The Talent Factor in Mergers & Acquisitions

Five observations, along with examples from the real world.

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As someone who is charged with talent acquisition or talent management, would you like to add more value to your organization's merger and acquisition initiatives?

After being involved in more than 15 mergers and acquisitions, I have made a few observations and developed a framework to improve the effectiveness of the merged or acquired companies in achieving their strategic intents. More recently, I have reviewed a number of recent mergers and acquisitions in different industries to validate those observations and test the framework. As talent professionals, we can play an important role in those transitions, but first the observations:

Observation 1: Most companies focus their due diligence on opportunities for leveraging product lines, services, technologies, or customer bases to generate higher revenues and (hopefully) increase profitability.

Observation 2: Most companies identify cost-reduction opportunities during their due diligence, and implement those cost-reduction opportunities (which most often involve job eliminations and layoffs) in their post-merger/acquisition integration efforts.

Observation 3: Most companies need to do a comprehensive cultural and talent analysis in their due-diligence process, and need a plan for the cultural and talent implications in their post-integration process.

Observation 4: Most companies underestimate the need for clear, consistent, and continuing communication in both the pre- and post-merger/acquisition eras.

Observation 5: Companies need to select purposeful, vs. ego-driven, leaders to lead the post-integration efforts.

Let's look at a few examples:

- The merger of Viacom and CBS in 2000 was intended to create a media, entertainment, and advertising giant. Viacom brought to the merger the cable networks MTV and Nickelodeon, the motion picture studios of Paramount, the publishing of Simon & Schuster, the video retail outlets of Blockbuster, the theme parks of Paramount Parks, and 19 local television stations. CBS brought the CBS broadcast network, the radio stations of Infinity Broadcasting, the outdoor advertising of CBS Outdoor, and 16 local television stations. Viacom also brought its storied entertainment content and CBS its operating efficiencies to the merged company. Viacom was to provide the production and content, and CBS the distribution. Together, the intent was to create a powerful media company that could offer audiences a rich array of entertainment options that would complement each other. The CBS broadcast network was characterized by an aging viewership that would capitalize on Viacom's younger audiences. Cross-selling among lines of business was also envisioned, such as MTV entertainment content that could be made into feature films and later broadcast on television.

In addition, there was synergy in advertising vehicles where the united company could offer advertisers the ability to use outdoor media, radio, television, and cable networks — vehicles that would complement each other. This was considered important because both companies derived approximately 50% of their premerger revenues from advertising.

What happened: At the time of the merger in 2000, the stock price for Viacom was $54.37 per share. Five years later, at the split-up date of 12/31/05, it was $40 per share. The operational synergies were never realized because CBS and Viacom continued to operate as two distinct companies that just happened to have common ownership. Collaboration between CBS and Viacom never occurred in a number of areas, including procurement, marketing projects, facilities sharing, and even legal support. A significant barrier to the success of the merger was that the cultures of the two companies never meshed. CBS was efficient and focused on operations, while Viacom was creative and focused on creative content. The tension between the "CBS group" and the "Viacom group" was unfortunately evident to all stakeholders: suppliers, employees, and even stockholders when at public meetings.

- The merger of J.P. Morgan Chase and Bank One in 2004 was one of the largest in history. Jamie Dimon was the chairman and CEO of Bank One and would replace William Harrison as the CEO of J.P. Morgan Chase by 2006. The merger was intended to establish a larger customer base; build an enhanced product line of advisory, risk-management, and capital-raising services; and improve profitability.

  What happened: Although Dimon did not come into the CEO role until 2006, he quickly influenced many of the strategic decisions during the transition period. By 2007, the new firm had saved approximately $3 billion from the integration of duplicate functions. However, to accomplish this, it had reduced their workforce by more than 12,000 employees. Bank One's main office was transferred from Chicago to New York City, and those who worked in the Chicago office were either terminated or transferred to the New York office. By 2006, J.P. Morgan Chase had completed a seamless transition of its major technology and client conversions, and additional products and services were made available with little disruption to a much broader client base.

- The merger between Kmart Corporation and Sears, Roebuck and Co. in 2004 was intended to provide synergies in the areas of revenue and costs. Both companies were not in the best of financial situations before their merger, in which Kmart bought Sears for about $11 billion. Kmart had filed for bankruptcy in 2002, and Sears was on the verge of being bought by private investors in order to cash in on the company's real estate. Both Kmart and Sears saw many benefits in merging their businesses. Revenues were still considered good and could only get better if the two companies merged. Besides, Kmart needed a way to compete with its greatest rival, Wal-Mart, and this was a way to do it.

  What happened: Some of the integration actions included: Sears started selling its name-brand appliances and hardware in Kmart stores, thus creating cross-selling of merchandise between the two previously independent retail chains; many Kmart stores changed their name to Sears; the integration of merchandise between the two stores resulted in some of the same vendors thus providing lower costs in handling multiple vendors; and more than 138,000 employees have either left the company or their positions were eliminated. The new company's culture is not clear, and how that will translate into customer service is yet to be seen.

- Procter & Gamble, the largest consumer products company in the United States, acquired Gillette in 2005. Both P&G and Gillette faced growing pressure on profits as consumers were becoming more price-conscious than brand-conscious. The merger allowed two consumer-product giants to strengthen their bargaining position with retailers such as Wal-Mart, which could now demand lower prices from suppliers in order to raise their profit margins. Besides Gillette's strong product base, the acquisition could produce several key synergies to benefit both companies. It could supply more leverage for both manufacturers to acquire more shelf space in retail stores around the world. It would allow Gillette to quickly transfer into the Asian markets that P&G operated in. The growing market share for Gillette's product lines would help increase P&G's annual revenue growth. The merger would also allow the companies to decrease labor forces where there were overlapping product segments, management sectors, and supply chains.

  What happened: Because of retailer inventory-reduction programs, the overall shelf space occupied decreased for the newly combined company in 2006. Gillette has been successfully integrated into the Asian markets. The market share for Gillette brands has remained relatively stagnant because of inventory reductions in the manufacturing process and shelf-space reductions in the retail sectors. P&G has reduced its workforce by consolidating duplicate positions and reducing overlapping upper management.

- Federated Department Stores, Inc., and The May

Department Stores Company merged in 2005. The intent of this merger was to combine two of the best department store companies in America, creating a new retail company with truly national scope and presence. It also was to drive consumers back into the department store setting. Customers were increasingly shopping at large discount retailers such as Wal-Mart and Costco, and there was a growing increase in online shopping, which also made for slow sales in department stores.

What happened: What happened: The new company either closed or divested all of May's department stores, and converted others to the Macy's brand, with some being converted into Bloomingdale's. As a result, there were massive layoffs. Many of the laid-off employees were offered severance packages, and job-placement services were brought in to help those who lost their jobs as a result of stores closing. The concern about job loss with so many associates had a direct impact on customer service.

In late 2006, the company sold Lord & Taylor because it did not fit with plans to build the Macy's and Bloomingdale's brands. In early 2007, it also sold its bridal unit (David's Bridal and Priscilla of Boston were sold to Leonard Green & Partners, LP, and After Hours Formalwear was sold to Men's Wearhouse). In early 2007, the Federated board of directors asked shareholders to change the name of Federated Department Stores, Inc., to Macy's, Inc. The change was approved, and Federated formally changed its name effective June 1, 2007. The impact of changing so many customer-respected department store names in such a short period of time is yet to be seen.

- When Sprint and Nextel merged in August 2005, there were high expectations that the marriage of these two wireless companies would produce a powerful behemoth that would partner with cable companies and deliver a host of new services.

  What happened: Shortly after the merger in 2005, the company passed numerous important milestones, including the finalizing of logistics required to deliver unified services at the date of the market launch. These logistics included training more than 30,000 customer-facing employees; preparing a blueprint for iDEN and CDMA cell sites and other network deployments; and unifying company credit and collection policies and billing practices. The company struggled, however, to manage two very different mobile-phone networks, as well as combine two very different corporate cultures. What's more, the Sprint and Nextel networks operated on different wireless technologies, which made it harder to merge operations. They appeared to focus more on developing new technologies and products than on keeping their existing customers happy. Thousands of customers have defected to the competition because of poor service. Sprint shares have fallen, while AT&T and Verizon have experienced double-digit increases in stock prices.

- Adidas' 2006 acquisition of Reebok was intended to achieve the following: build its market share so it could take on Nike, its number one competitor; increase its margins; and establish a presence in the developing Asian markets (China, Korea, and Malaysia).

  What happened: Adidas made the decision to keep the two brands, marketing strategies, and images separate. However, all back-end functions such as sourcing, transportation, accounting/finance, information technology, human resources, and warehousing, as well as managing and setting up factory outlets, are being integrated. Adidas (German-based) and Reebok (U.S.-based) appointed new leaders to help with the integration of the two corporate cultures and strategies. Adidas has increased its market share and expanded easily into the U.S. and Asian markets but still falls short in comparison to Nike. The post-merger integration has helped to cut costs and to increase margins and stock price.

In each example, there was some combination of leveraging products, services, technologies and/or customer bases, and cost reductions. What is not publicly available or readily understood are the cultural implications, communications, and leadership behavior in the transition period.

Many mergers and acquisitions fail to deliver on the potential of their strategic intentions because most companies have not done a thorough job of analyzing the cultural and talent implications, planning and implementing a cultural and talent implications strategy, and implementing an effective ongoing communication plan in their pre- and post-merger/acquisition integration activities.

Talent acquisition and management professionals can add value by designing and facilitating those processes that: identify the business, leadership, and functional talent needed for the new entity; assess the current talent in the combined organizations; and develop and implement talent acquisition strategies and plans to meet the talent needs of the new organization.

By understanding and coaching leadership on the human side of mergers and acquisitions, talent acquisition and management professionals can be good business partners in M&As. For example, since the M&A transition period is marked by uncertainty, concern, and change, it is important for business leaders to understand that:

- People typically resist change.
- People can get anxious with uncertainty and ambiguity.
- People can fill up the void (of information) with rumors and negativity.

The M&A transition period is a time for leadership to rise to the occasion. There are several things that talent acquisition and management professionals can coach their leaders to do:

- Manage one's attitude. One may not have control over what happens, but one is completely in charge of how one reacts to it.
- Focus on the positive potential of the merger or acquisition. Remember, mergers and acquisitions are based on the potential to create more value.
- Understand that a merger or acquisition can shake people out of a rut. It may cause some people to do some introspection or self-examination, and it may help others stretch and grow.
- Do not believe a lot of what you hear. The rumor mill will churn out all kinds of gossip about disturbing events that will never come to pass.
- Maintain a focus on the business. The merger or acquisition can be a major distraction for people. Help them stay focused on their goals and priorities.
- Stay close to your people and talk with your staff every day.

Clear, consistent, and continuing communication is a critical leadership responsibility, and can be the key to achieving the intended potential in today's mergers and acquisitions. Change is stressful and can bring out the worst, or the best, in people.

Since leadership plays such a significant role in those critical transition periods, the selection of leaders for those roles is an important task for business and talent acquisition/management leaders. Ego-driven leaders manage their behavior according to what they can glean from the transition. Those leaders may vocalize "the best interests of the company and its people" but are motivated by the power and/or wealth they can personally maintain, acquire, or build during this period.

Purposeful leadership — leadership that is genuinely interested in the company's good — is key to a successful merger or acquisition. Those leaders are often not the most visible because they do not need or want the limelight. What motivates them is the best interest of the company and its people.

If your organization is in, or planning to be in, a merger or acquisition, then making the most of synergies and cost-reduction opportunities is an understood part of the equation. However, as a talent acquisition/management professional, you can help the organization reap more of the intended value of the merger/acquisition by introducing and working on the other elements of the equation, including a comprehensive cultural and talent assessment and implication plan; clear, consistent, and continuing communication; and the selection and coaching of purposeful leadership to lead the post-integration process.

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