

Retention after a merger

Keeping your employees from “jumping ship” and your intellectual capital and client relationships “on board”



Introduction

Despite the fact that mergers and acquisitions look attractive in theory to management and investors, the reality of their execution is that organizations are composed of employees who generally view such organizational changes as a threat. Accordingly, many merger and acquisition (M&A) deals have inherent retention issues resulting from negative attitudes often felt by employees, including, but not limited to:

- Uncertainty about the future organizational direction
- Feelings of loss of previous organizational culture
- Uncertainty about personal job security
- Perceptions of lack of leadership credibility
- Feelings of confusion due to a lack of communication
- Survivor guilt due to downsizing of other employees
- Perceptions of increased job stress and workload

In essence, employees often lose trust in their organizations and feel betrayed by leadership. Consequently, in an attempt to regain control over individual job situations, many employees begin to contemplate “jumping ship” as the merger or acquisition is implemented. However, during a merger or acquisition, it is essential to keep employee turnover low for two significant reasons:

1. Business continuity is key to realizing the benefits of a merger or acquisition
2. There can be large financial implications from the cost of hiring new employees, the loss of knowledge/intellectual capital, and the loss of client relationships

Therefore, organizations must proactively work to maintain or regain employee trust to keep them and the intellectual capital they represent “on board.” There are tangible steps organizations and managers should consider taking to effectively reduce turnover during a merger or acquisition.

Financial remuneration

Financial remuneration in the form of retention incentives has long been considered an antidote for potential employee attrition during a merger or acquisition. Most M&A financial models include a retention plan line item, and the amount of money that is added for employee retention is often considered part of the "cost of the deal." Companies want to believe that providing retention incentives to stay with the combined organization is sufficient to cause employees to stay. However, the retention incentives can only begin to build a bridge to restoring employee trust by buying time.

Financial remuneration alone will not rebuild long-term employee trust. The company must regain employee trust. Otherwise, once the retention incentives are paid, employees may be more likely to consider other employment opportunities. Subsequently, the amount of money paid to them as retention incentives, if not extended or renewed, might have only created a temporary stability.

So what else should organizations consider to rebuild employee trust? A secondary analysis of data from a 2004 employee survey conducted at an international professional services organization sheds some light on ways organizations can increase their employees' commitment and trust.¹ The sample of approximately 2,750 employees had experienced numerous organizational changes through multiple downsizings on the heels of being acquired, and the study found that increased organizational support and increased managerial support improved employees' organizational commitment.

Organizational support

The perceived organizational support perspective is guided by the principle that most employees need to feel that their organization respects and supports them in order to remain committed and loyal, satisfied with their jobs, and willing to work hard. Accordingly, employees develop global beliefs concerning the extent to which their organizations value their contributions and care about their well-being.²

The analysis of the 2004 employee survey results found that organizations can provide additional support to employees during organizational changes by taking the following steps:³

- Reducing uncertainty through credible leadership
- Providing sufficient access to information about organizational changes
- Continuing ongoing learning and professional development

Credible leadership

After a significant organizational change, employees want leaders who are credible and tell the truth. If employees perceive their leaders to be credible, some of their uncertainty about the merger or acquisition can be reduced. Credibility can be conveyed through messages sent by management, especially messages that communicate ongoing organization support. In addition, management should be visible and set expectations regarding corporate performance goals and employee roles.



¹ Erickson, R. A. & Roloff, M. E. (2007). Reducing attrition after downsizing: Analyzing the effects of organizational support, supervisor support, and gender on organizational commitment. *International Journal of Organizational Analysis*, Vol. 15 No. 1, pp. 35-55.

² Eisenberger, R., Huntington, R., Hutchison, S., & Sowa, D. (1986). Perceived organizational support. *Journal of Applied Psychology*, Vol. 71 No. 3, pp. 500-507.

³ Erickson, R. A. & Roloff, M. E. (2007). Reducing attrition after downsizing: Analyzing the effects of organizational support, supervisor support, and gender on organizational commitment. *International Journal of Organizational Analysis*, Vol. 15 No. 1, pp. 35-55.

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Sufficient access to information

Organizations should proactively create communication strategies that utilize effective organizational communication practices. For example, management should explain why the merger or acquisition was advantageous; repeat messages through multiple communication channels; recognize that employees prefer face-to-face communications; check to make sure that the messages sent were the messages received; and realize that not communicating has negative instead of neutral effects.

Ongoing learning & professional development

During the build-up to a merger or acquisition, organizations might discontinue training and development opportunities to cut costs and improve their financial bottom-lines. Management should rethink this practice since the costs of attrition can far outweigh continuing to give employees some level of discretionary resources. In addition, training that is clearly linked to job performance can be another example that reinforces the message that the organization values their employees and wants to help them improve their job-related skills.

Managerial support

Just as employees develop global beliefs concerning the extent to which the personified organization values their contributions and cares about their well-being through organizational support, employees develop impressions about how much their manager (or supervisor) values their contributions and cares about their well-being through perceived supervisor support.⁴ Managers play a critical role when employees are deciding whether or not to stay in an organization through carefully assessing employee potential, clearly articulating organizational goals, encouraging employee development, and helping attain necessary information, resources, and technology. Consequently, organizations should hold managers accountable for

the retention of subordinates. They should also evaluate managers' people management skills, as these skills are often either not evaluated or are undervalued when compared to business performance results.

The analysis of the 2004 employee survey data found that managers can provide support by taking the following steps:

- Monitoring employee workloads
- Meeting regularly with employees to communicate both organizational and managerial support
- Providing employee performance management feedback on a regular basis⁵

Monitoring workloads

One unfortunate consequence of mergers and acquisitions is that employees are often required to take on additional workloads. Accordingly, organizations should require managers to have conversations with employees about their potential new roles subsequent to the merger or acquisition and support them, as much as possible, in developing/acquiring/learning the knowledge, skills, and tools necessary to be effective in that new role.

Meeting with employees

A simple way managers can communicate organizational and managerial support to employees is by holding regular one-on-one meetings to discuss how the employees are coping with their new roles and often increased workloads. Through these one-on-one meetings, managers should also communicate care and concern about the well-being of the employees as individuals.

Providing performance management

Organizations should evaluate their performance management processes to determine whether they provide a rigorous identification of talent, effectively evaluate behavioral and professional competency development, and appropriately recognize achievements. In addition, organizations should require managers to provide individualized, formal feedback to employees. Managers should be encouraged to view the performance management process as a priority, investing time and energy in mentoring and developmental feedback discussions.

⁴ Eisenberger, R., Stinglhamber, F., Vandenberghe, C., Sucharski, I. L., & Rhoades, L. (2002). Perceived supervisor support: Contributions to perceived organizational support and employee retention. *Journal of Applied Psychology*, Vol. 87 No. 3, pp. 565-573.

⁵ Erickson, R. A. & Roloff, M.E. (2007). Reducing attrition after downsizing: Analyzing the effects of organizational support, supervisor support, and gender on organizational commitment. *International Journal of Organizational Analysis*, Vol. 15 No. 1, pp. 35-55.

Conclusion

Retention incentives are an important part of any merger or acquisition. Employers need to retain their employees because they need to retain their intellectual capital, the client relationships that have been fostered, and the business focus that allows the organization to continue to operate effectively.

Financial remuneration during the time of a merger or acquisition can be important and is usually expected. In some cases, it can make the cost for a competitor to "buy out" the employee prohibitive. Similar to a sign-on bonus for a new employee — which helps convince an employee to jump ship and take a new job — a retention incentive needs to be a counterbalance. The retention incentive should be designed to convince the employee that a new job in a new organization may not be the better option and to give their current organization's merger or acquisition a chance to show its value.

However, it is critical that the organization understand the limitations of financial remuneration in an M&A situation. The additional dollars will not buy hard work or long-term loyalty. Instead, they should help open the door for the organization to begin demonstrating it will "do the right things" for its employees. Those things may include providing managerial support and direction, clear communications about the business, learning opportunities, and strong leadership. The new organization also has to do a good job at communicating its vision for the new combined entity and how the combination is actually beneficial to the employees through growth and/or sustained viability.

Deloitte's Merger & Acquisition Services professionals help clients in their efforts to gain a competitive edge by applying our multifunctional approach and providing services, which span the deal life cycle and include support for such activities as: M&A strategy development, target screening, due diligence, transaction execution, integration, and divestiture.

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In order to decrease post-M&A attrition, over the long term, organizations and managers must take tangible steps to improve employee commitment and employee retention by providing additional support. These types of effort can help keep your critical talent, intellectual capital, and client relationships on board.

Deloitte has service offerings and tools to help you in your efforts to keep employee turnover low and rebuild employee trust at each of these points in the M&A life cycle:

- Due diligence
 - Developing the preferred employment model
 - Identifying high-performing employees and critical roles
 - Developing a retention strategy and designing a retention program
 - Obtaining program and budget approvals
- Integration advisory
 - Developing a communication strategy
 - Developing performance management programs
 - Creating training programs
 - Providing leadership coaching
 - Facilitating employee focus groups or round tables
 - Developing employee engagement surveys and assessments
- Program management
 - Completing management transition
 - Improving communication across entities
 - Facilitating complex integration activities.

Contacts

For additional articles from the *Leading through transition: Perspectives on the people side of M&A*, please visit www.deloitte.com/us/peopleofMA.

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