COMMUNITY

COPING WITH EMPLOYEES' POST-MERGER UNCERTAINTY

Using town halls, company-wide videos, and announcements is insufficient to keep your valuable human capital.

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4 Min Read

As global market competition is growing fiercer every year, companies increasingly engage in mergers and acquisitions (M&As) to gain competitive advantage. According to a report from J. P. Morgan and Chase, the volume of global M&As reached $3.7 trillion last year. However, most M&As fail to live up to expectations, often due to poor post-merger integration: conflict and miscommunication between legacy organizations frequently occur, employees fear being laid off or are dissatisfied with changes in their job duties, and, eventually, valuable employees leave, taking their knowledge, abilities, and skills with them. Therefore, an essential element for success is boosting employees' morale and positive attitudes toward the merger. What can top managers do to ensure that employees remain satisfied and committed to staying with the newly-created organization?

Our study of an organizational merger between two large American consumer products companies – "Luxury" and "Standard" – suggests that if top management hopes to keep valuable employees, they need to sell the merger to employees at both the strategic and personal levels. Luxury and Standard were similar-sized industry rivals; Luxury was that industry's fastest-growing, high-end products company with its major innovation in materials, while Standard was a more traditional company with products ranging from very basic to above average. Luxury went public a few years prior to the merger and its shareholders demanded that the company increase its market share profitably to improve its stock price, prompting the acquisition of Standard. We studied how employees' merger reactions impacted their attachment to the company over the subsequent year.

Top management largely explained and sold the merger by focusing on how bringing these two companies together was important from a strategic perspective. The M&A would allow the combined company to cover the market's full range from low-end products to luxury products, making it more attractive to its retail customers. Because the merger's value came from combining the strengths of two complementary organizations, rather than exploiting redundancies, there were no plans for major layoffs, so job security should not have been at issue. Top management held numerous town halls and created videos for general circulation to explain the acquisition and to help employees overcome any uncertainty about the merger.

Despite these efforts, we found that employees' personal concerns after the merger, such as how secure they felt their jobs were, how much change they expected in their job roles, duties and routines, and how they judged the fairness of their compensation in the newly-merged organization, all impacted their organizational attachment (their job satisfaction, intention to stay, and whether they voluntarily left the company over the next year). Employees who perceived high job security and fair compensation were more satisfied with their jobs and were more likely to intend to stay with the company. What was more interesting was that even employees who felt they had high job security and fair compensation were more likely to leave voluntarily when they expected that their current job role would be subject to greater changes in their roles, duties and routines because of the merger — which is referred to as "job discontinuity." It seems that employees were comfortable with what they were doing and the uncertainty of doing something different led many to leave voluntarily, even if they were considered high performers and very promotable. A subsequent study showed that there was a path to keeping these employees who expected their job roles were going to change: network adaptation. Those who adapted their networks of workplace relationships to include members of the counterpart legacy organization were much less likely to quit, suggesting that reaching out socially was a good way to deal with the uncertainty they felt about the merger and their changing job role, helping employees better understand and adapt to their place in the new organization.

Our study shows that using town halls, company-wide videos, and announcements to communicate the merger's importance is insufficient to keep your valuable human capital. Employees each need personal development and reassurance regarding their individual concerns around job security and continuity, as well as assurances about their own role within the newly-created company. Rather than relying solely on organization-wide communication, companies can increase the odds of a successful post-merger integration by employing a three-pronged approach: (1) organization-wide communications regarding positive changes for the entire company; (2) holding individualized sessions and discussions led by direct supervisors that give employees a chance to make personal cost-benefit evaluations and resolve any personal concerns about their role in the merger; and (3) having managers encourage direct social interaction between employees from each legacy organization to help facilitate integration. Thus, top management must encourage middle managers to catalyze both formal and informal communications on where employees will stand as the post-merger integration plays out.

Published December 10, 2018

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