the books and much of the research focusing on how deals deliver shareholder value through increased market share and better financial management, including use of resources (such as employees, but treating them mainly as costs to the firm and not as people). Little had been written from the perspective of the employee, and this book is hopefully a start in that direction. Even books with similar titles about “surviving M&A” have focused more on how the company can survive without providing advice on what individual employees should do.

Naturally, as discussed later, it is critical that the company survives, because most deals fail and no one has a job with a company that no longer exists. Assuming that the company will survive, this book will address how you can, too.

Most of the people interviewed for this book, who have lived through mergers and acquisitions, were managers or employees of the companies that combined, and almost equally distributed from the target or buyer. Others were advisors: human resource consultants, investment bankers, strategy and public relations consultants, funding banks, venture capitalist and private equity firms, lawyers, journalists, and academics. Literature in the area was not extensive, but has also been reviewed (with a number of useful articles and books shown at the end of this book). The result is hopefully a useful list of suggestions that provide a new focus on individual benefit rather than that of the company. And if enough individuals feel better as survivors, this may also contribute to the future success of the deals from the company’s and shareholders’ perspective as well. One can hope.

This book is based on my professional experience of more than 30 years working in investment banking and mergers and acquisitions, beginning in the mid-1970s as a strategy consultant (at Booz Allen & Hamilton, now Booz & Co., in Washington, DC, New York, and London) helping companies planning acquisitions and then almost 20 years in two investment banks at

Morgan Stanley and Deutsche Bank (being based first in New York, then Tokyo, Frankfurt, and lastly London). In both of those firms, I was responsible at different times for acquisitions being made by those companies, and in founding and running a venture capital group that made a large number of acquisitions as well (in total, having principal responsibility for well over 30 acquisitions and assisting with numerous others). Following that, I began teaching Mergers and Acquisitions in graduate business schools, first at Oxford University, then Imperial College London, and, since 2002, at Cass Business School in London where I also founded and am the director of the M&A Research Centre. While teaching, I continued to advise companies on their mergers and acquisitions, and have written (often together with my students) a number of published case studies, including the acquisition of Manchester United Football Club, Abbey National Bank (by Banco Santander), and the recent merger of The Bank of New York and Mellon Financial. The research for this book began when writing *Intelligent Mergers: Navigating the Mergers and Acquisitions Minefield*, which was co-authored with Professor Chris Brady and published in 2007.

In writing this book, I have complemented my own first-hand experience in the industry with formal and informal interviews conducted during the past two years with over 100 people who have been through M&A deals from all organizational levels, many countries, and virtually every industry. In the course of several projects as part of their dissertations, supervised students in the academic year 2007/8 have conducted further in-depth interviews or surveys of over 250 individuals who have lived through a merger or acquisition (although a global group, most of these interviewees or survey respondents were from the UK and other parts of Western Europe, due to the location of Cass Business School in London). See also the acknowledgements for further information about these surveys. Many people have therefore kindly shared their survival tips with us: these have included suggestions about actions that they

took which they felt were successful in making them a survivor of an M&A deal, or that they observed others doing well. There were also many who told us they were not successful in retaining a position after their company was acquired; these individuals described what they wished they had done differently or suggested things that they did which they shouldn't have. The stories they told, as well as some of their direct quotes, are included throughout the book.

Most hadn't consciously developed a grand plan for how they succeeded. Luck was mentioned often as a key factor ... and it is. In a number of interviews, people either quoted Robert Burns ("The best laid plans of mice and men/go off awry") or another quotation often attributed to Napoleon ("I would prefer a lucky general to a smart one"). Another senior manager interviewed put it even more simply: "The Number One factor is luck." Combined, these stories provide powerful ideas for those currently facing possible redundancy because of an M&A deal – and possibly facing redundancy for any reason.

**The role of luck in being a survivor**

"I got the job because there was nobody else. The acquirer's senior manager retired during the deal."

*Head of legal, European bank*

Most of these interviews took place around the time when the economy and the M&A markets were beginning to decline (2007) or when they were even in freefall (in the second half of 2008). The banking and economic crises therefore did provide a backdrop to many of the discussions, causing a number of interviewees to comment that their suggestions were particularly relevant to redundancies in general, and not just when firms merge or acquire. Certainly, although the volume of M&A deals did decline in that period as discussed later, they did not disappear.

The need for survival in a company that was merging was perhaps even more important because fewer other firms were hiring.

## ALL LEVELS OF ORGANIZATION

Focus turns inward. When a company is in turmoil because of merger or acquisition, people begin to think about their own future and that is when personal issues become paramount. Company business becomes less important to many – at the exact time when proving your value to the company is perhaps most important. People cannot, and perhaps should not, avoid this internal focus. Interviewees often said that it was critical to “look out for Number One,” as quoted above. Others noted that the word “merger” starts with “me.”

No matter in which company you sit (acquirer or target), news of a merger or acquisition will cause a roller-coaster of emotions with more “lows” initially than “highs.” It won’t matter whether you’re a senior executive and maybe had even been one of the architects of the deal, or a temporary worker who had been with the company for only a short time. Front office, middle office, back office – all are affected (although sales staff usually find that they can protect themselves most easily, as discussed later).

A lot happens once you find out that your company is being acquired. Information is usually scarce and accurate information is even more difficult to find. Loyalties are divided: do you rely on those you have been working with, or do you try to align yourself with the new company? Your confidence is lower because of the uncertainty. And it’s not just you. There’s a general feeling of insecurity throughout the company that is easy to sense and very infectious.

Productivity therefore declines as everyone tries to find out what’s really happening. People start to take action – sometimes any action! – to position themselves best. The politics becomes

both more unclear yet more intense as power structures shift and people begin trying to figure out who's in and who's out. These concerns and issues are often strongest among middle managers who used to think that they had some control but now appear to have none – they are too low in the organization to be “insiders” to the deal, yet are seen by their teams as people who should know what's going on. The fact is that all employees often feel the exact same stresses and uncertainties, although at different times.

Just as bidding company employees tend to be improperly complacent, senior executives very often also have their heads in the sand regarding the likelihood of their staying with the company after the deal closes. They are very much at risk. A 2003 study in the *Harvard Business Review* noted that for the nine years following a merger, executive attrition averaged 20% per year for companies that had merged, whereas it was only 10% annually for non-merged companies. Other studies show executive turnover around 50% following a purchase. Many of these executive departures will have been voluntary resignations, but even these are often made only after the managers realized that they didn't feel comfortable working in the new organization because of the changes that the merger or acquisition caused. At the time when the deal was announced, and even soon thereafter, they may have had no intention of leaving ... but the deal can cause those feelings to change over time.

## DESIGNED FOR ALL PHASES OF THE DEAL

Companies don't need two of everything: certainly not two CEOs, two sales people covering the same client, or two heads of human resources. But being the one made redundant isn't always bad. When a company goes through a merger or acquisition, it may

be the perfect time to make a career change. M&A situations may be a welcome catalyst for many to leave. These deals can bring new opportunities and open new career paths for some, but for most forced to leave the company, it is an unwelcome if not devastating change.

A lot of people consider that an M&A deal ends when the transaction closes, with the two companies becoming one. But that's not correct because at this point the focus of the deal merely shifts internally and the most daunting and time-consuming process of combining the two companies starts. This is called "post-merger integration." Integration plays a more significant part in the success of the deal than any other step in the M&A process and certainly lasts much longer (often years) than the deal completion process itself, which is usually over within a few months.

It is, of course, best if you read this book *before* a deal is announced, or when there are only just rumors of a pending deal. That time, or even immediately after you hear officially that a deal is taking place, is when most employees will still refuse to accept that it will take place. It is unfortunately unlikely that many will pick up this book then. It's more likely you're reading this book days or even weeks after you first heard that your company was being taken over or was being merged with another. The deal may not be over, but at least now looks unstoppable.

But even if the deal has already closed and the new company formed, there are tips and suggestions that will still apply to that long post-deal closing period. In most mergers and acquisitions, it takes time before they settle down, and maybe even years, as noted above. It usually isn't clear to senior management at the time of the announcement who should stay and who should leave. In fact, those managers may have designed a post-merger integration process specifically intended to determine who will be asked to leave and also to remain. This book provides a number of useful suggestions for improving your odds of being selected to stay.

## ACQUIRER OR TARGET?

Some people think that if it is their firm acquiring the other company, they are safe. After all, it is their managers and their company in control. Most of the time they are also much bigger than the target company. But the thought that you are safe is dangerous and may lead to complacency. Why? Because at the same time as you are *not* doing anything to secure your job, the target company's employees – who naturally think they are more at risk (and they are!) – will be fighting hard for any job, including yours. So, in many instances, they do take advantage of the complacency of others and land the job. The acquirer's employees may never know what hit them.

From the target company's side, it is usually obvious that their employees are more likely to be laid off than employees from the larger acquirer. When the Royal Bank of Scotland acquired the investment banking division of ABN AMRO in 2008, the *Financial News* reported only 27% of the overlapping senior positions went to the target's managers from ABN AMRO. Therefore, as target company managers and employees expect to land fewer of the positions after the acquisition, it is likely that from the start that they will be thinking carefully about whether they want to leave or stay and, if they decide to fight to stay, how they will do it.

In a merger (where two essentially equal companies come together so there isn't either an acquirer or a target), it will be a mix of the above. There may be even more confusion in the organization because it is less clear who will be on top and which culture will be dominant, whether a different culture will evolve that is a mix of parts of both organizations, or even something totally new.

## PUBLIC AND PRIVATE

The need for cost efficiencies when two organizations merge – and thus the resulting need for layoffs – doesn't discriminate

between public, private, or non-profit firms. All face the same pressure to reduce headcount when two organizations are put together. In conducting interviews for this book, a large number were in public and non-profit organizations, and their stories and suggestions varied little from those in the private sector.

Differences do exist, however. Deals tend to take place faster in the private sector, although this is not always true. Public sector organizations seem to use different criteria for making people redundant. According to the CIPD redundancy practices survey mentioned earlier in this chapter, public organizations tend to select employees for redundancy based on performance and/or efficiency, whereas the private sector uses individuals' roles or positions within the organization. The survey noted that employees made redundant in the private sector can potentially feel more stress as they either feel they had yet to show their full potential or, in the case of executives, they worried that their management techniques had been discredited.

**TOP TIPS**

A useful summary of many of the suggestions and comments about surviving M&A is included in the "Top Tips" (see Figure 1.1). These ideas will be developed further in this book as many overlap and some even appear inconsistent with others as every merger situation is different. Look over the list at this point to get an idea about what others may have found useful or wish they had done differently when faced with the need to survive an M&A deal. All the survey respondents had experience with at least one merger or acquisition, and some with several. Most mentioned a number of tips, as usually it is best to take several actions even simultaneously, as will be discussed later. While reading the list, keep the following in mind:

Rank	Recommended actions to survive a merger
1	Find ways to add value
2	Be proactive
3	Maintain a businesslike attitude
4	Position yourself so your skills will enhance the new organization
5	Become invaluable to the acquiring company
6	Impress the decision-makers at your company
7	Keep a positive attitude
8	Embrace what is happening
9	Look at the merger as a challenge and an opportunity for growth
10	View challenges as opportunities
11	Be patient – don't make rash decisions about your role
12	Be helpful (both to senior and junior colleagues)
13	Be a problem solver for the new company
14	Promote your capabilities
15	Understand the new partner's objectives
16	Determine the culture and your role in the merged entity – can you be comfortable there?
17	Ask questions
18	Assess carefully whether you want to stay
19	Expect change, don't resist it
20	Take the opportunity to demonstrate your worth
21	Get as much information as you can about the deal
22	Participate in planning sessions
23	Come to terms with what is happening and move forward
24	Portray your skills and accomplishments in the best light
25	Volunteer to serve on a transition team
26	Establish which company is the dominant player
27	Be visible and make direct contact with your new colleagues
28	Identify a function you perform well and make sure everyone knows it
29	Assess the political situation
30	Maintain a sense of humor about the situation
31	Brace yourself for a change
32	Research the new company and its management
33	Be easy to manage
34	Don't rely on your boss – in a merger everyone looks out for themselves
35	Treat the merger/acquisition process like an extended interview
36	Try to understand the reasons behind the changes
37	Don't be a complainer
38	Identify with your profession and not your company
39	Utilize your network, both social and professional
40	Update your skill sets
41	Prepare a contingency plan
42	Stay in constant touch with colleagues in other organizations doing similar work
43	Adapt to the dominant culture
44	Manage personal stress
45	Spend more time in the office to develop relationships
46	Update your <i>curriculum vitae</i> or résumé and look for a new job
47	Maintain the status quo
48	Keep your head down
49	Transfer loyalties to new management as soon as the deal is announced
50	Enlist the help of a business/career coach

**Figure 1.1** Top 50 tips

Source: Dickenson and Wood, Cass Business School (2008)

- Each company and each acquisition will be different and therefore some actions may not apply.
- Acquisitions and mergers evolve: any action should be adapted for appropriateness at different stages of the deal.
- Don't rely too much on any one action, as noted above; it is possible to combine these suggestions. The use of one tip may actually support success with other tips.
- Be realistic as some actions may take too long, require assistance that isn't available, or may not fit your personality.
- Don't continue to put effort into a strategy that isn't working; be willing to try different actions when one isn't working, but be patient as well and don't discard an action prematurely.

The book will further discuss how to use the tips and suggestions later, including how these individual actions can link to each other, thus enabling you to have a plan for survival.

## ORGANIZATION OF THE BOOK

As not all the suggestions will be relevant for everyone in every situation, it is recommended that each reader make a careful assessment about which ideas will be helpful to their own personal circumstances and the work culture of their existing or future employer. Also, some people will already have experienced a merger or acquisition before, whereas for others it is their first time. Therefore, Part I of the book provides a description of the M&A landscape: what these deals are from the company's perspective, how companies combine, why they do it, and who the professionals are behind these transactions. It also explains why these deals affect employees, how people feel, and why certain individuals might do better when their companies merge, acquire,

or are acquired. Part II of the book then provides the suggestions for bettering your chances of surviving the merger, starting with a discussion of whether you really should try to stay or not. Those very familiar with M&A deals can probably skip directly to the second part to find these ideas that should help them survive.

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