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Organizational MADness

When Dan left his job as a reporter on a daily newspaper to become a technical writer at a dot-com start-up in October 1999, he was energized by his prospects: he loved technology and looked forward to working in that fast-growing business sector; daily newspapers, he predicted, would soon be replaced by people getting their morning news on the Internet. His new employer had a laid-back culture of sandals, Friday beer busts, and pets welcome in the office; suits and ties were required in the stodgy world of journalism. And no small matter, the dot-com offered a slew of stock options to sway him to jump ship; rumors regularly circulated around the newsroom that headquarters back east was about to make some cuts in the bloated staff.

Dan figured his timing couldn't have been better. For a while, he was right. The dot-com's reputation, stock price, and staffing grew rapidly throughout 2000 and into 2001. Dan felt comfortable, even as scores of other dot-coms were letting people go or shutting down completely. But by the summer of 2001, it seemed that almost every day Dan ran into someone from another firm who was either laying people off or being laid off themselves. Then the bottom fell out from under Dan and his employer. Anticipated revenues never materialized, the company's stock price fell from 80 to under a dollar, and the venture capitalists who bred life into Dan's firm were no

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longer willing to pay for financial life support. They sold a majority interest of the company to a European media conglomerate.

At first, the new owners made no major changes. Rather than interpret this as a positive sign, employees grew anxious. Seeing what was happening elsewhere in Silicon Valley, they wondered what was going on in their organization. The lack of action was almost unbearable. When they asked questions of their leaders, the response was always “Its business as usual—just do your job.” Executive visibility and communication seemed to be much less than when Dan first joined the firm. Filling this information void, rumors of mass layoffs ran through the organization. Then, on the day before Thanksgiving 2001, the European owners made the announcement: fully 25 percent of the workforce was going to be laid off through an involuntary reduction in force. Employees became paralyzed, and work stopped as people waited to see what would transpire. Then, as Dan recalled, the cuts came:

Around three or four o'clock every day, someone from HR would come up and talk to the department manager, and then the manager would walk up to that day's victim and hand the person an envelope. In front of everybody, the manager told the person that he or she had half an hour to clear out. A security guard was posted nearby, in case anyone stayed more than thirty minutes.

Each day, right around three in the afternoon, the tension of people waiting for the HR person to come up and deliver the envelope was so thick you could cut it with a knife. Then we got a clue about how to know what your fate would be that day. Targeted people's personal computers would be shut down at 2:00 P.M. They got a message that the system was down or that log-in access was denied. The company did not want these people on the computer.

The worst of it was a couple of times when the company turned off the wrong machines—people who were supposed to be staying assumed they were being booted out. Then

there was the day that the entire system went down by accident. . . .

Dan was spared from the Thanksgiving Day massacre, as surviving employees dubbed it. But rumors began to circulate in early 2002 of an impending restructuring, perhaps the merger of the dot-com with another division of the European owner. Well into 2002, Dan still did not feel comfortable about his position:

The company has told us nothing. People are learning what they know from industry magazines. Everyone is paralyzed again. And there is tremendous anger at the Europeans and at our local leadership.

There is no loyalty here; no one is going to go the extra mile after this. Two years ago, we worked sixty-five-hour weeks. People were willing to do it, because this was a great place to work and we were doing something that mattered. Personally, I am devastated. From here on in, it's just a job for me. I'll put in my forty hours and that's it. People talk about leaving the company, but no one is hiring.

What really concerns me is I have to do this for thirty more years—put myself at the mercy of a corporation. I don't think I can do this.

Mismanaged Transitions

Many organizations, as they respond to bad economic news, fall into a classic pattern of mistakes. As profits erode and they lose market share, employers frequently worry first about the investment community and focus their communication efforts externally rather than internally. Likewise, when executives search for creative solutions to company business problems, they too often decline to discuss options with workers or offer any kind of outlook for the future. Instead, company leaders lower their profile with their own employees as they grope for the right strategy or combination of actions.

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The result is nervous employees who believe that management is either insensitive to their plight or fresh out of ideas. When company leaders are finally ready to talk about recovery and revitalization, their past behavior has earned them an insecure workforce more inclined to lick the wounds of the past than to move forward to capture emerging business opportunities.

Senior executives regularly make missteps when managing events like mergers, acquisitions, and downsizings. Even when relatively well planned and carefully implemented, mergers, acquisitions, and downsizings produce unintended negative consequences. These transitions have negative—not merely neutral—effects on the people, work groups, and functions that survive. That is the starting point for this book. It describes how forward-looking leaders who see economic recovery as an opportunity to build a better-performing organization must accept and acknowledge that employees are still looking behind or, at best, are still dazed from the stress, uncertainty, and chaos of living through a transition. This book shows how to apply the relatively simple tools of organizational change management in a context that is far from simple: a workforce characterized by the anger, cynicism, fear, hurt, and demotivation that linger long after senior executives claim that the merger, acquisition, or downsizing is “over.” It does this by addressing transition at both the individual and organizational levels: acknowledging the very natural and normal pattern of human adaptation to transition and using the unsettledness of the posttransition organization as an opportunity to articulate and realize desired organizational change.

Leaders who have mismanaged transitions—or their successors who inherit organizations that are reeling from the aftereffects of mismanaged transitions—have a job to do in reenergizing their people and revitalizing their organizations. If they do not realize this, these executives are in for a big surprise. CEOs, business unit heads, and team leaders may be personally energized by the opportunities that lay ahead. This makes very good sense, because they are at the helm and in control of their organizations, they determine the strategies, and they allocate the resources. Leaders may be motivated by the poten-

tial of financial growth, organizational success, and personal reward. Their spirits are buoyed by new business opportunities—perhaps the adoption of a new strategy, the introduction of a new technology or product or service, the strengthening of the economy, or even the elimination of a competitor. They anticipate that after a long and difficult struggle, victory in a decisive battle is just at the top of the next hill. They see the goal and will confidently rally their troops around the mission at hand. Then the cry will come for the troops to charge up the hill and take the prize.

Unfortunately, the troops will be neither ready nor willing to charge up the hill. Rather than focus on the opportunity ahead of them, they will be unable to let go of the pain behind them. Their vision will be obscured by the emotional residue of anger, distrust, and depression built up over years of false promises and unmet expectations. Nor will the troops have the confidence that they can take the hill—their self-esteem will be battered, their faith in their organization broken. Most significant of all, the troops will not see how any personal gain will result from taking the hill. Instead, they will fixate on memories of their fallen comrades: the casualties of layoffs and downsizings and the “walking wounded” whose careers were sidetracked by mergers and acquisitions.

Employee Worries

Fear of job loss following a merger or an acquisition was the number one worry among senior executives in the thousand largest U.S. companies in the 1990s. The timing of the survey—after merger and acquisition activity had significantly waned due to recession, the tightening of capital by major financial institutions, and a generally greater sensibility in guiding corporate combinations—makes the results all the more dramatic. Executives and other employees retain vivid memories of the trauma experienced when firms are merged or acquired, cultures clash, and coworkers who seem like decent contributors are let go merely because their positions have become redundant. Even in organizations that have not merged or

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been acquired, employees have learned (from firsthand experience in past jobs or vicariously from their neighbors, friends, or relatives) about the stress and anxiety associated with organizational transition.

The number two fear reported by the surveyed executives was burnout. *Burnout* entered the popular vocabulary in the 1970s after studies of mental health and other social service professionals documented that large workloads and minimal resources contributed to a sense of hopelessness in aiding clients. The “system” was not working, and these professionals grew physically tired and psychologically alienated. They expressed anger and doubt about the worth of what they were doing along with an overall lack of job interest.

Today, *burnout* signifies feelings of physical and emotional exhaustion, alienation from others, and reduced personal accomplishment. It is equally likely to occur in big corporations, small businesses, government offices, or not-for-profit agencies. In organizations that downsize through layoffs or hiring freezes, surviving employees have to work harder to cover the tasks of others. Fewer support staff or other resources are available to help get the job done. The new workplace offers scant advancement opportunities as management levels are eliminated and career paths are obscured. The recession that began this century has limited pay increases and bonus pools, and the deflated stock market has sunk stock options. All of this prompts people to ask what the payoff is for working so hard. One middle manager from a high-technology firm that went through a merger and two subsequent waves of downsizing within a four-year period put it this way: “I get to work early, stay late, come home, throw some food down my throat, put the kids to bed, do some more work, fall asleep, and get up and do it all over again. What kind of life is this? Yeah, I’ve kept my job while many people I know have lost theirs. But how could things be any worse if I lost it?”

Fears of job loss and feelings of burnout extend well beyond the executive suite. In the past decade, professional, managerial, and other white-collar employees joined blue-collar employees (the tar-

get of job cuts and wage freezes in past economic downturns) in suffering through layoffs, reduced benefits, and a falling quality of life. Though always painful, these conditions are more tolerable when one perceives them as being shared by others and leading to some payoff later on. Employees in the 1990s witnessed organizations willing to slash payrolls as deeply as necessary to satisfy short-term financial targets. And it all continues in the current decade. Employees worry about the next wave of layoffs while executives are buffered by generous golden parachute arrangements. Four thousand employees were laid off at Enron when it declared bankruptcy; five hundred of its executives divvied up \$55 million in bonuses right before the filing. Meanwhile, the surviving employees saw their 401(k) accounts evaporate as the company stock fell and executives—many of whom were unloading their own shares—stipulated that employees could not sell Enron stock in their retirement plans.

People are not unwilling to work hard or to commit to the business objectives of their workplaces. Instead, they have become consumed by fear and suspicious of management declarations that “everything is under control” or “it’s business as usual” when there is obvious evidence to the contrary. In many organizations, employees have grown cynical of programs under the rubric of “rightsizing” or “reengineering” that produce little in the way of real positive change. As employees feel they are receiving less from their employer, they give less in return. Listen to a manager from a large health care organization:

It’s like each side takes something away, so the other reciprocates. First, the company took away our security when they downsized; there went our loyalty. Then they stopped merit pay raises when they introduced the new compensation plan, and we took away our commitment to doing creative and high-quality work. Next, career options went out the window with the layering, so people stopped working hard because there was no payoff for it. I used to love coming to work at this

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place; now I show up, and it's simply a matter of them paying me for my time.

The word around many corporations today is that at the first sign of an economic recovery, people will jump ship. The best and the brightest—those with the most marketable skills—will lead the way. Others, the dazzled and disillusioned among them, will stay and work in an unimpassioned and indiscriminate manner. They will rely on antiquated skills, information, and practices that poorly equip them for the challenges at hand. A workforce without high-quality talent, a commitment to excellence, and the necessary tools for success will severely hinder any organization's ability to rebound in an economic recovery.

Organizational MADness

The development of a fearful, suspicious, and cynical workforce in many organizations is in large part due to what I refer to as organizational MADness—the impact of Mergers, Acquisitions, and Downsizings on short-term employee well-being and long-term organizational effectiveness. Mergers, acquisitions, and downsizings have become regularly occurring events in the managerial repertoire. Well over ten thousand corporate combinations occur in a typical year in the United States, and nearly two million positions have been cut in the past two years. Organizational MADness has gotten to the point where it is ingrained in the U.S. culture. The CBS news Web site, for example, invites people to interact with the “layoff tracker” and chronicles large company downsizings on the “pink slip parade.” Even in Europe and Asia, where government regulations and corporate cultures have historically implied job security, organizations are downsizing.

Despite the frequency of merger, acquisition, and downsizing activity, most organizational transitions are financial and strategic failures. Repeated studies have shown that fewer than 25 percent of all mergers and acquisitions achieve their desired results—whether

measured by the share price of merger active firms, the extent to which anticipated synergies and savings are actually achieved, the retention of desired talent, or the eventual divestiture of a once desired target. And most organizations that downsize fail to realize long-term cost savings or efficiencies beyond the cuts, necessitating multiple waves of layoffs and restructurings.

The Healthy Side of MADness

Certainly organizations need to “rightsized” by eliminating unnecessary work and responding to economic, legal, technological, and consumer changes. If organizations did not change, they would not remain competitive. Organizational leaders, however, must come to terms with the fact that the *way* in which organizations transformed themselves during the economic slowdown of the early 1990s and the burst of the technology bubble and ensuing recession a decade later has stifled personal motivation, hindered team performance, and damaged organizational effectiveness.

MADness does not imply that organizations are malevolent in their actions. In many cases, mergers, acquisitions, and downsizings are prudent business moves that enhance competitiveness and survivability in the ever-changing business environment. British Petroleum’s acquisition of Amoco was an essential strategic move in a consolidating industry. Vivendi’s acquisition of Seagram’s film, television, and recording businesses—and its concurrent divestiture of the Seagram Spirits and Wine Group—catapulted it to prominence among diversified entertainment firms and kept its focus on key businesses. The airline industry’s downsizing following the September 11, 2001, terrorist attacks have enhanced the likelihood that carriers, and their hundreds of thousands of remaining employees, will endure over the long haul.

A transition can be beneficial for organizations and their people. There is fat to be cut and waste to be eliminated from many corporations, even profitable ones. Companies wallowing in red ink are wise to eliminate a portion—be it 5, 10, or even 20 percent—of the

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workforce to strengthen the survivability of the vast majority of employees. And a serious assessment of workforce apportionment is an integral component of the introspection needed to rebalance a firm and its resources to take better advantage of emerging market trends or technological advances.

A transition can also spark organizational regeneration. A CEO with the right mix of visionary and charismatic leadership skills can rally employees around the notion that the merger, acquisition, or downsizing is not only a necessary response to business realities but also a proactive opportunity to improve how work is approached and conducted in the organization. A transition holds the potential to “unfreeze” the organization and its people, providing a rare chance to change corporate culture dramatically and reinforce a new way of doing things. I worked with a CEO who was stymied in efforts to build what he termed a “customer service” culture in his electronics firm. He sent his people to training programs and brought gurus in to give pep talks, but nothing seemed to change the mindset of managers or the behaviors of employees. Finally, he acquired a slightly larger competitor with a reputation for having customer service second to none in the industry and folded his organization in it. When a good number of top jobs went to executives from the acquired firm, the shock waves reverberating throughout the company sent signals that the CEO was serious about change. Similarly, a middle manager or supervisor can use the unfrozen state as an opportunity to enhance teamwork, build better cross-functional relations, and identify and correct impediments to productivity in his or her work group.

And individuals can experience a personal form of renewal as a result of company transitions. Although many employees stay mired in maladaptive responses to the stress and uncertainty of a transition, others come to recognize that in crisis there is opportunity. They recognize that they cannot manage what is beyond their control and do not try; rather, they assess the situation and act in the areas they can control. These employees accept that the context within which they work is changing and proactively seek to align

their tasks accordingly. And they recognize that the rules of the game have changed, that there is no “business as usual.” They are energized by the opportunity to learn new skills, to test their ability to cope with stress and uncertainty, and to find creative ways to meet work requirements.

Unfortunately, however, using transition as an opportunity for personal growth, team development, or organizational renewal is very much the exception, not the rule. Reports of mergers, acquisitions, and downsizings rarely describe productive, regenerating, or even rebalancing outcomes. In contrast, they depict transitions as painful, wrenching, and bloody.

Transition

This book describes how organizations and their employees recover from transition. Transition is distinct from change. A change is a path to a known state: something discrete, with orderly, incremental, and continuous steps. Moving the start of the weekly staff meeting from 9:00 A.M. to 8:00 A.M. is an example of a change. It may cause some disruptiveness and require some adaptation—people have to leave home for work earlier or cancel other early-morning commitments—but its discrete nature allows people to know exactly what to expect and lets them get on with their lives inside and outside the organization.

A transition, by comparison, is a path to an unknown state, something discontinuous that involves many simultaneous and interactive changes and the selection of “breakthrough” ways of thinking, organizing, and doing business. Transition marks a break from the past. It involves death and rebirth; existing practices and routines must be abandoned and new ones discovered and developed. Adapting to transition is much more psychologically taxing than adapting to change. When Pfizer acquired Warner-Lambert, its CEO made a commitment to Wall Street to grow company revenues at an aggressive pace. The head of Pfizer’s R&D function knew that current practices from either partner could not generate

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the drug pipeline required to attain such growth. He set out to transform how R&D was done in the pharmaceutical giant, rather than rely on current practices. Employees had to cope with changes in structure, staffing, and systems. Going with the tried-and-true Pfizer ways or even adopting incremental changes would have been easier to manage but unlikely to propel growth in the way transformation could.

Transition as a Way of Life

At a recent workshop on workplace recovery after transition attended by managers from major corporations, I asked participants to introduce themselves and indicate why they had come. "I'm from Sears," offered the first woman, "and we've had five restructurings in five years." Almost as if to one-up her, the next participant reported, "I'm from Verizon by way of Nynex, and we've had nine restructurings in four years." "Well," said the next, "I'm from Citicorp, and I've had seven bosses in three years."

Increasingly, people in organizations are being exposed to multiple waves of transition, often with one overlapping another. Take the case of Majestic Enterprises (a fictionalized name but a real situation). At its peak in the mid-1990s, Majestic boasted revenues of \$19 billion, employed twenty-two thousand people, and had a reputation as a stable, well-managed company. It was also regarded as an excellent place to work. People took jobs there because they wanted a place of employment with stability, predictability, and growth. The typical Majestic employee had long tenure, high loyalty, and expectations of lifelong employment.

In 1995, Majestic made an opportunistic acquisition of a competitor's operations. In announcing the acquisition to employees, Majestic CEO Justin Jourdan acknowledged that there would be some redundancy in positions but promised to take care of this through attrition, assuring his troops that there would be no layoffs. As tough economic times set in toward the end of the decade, however, Majestic's debt obligation loomed larger and larger. Revenues

remained flat, expenses increased, and margins eroded. Within three years, Jourdan ordered two major restructurings, the first to streamline decision making in general and the second to eliminate bureaucratic hurdles slowing the introduction of new products to market.

The restructurings changed the organization's design and reporting relationships but produced few cost savings. Still confronting debt and flat growth, the company had to cut expenses dramatically. In 2000, Jourdan announced the first reduction-in-force program in Majestic's history. It was voluntary, providing enhanced early retirement benefits for employees over age fifty-five and severance pay incentives for all other employees. Despite its voluntary nature, the program sent shock waves through the ranks of Majestic managers and employees.

A few months after the reduction-in-force announcement, Jourdan proclaimed a new vision for Majestic: it would become the "premier" company in its industry segment. Soon Jourdan initiated two projects to achieve this vision. First, he engaged McKinsey & Company to conduct a value-added work analysis. Shortly thereafter, Jourdan returned from a conference on organizational learning to announce that he had commissioned a training company to deliver a "continuous improvement process" program to all Majestic managers.

As the economy weakened in late 2000 and into 2001, Majestic managed a small operating profit but could not reduce its heavy debt load. The broader economic malaise diminished long-term prospects for revenue growth, and Jourdan concluded that severe cost cutting was necessary for his company's survival. In June 2001, he announced that Majestic would have to implement an involuntary downsizing program.

The Mind-Set of Employees

The 1995 acquisition was a turning point in the stable psychological work contract between Majestic and its employees. The merger and two subsequent restructurings in the late 1990s produced more

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change and disruption than Majestic employees had ever experienced or bargained for. After three major reorganizations in four years, employees were worn out from the scope and pace of change in the company. Because Jourdan had promised there would be no layoffs after the 1995 acquisition, employees felt he had betrayed them when he announced the 2000 reduction-in-force program. Even though the layoffs were voluntary, employee perceptions of management credibility hit rock bottom.

Jourdan's premier-company initiatives were intended to pump up employee morale and organizational effectiveness, but they backfired. The successive introduction of *premier company*, *value-added work analysis*, and *continuous improvement* into the corporate lexicon confused employees. Cynicism grew. Employees began to look out for management's "flavor of the month." They strongly criticized leadership for bringing in consultants and programs that produced little in the way of meaningful or beneficial change. The McKinsey value-added work analysis lingered on, and on, but no apparent changes were made. Managers went through a weeklong continuous improvement process training, but once they were back in their work areas, they were never pressed to use what they had learned. "We didn't walk the talk," confessed one senior vice president, referring to leadership's failure to reinforce words with actions.

The most dramatic influence on the mind-set of Majestic employees was the 2001 involuntary downsizing. The program hit workers hard. They were stunned that their leaders would betray them with such a clear break in the historic ties between employer and employee.

Recovery After Transition

The Majestic case highlights how organizational transitions produce inadvertent effects. Like thousands of other companies, Majestic must focus its energies on enhancing business processes, organizational effectiveness, and employee productivity to meet ongoing competitive pressures. This implies more transition, but first the or-

ganization and its people must recover from their history of past, poorly managed transitions. Recovery entails addressing both the emotional realities and the business imperatives associated with re-grouping after a transition or a series of transitions.

Workplace recovery focuses on those who remain with the firm:

- Recovery recognizes the need to drive business success by minimizing the unintended effects of transition, gearing people up for their new roles and responsibilities, and renewing motivation for making a run at business challenges and opportunities.
- Recovery happens when all members of an organization have a shared sense of the direction in which they are headed and are tolerant of the pain involved in getting from the old way of doing things to the new.
- Recovery involves managers in helping their work team members rebound from the psychological trauma of transition, clarify new work roles and responsibilities, and secure the organizational capability and individual motivation needed for success.
- Recovery engages people in understanding how and why their workplace is changing and how and where they can exert control during and after the transition. It also helps them let go of frustrations and anger over things beyond their control.

These benefits revive organizations and their people by instilling new life and energy after the disruptiveness of transition. Recovery prepares people to contribute to new economic opportunities through positive changes in perceptions, practices, policies, and processes. When aligned, these changes resuscitate individual employee spirit, work team performance, and organizational results. The objective of workplace recovery is not merely to recuperate following a merger, acquisition, downsizing, or other major transition

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but to rebound with a workforce that has an enhanced capacity to operate competitively.

Already in the twenty-first century, we have seen that organizational efforts to achieve, maintain, or enhance competitiveness have been affected by the availability of a well-trained and highly motivated workforce. Thus workplace recovery also sends a message to prospective new hires as well as to survivors of the merger, downsizing, or restructuring. How a firm handles the aftermath of a mismanaged transition directly influences perceptions of its culture, its leadership, and ultimately, its reputation as an employer.

Difficult Events to Manage

To be fair, mergers, acquisitions, and downsizings are very difficult events to manage. If they were easy to manage, 75 percent of all corporate combinations would not fail! To understand why the track record is so dismal, look at how these events transpire, in both practical and emotional terms.

Mergers and Acquisitions: Wired for Mismanagement

The very manner in which mergers and acquisitions are conceived runs counter to rules of effective leadership and management. When you think of an effective leader, what comes to mind? I think of someone with an inspiring *vision*, who *communicates* well, dedicates *resources* to achieving it, and coordinates competing individual perspectives into *teamwork* and *planning*. The fact is, none of these qualities are seen in any abundance in a merger or acquisition.

Inadequate Vision. Many mergers are done strictly for cost-cutting reasons, as when two underused hospitals in a community combine or when financial institutions join forces and eliminate redundant back-office functions. Often mergers and acquisitions are reactive events in which executives hop on the bandwagon in response to a major change in their industry, rather than proactive events in-

tended to propel an organization toward its goals. The oil industry is one of many in which an initial major combination—British Petroleum’s careful and strategic acquisition of Amoco—triggered multiple “copycat” combinations (including Exxon-Mobil, Chevron-Texaco, and Conoco-Phillips). And many mergers are done for reasons that have nothing to do with corporate strategy. An FTC survey of Wall Street bankers cited CEO ego as the number one reason driving merger and acquisition activity in the United States. Ego is not necessarily bad for doing a deal—you need a big ego to put big companies like AOL and Time Warner together or even to take a small firm and propel it to a larger size in one fell swoop. But cost cutting, bandwagoning, and ego satisfying are not sufficient for giving employees a compelling rationale for why they should sacrifice in the short run for hoped-for organizational enhancements in the long run. Successful combinations, by contrast, are driven by a sound strategy—a rationale for doing the deal that inspires people, provides a blueprint for integration planning and implementation, and counters the personal politicking that colors all combinations.

Inadequate Communication. Mergers and acquisitions are shrouded in secrecy. Executives putting a deal together have to keep a very tight lid on their intentions, for both competitive and legal reasons. If executives expressed their intention to purchase a company, another party might make a preemptive bid for the target and drive the price up. In any event, the government does not want executives announcing their interest in acquiring publicly traded firms too early, otherwise we would go out and purchase stock in the target. Of necessity, deals have to be done on a need-to-know only basis.

Inadequate Resources. Despite the 75 percent failure rate, many executives deny the difficulty of combining two previously independent firms into one entity. I know this because I regularly get calls from human resource executives who ask, “How can I convey to my CEO that he is underestimating the work of combining companies?” The reality is that lawyers and investment bankers surround the

CEO as a deal is being conceptualized. These advisers stand to make millions of dollars in fees if the deal goes through, so they whisper sweet thoughts of potential synergies in the CEO's ear. There are no human resource people and no consultants like myself at the table to alert the CEO to the fact that employee distraction from performance and culture clash are likely to interfere with achieving the hypothesized costs savings. And there are no operations managers, specialists in their areas, who can more realistically test the likelihood of achieving synergies than financial generalists. In most companies today, the word comes down that the CEO wants to get the deal done, momentum builds for going forward at any cost, and due diligence—a process that is supposed to alert the lead company to the potential pitfalls of a target—becomes anything but diligent.

Inadequate Teamwork. Mergers and acquisitions require coordination and cooperation across combining partners. Yet my research with organizational psychologist Philip Mirvis shows that individuals adopt very political behaviors in the hope of exercising control over an uncertain situation and protecting their positions, perks, projects, and perhaps people. They are not looking for the greater good—opportunities to build a postcombination organization that is more than the sum of its parts. Rather, they hold on tightly to the behaviors and attitudes that got them where they are. They go with what—and who—they know rather than reach out to the partner in an effort to realize efficiencies or enhanced ways of doing things. On an organizational level, culture clash rears up as employees notice differences in how the partners go about their work. Many CEOs deny culture clash going into a merger (Sandy Weill of Travelers and John Reed of Citibank are prime examples—when they announced their merger, they literally said there would be no culture clash; a year later, when they were interviewed for a *Business Week* cover story, they cited culture clash a half dozen times, and shortly thereafter, Reed was ousted in a boardroom battle). Research conducted at the London Business School, however, reveals that

with 20/20 hindsight, CEOs report that culture clash is the biggest hindrance to achieving the financial and strategic objectives of a merger or acquisition.

Inadequate Planning. One of the oddities of mergers and acquisitions is that executives purchase companies *before* they know what they are going to do with them. For employees, it defies common sense that the buyer just paid millions or billions of dollars for their firm but has no plan for integrating it. They assume that there is a plan sitting on the CEO's desk but that the CEO is just not communicating it. Now, if you think about it dispassionately, it makes good sense that companies study what they have acquired before making integration decisions. Still, employees just assume they are receiving the classic "mushroom treatment"—being kept in the dark, fed manure, and ultimately canned.

Downsizing: The Detested Task

Firing people is one of the most difficult actions any manager has to take. It is tough enough to do when someone is let go for performance issues, so imagine how much more difficult it is when a manager has to lay people off for reasons other than their personal performance on the job. No matter which euphemism is used—reductions in force, rationalization, rightsizing, downsizing—no one likes to lay people off (except maybe for the infamous "Chainsaw" Al Dunlap, but he got his just desserts!).

We have learned a lot about how to downsize "correctly" following the first round of mass reductions in force in the 1990s. For example, we know it is better to make the cuts in as few as possible waves, rather than several small layoffs, so that surviving employees do not become zombies on the job in fear of the next swoop of the ax. Still, downsizing remains an unsavory event for even the most hardened of executives to manage, and the norms that predominate in most downsizing organizations run counter to effectively managing the reduction:

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Sense of Urgency. Like gulping down bad-tasting medicine, the assumption in many organizations is that doing the cuts quickly is better than doing them carefully. “Announce the cuts and get back to work” is how one middle manager in a high-technology company was instructed to lead a downsizing in his department. That would be nice, but it isn’t realistic. People in a downsizing are not like medicine—they are not “fast-acting.” Instead, managers benefit from time to plan how they are going to make the cuts, how they will inform the survivors and the victims, and how they are going to get work done with fewer resources. And surviving employees need time to mourn the loss of coworkers, come to terms with what it means to work in an organization that lets people go even if they perform well, and ponder the long-term implications for their own job security and career advancement.

Fear of Violence. When managers learn that they have to lay people off, their thoughts immediately turn to fears of violent reactions by those affected. Although workplace shootings following downsizings are highly publicized, they are very rare. Whereas over one million people were laid off in 2001, the number of plant or office shootings can be counted on one hand. Obviously, the actual infrequency of violence does not justify the fear. Still, no one wants to be the exceptional case, and work team leaders distract themselves from managing the downsizing well by obsessing about what might happen.

Stigma of Failure. Even though downsizing is well ingrained in the managerial repertoire, it remains a stigma. When people hear that a company is cutting jobs, the assumption is that it is in dire financial straits. No one likes to boast that one’s firm is downsizing or to mention at cocktail parties what a prudent move it is to eliminate unnecessary costs or get the company back on the road to success. This stigma prompts leaders to downplay the event, minimize communication and act like little or nothing is happening rather than communicate openly and fully about the event, its purpose, and its

implications for going forward. “It was like they were talking about a child in a mental institution,” recalled a department head in a downsized financial services firm. “‘Don’t talk too much about it, and people won’t think about it’ was the tone set by our senior team. Ha! It was the *only* thing people were talking about for weeks in our office.” Contrast this with the comments of a business unit leader in a consumer products firm that also downsized: “We knew that people were going to linger around the water cooler and talk about the downsizing, so we tried to get ahead of the curve and give people some communications that conveyed why downsizing was a necessary step and how it would help get our company turned around. We didn’t deny the painfulness of having to lay off good contributors, but we also made sure that our people knew that there was some upside for the majority of us who remained.”

The Need to Recover After Transition

Some skeptics might ask why it is necessary to help organizations and their members recover from transition. These individuals either have not experienced the human pain and organizational inefficiencies that accompany mergers, acquisitions, and downsizings or have refused to acknowledge these inevitable side effects. These skeptics might question the need to attend to recovery in the following ways.

It’s a lousy economy out there; aren’t people glad to have a job? People certainly appreciate steady employment during difficult times. But employment that merely provides for security needs is not enough for intelligent, sophisticated workers, who want psychological along with financial rewards. The real question to ask is this: Once the economy recovers, will the best and brightest people be psychologically committed to realizing an organization’s new business opportunities, or will they defect to another team?

But if these people jump ship, are there others waiting in line for their jobs? Studies show that even short periods of unemployment produce drastic changes in how executives view themselves and the

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world around them. Most regain their self-esteem soon after they find new jobs, but their alienation and cynicism about employers in general remain. An organization needs people's hearts and minds, not just their bones and muscle, to pull away from the pack and capitalize on emerging business opportunities. Organizations looking for human resources from the outside will not find a talent pool immune from organizational MADness. New hires will bring their baggage from mismanaged transitions with them. Leaders cannot escape the job of healing the psychological wounds caused by mismanaged transitions, generating excitement about the current organization, and recommitting people to organizational goals.

People are being coached to be free agent managers, aren't they? Articles in the popular press in recent years have been instructing individuals to be "free agent" employees, selling their services to the highest bidders. This is a sound strategy in the new economy, but most people don't value jumping from company to company. Sure, some will walk out the door for more money. Most people, however, resonate with stability. They want job security and opportunities for personal expression in exchange for a fair day's work. They also prefer working at a place where they feel they are being treated fairly, communicated with, and contributing to the attainment of a clear and inspiring vision. Even Generation Xers, the workers most known for job hunting, are not as footloose in the employment market as they are reputed to be. A study conducted in late 2000, before the economic downturn that made job searching harder for all age groups, found that nearly half of professionals aged twenty-six to thirty-seven would be very happy to spend the rest of their careers with their current companies.

People are resilient, aren't they? Yes, people are resilient; they can bounce back from debilitating circumstances to become productive. The extent and speed of bouncing back, however, can be influenced. An internal study at Honeywell found that, on average, employees spent two hours per day distracted from work obsessing over how they would be affected by a transition. Imagine how much time and money would be saved if that could be reduced to one hour per day

per employee! Why wait months or years for a workforce to recover from a transition when it could take only weeks or months?

Don't people want to look to the future rather than dwell on the past? Psychological research is clear that people must first actively end the old before they can accept the new. Firms that engage in workplace recovery accelerate the rate at which employees both let go of outmoded perceptions, expectations, and behaviors and embrace new ones; those that don't end up retaining people who are bitterly holding on to the past.

Haven't people always dealt with change and transition in organizations? Change has been around as long as there have been work organizations. But prior to the organizational MADness that began in the 1980s, the relatively relaxed pace of organizational life in general—and of change in particular—provided a conducive setting for gradual adaptation to change. Employees could deal with the effects of coping with changes without significantly burdening organizational results. Steady increases in consumption during the 1950s, 1960s, and 1970s meant that practically all a company had to do to see revenues grow was put an “open for business” sign in the window. Distractions from productivity and profitability occurred but were offset by the momentum of increasing revenues. Moreover, the wide spacing between waves of transition ensured that people could regain their footing and composure before being upended by another swell.

Even the types of changes people had to confront were different. People faced modifications in aspects of their working life, not radical makeovers of the entire approach to doing their jobs. A clerk may have had to deal with incremental changes when word processors replaced typewriters or when the deductible rates for the company health care plan were adjusted. Today the clerk has to contend with such discontinuous transformational changes as re-engineering workflow processes or reformulating the psychological relationship between employer and employee. Yesterday's changes in specific pieces of the work situation left a mostly stable and secure foundation upon which to move forward. Today, whole

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worlds break up as a company is acquired and downsized and then a portion of it is spun off, only to be acquired and downsized again as it is integrated in the new owner's firm. The result is a dizzying and disarming specter of change with which to deal—a frequency and intensity of transition that overwhelms people's ability to cope and adapt. Especially when the transitions have been mismanaged by unclear visions, faulty communications, unfulfilled promises, and politics-plagued decision-making processes, people respond by holding on to the known—the tried-and-true practices that helped in the past but may not be appropriate for where leadership wants to take the organization.

Recovery

Let me be clear that I am not putting down executives for mismanaging organizational transitions. As noted, these are very tricky events to manage—the cards are stacked against executing them well. The time has come, however, to own up to this fact and pronounce how difficult they are to manage—along with acknowledging the unintended consequences of transition mismanagement—and raise up the work of workplace recovery.

When I tested the title and subtitle of this book with a few colleagues, I got some unenthusiastic feedback regarding the use of the word *recovery*. “It’s so negative, people will think you are talking about recovery from drug addiction or alcohol abuse,” warned one senior executive from a retail firm. “You should find a word that is more energizing,” suggested a prominent consultant. But a couple of experiences in my personal life showed me that this was indeed the appropriate word to describe what organizations and their people need to do to rebound, revitalize, or, dare I say it, recover from a mismanaged transition. On my way to a weekly softball game, I picked up a teammate. Although San Francisco is a wonderful city to live in, driving a car there is made more onerous by the paucity of parking spaces. We had good “parking karma” that day, as we happened upon a spot right in front of the softball field. In my

eagerness to parallel park, I cut the wheel too sharply, and my tire hit the curb well before I was in the space. I shifted the transmission into drive, cut the wheel sharply, moved forward a bit, and then backed up again—this time slipping smoothly into the spot. “Good recovery,” said my teammate. Then, during the game, a line drive was hit to my position in the outfield. I raced toward the ball, but it hit my glove and fell to the ground. The batter tried to take advantage of this error by stretching his single into a double. Instinctively, I picked up the ball and threw out the opposing player as he ran from first base to second, to make the third and final out of the inning. My coach greeted me as I entered the dugout with a hearty “Good recovery!”

Recovery is not bad. Recovery is essential when life is less than perfect. The dictionary says *to recover* means “to get back.” I got my car back into alignment to fit into the parking space. I got back the out I missed when I dropped the ball. Eventually my objectives were met, but I had to recover from my inadvertent miscues. That is exactly what organizations and their people need to do following the difficulty of mergers, acquisitions, and downsizings. Organizations have to get back to attaining their strategic focus, teams have to get back to working effectively, and individuals have to get back to realizing that they can grow and succeed along with their employers. Among the synonyms of *recovery* are *upturn* and *resurgence*. With the bleakest days of the economic recession behind us, organizations and their people have an opportunity for an upturn—to realize great profits, tremendous breakthroughs, and a return to meaningfulness in the workplace. The potential exists for a resurgence in organizational and personal development. But realistically, organizations and their people first need to *recover* from the unintended consequences of poorly planned and inadequately implemented mergers, acquisitions, and downsizings before they can experience an upturn or resurgence. Employees need help in letting go of their emotional and practical baggage before they can freely charge up the hill to capture the prize.