LIFE AFTER THE DEAL: MANAGING YOUR "MERGER SYNDROME"

A merger that looks good on the face of it can lose value when too many employees become anxious about what life will be like after the deal closes. In almost all types of corporate combinations – be it a merger, acquisition or spin off, friendly or hostile, domestic or cross-border – a human reaction to the corporate change should be expected. This often manifests as "Merger Syndrome" – a stress induced phenomenon that can result in "merger fatalities".

What creates Merger Syndrome?

Merger Syndrome is an amalgamation of uncertainty and the likelihood of change, both favourable and unfavourable, which produces stress and concomitantly affects perception, judgement, interpersonal relationships and the dynamics of the merger itself. The syndrome develops as a result of increased centralisation and lessened communication, which has a tendency to foster fears and insecurities about the merger and the employees' future within the organisation. In fact, this often produces "worst case" scenarios that distract employees from regular duties, and cause them to become obsessed about the impact of the merger on their job security. All of this impedes integration, reduces productivity and contributes to the turnover of employees, especially key employees. Employee attrition is one of the primary causes of disappointing outcomes in otherwise seemingly well-conceived mergers and acquisitions.

Agonising about the "what about me" issues in a merger is exacerbated by a clash of corporate cultures. By their very nature, mergers nurture an "us" versus "them" environment, and there is a propensity for employees to exaggerate the differences, as opposed to highlight their likenesses.

What is of the most concern, generally, is how the acquiring company goes about its business and how their business focus might not be aligned with that of the target company – for instance, their relative emphasis on production versus marketing, their predominantly financial versus technical focus or the their differing management styles. Ultimately, employees attribute all the differences discerned to competing corporate cultures, philosophies and values. This can often lead to a "mine is better than yours" situation. Usually the employees of the acquired firm are more affected by the restructure and, as a result, Merger Syndrome is generally more intensely felt in the subsumed organisation. Employees identify with their organisational culture; being acquired by another company can lead to a loss of identity. The employees' identification with their company, and their commitment to it are, therefore, likely to change after such a major change. The challenge for people is to cope with this change of social identity.

In the post-merger phase, symptoms of Merger Syndrome are heightened by the centralisation of decision making and
poor communication with the employees. This phenomenon is presumably due to the fact that, prior to the merger, key employees are required to maintain strict silence about the impending merger. This caution not to reveal too much information prior to complete implementation of the deal filters through post-merger. Increased workload, high uncertainty and expectations tend to lead manager teams (of both organisations) to slide into crisis management mode.

This is reinforced when top-down information is not clear or considered to be insufficient. The rumour mill starts and worst-case scenarios ravage the workplace; no news is usually perceived as “bad news”. Sometimes information and know-how are consciously withheld as a consequence of distrust and suspicion. In such an atmosphere, team work, cooperation and integration of the acquired company becomes challenging. The acquiring firm, and even colleagues are sometimes seen as competitors rather than allies.

So how do you prevent or treat Merger Syndrome

- **Formulate an integration plan:** Prior to closing, companies should set out a plan detailing the steps it will take during the months after closing. The sooner this is done, the better.
- **Establish your vision:** Successfully merged companies have a strong vision about the direction in which they want the new organisation to head. A clear strategy, common goals, distinct corporate values and principles translated into consistent actions are essential for success. As in every change process, the purpose and the common vision need to be well formulated and defined. When employees know why changes happen, it is easier to motivate them to accept the change. A strong management team with leadership competencies is needed.

Whether by default or design, the process of integration will take a long time as there is naturally a human resistance to change. Nevertheless, an important success factor is to move with haste. Top management needs to set an example during the entire process of the post-merger integration. An experienced integration team, with a clear mandate and strict guidelines, will help speed up the process and ensure efficient communication.

- **Keep employees in the loop:** Provide employees with insight and information to aid them through the process. As with any organisational change, the need for communication is extremely strong. This factor is key, especially in cross-border transactions. The principal requirement of strength communication is to build bridges between people by providing transparent, consistent, coherent and honest information. Effective communication during integration is a two-way process, from management to employees vice versa. Possible media are newsletters, merger papers, hotlines, websites, meetings and feedback interviews.
- **Inspire the change:** Inspiration means building positive expectations at the earliest stage so employees have something constructive to talk about. Simply informing employees about a new vision and strategy is not enough. It is important to internalise future goals, and to convince employees that they are part of this future. This enables the company to retain talent.
- **Use retention arrangements:** The company, of course, is best off if the key target employees remain willingly. However, to do this it might require dangling some sort of carrot, generally a financial one. This might take the form of an attractive employee retention plan designed to induce important players at all levels to weather the storm. Companies considering retention bonuses should consider repayment obligations that trigger if an employee leaves within a certain period after receipt of the money. Salary or minimum bonus guarantees can also ease concern about transition into a new compensation environment.

Retention packages are more effective when deployed rapidly and their benefits communicated effectively. The companies should deal with this immediately after announcing the pending merger. Waiting might well result in headhunters fleecing the target company of its most valuable employees by reinforcing the natural fears of employees whose company is being acquired. Merger Syndrome is perfectly normal, and to be expected even in the best planned and carefully managed integrations. If not managed properly, employees’ emotional stress can pose a significant risk to the success of a merger.

Managing Merger Syndrome is not about trying to eliminate it, but about helping people manage its sources and symptoms. Employee attrition will always be a risk factor in mergers and acquisitions but careful attention to effective implementation can go a long way toward minimising those risks.

Salt is an associate in the Employment Practice of Baker & McKenzie.

**Article by LAUREN SALT**