



Research summary

THE IMPACT OF MERGERS AND ACQUISITIONS ON EMPLOYER BRANDS

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Mergers and acquisitions have not been a natural topic of interest during an economic downturn. A report on this subject is, however, relevant and timely. As many companies suffering in the recession have reviewed their portfolios and made divestments, others have inevitably acquired new businesses. And at the time this report goes to press there has been a flurry of merger and acquisition (M&A) activity.

Mergers and acquisitions place unique pressure on the deal between individuals and their employer. With the end of the recession in sight, this report can help readers prepare for some of the potential challenges that lie around the corner.

More broadly speaking, mergers and acquisitions are an example of change and business transformation. This summary report contains messages that will be useful in relation to managing any major change programme.

This research summary

This report is a summary version of a full CIPD research report commissioned from Bernard Hodes. It is based on qualitative research inside five organisations that experienced a merger or acquisition and an external survey with nearly 300 responses.

The research summary provides an overview of key findings:

- 1 Change shakes the deal.
- 2 Losing the power to choose is the most destabilising factor.
- 3 Communication remains undervalued by organisations.
- 4 Employer brands do set expectations.
- 5 There is a lack of cultural considerations.
- 6 There is a lack of longer-term plans beyond an initial operational integration.
- 7 The process of change is an engagement lever in itself.

It also gives the background to the research.

Our research partners:

- BNY Mellon
- easyJet
- London & Quadrant Group
- Morrisons
- William Hill.

Staples acted as a commentator on the research findings.

CIPD members will be able to download the full research report at

www.cipd.co.uk/research

A practical tool providing more practical guidance, frameworks and diagnostics based on this research will be published in 2010.

www.cipd.co.uk/tools

KEY FINDINGS

1 Change shakes the deal

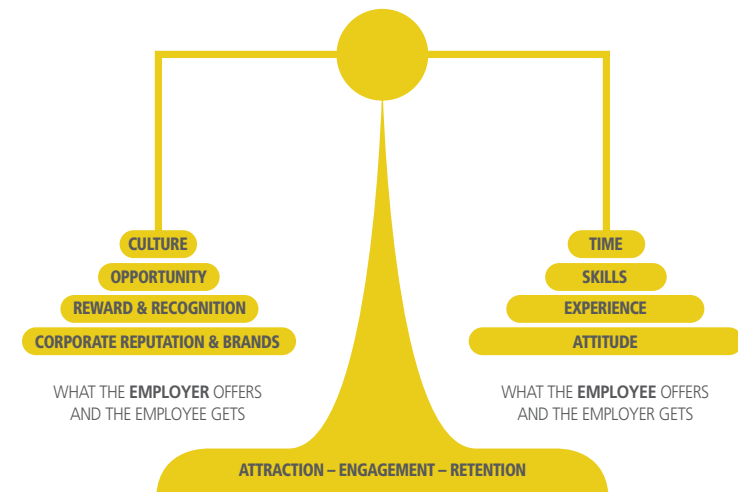
The observation that change unsettles individuals is not new. However, the research underlines the perception that mergers and acquisitions often represent major change and can instil feelings of insecurity and uncertainty in some employees.

The relationship or deal that employees have with their employer can be explained through the brand balance model shown in Figure 1 below. The left-hand side of the model shows what an organisation can offer

and what the employee will get, and on the right-hand side it displays what the employee has on offer and what the organisation will receive in return.

In the act of merger or acquisition, the deal is unbalanced and engagement is threatened. Our research shows that employees question the attractiveness of what the organisation has to offer. Conversely, in these periods of change employers question the value of employees' attitudes as well as their skills and expertise.

Figure 1: The brand balance model



Source: Rosethorn et al (2009)

2 Losing the power to choose is the most destabilising factor

In one critical aspect mergers and acquisitions invert and rewrite the employer deal for employees. For all but a select minority, a merger or acquisition is disenfranchising as it means losing the freedom and power to choose your role and employer.

Almost invariably, employer brands operate on the basis of 'free choice' made at the beginning of the employment lifecycle. The company offers a product called 'job opportunity' and the potential employee presents their skills and expertise in return. In mergers and acquisitions, except for a handful of senior people, this choice is rescinded and one of the fundamentals of the employer deal is challenged.

In our research we heard a similar statement from employees at all levels on a number of occasions: 'I find myself in a job I did not pick, working for an organisation I did not choose to work for.' This statement even came from individuals who many might perceive to be in a strong position as a result of the change they had been through. The loss of choice was driving an emotional reaction that they were struggling to manage – and in one case by their own admission it was distorting a balanced appreciation of what they stood to gain.

To reinforce this point, we also saw in our external survey that over 50% of respondents who had been through a

merger or acquisition actively thought about leaving their jobs sooner than they might otherwise have done.

3 Communication remains undervalued by organisations

Our desk research highlighted what many practitioners already know – that communication is a major feature in the dynamics of mergers and acquisitions. For example, Hewitt & Associates' 1998 research amongst HR directors reported that the key factor for success is 'adequate communication'.

'Adequate communication' draws on the right messages and methods to support employees through the emotional journey that the change has kick-started. Such communication is built on a strong appreciation of an organisation's change curve and a planned approach to reaching employees at different stages of the journey (see Figure 2).

The importance of effective communication was reinforced both in our case studies and our external survey. Our findings highlight the need for better communications on a number of fronts:

- regularity and consistency
- honesty and straight talking
- information about the customer message

Some of our case study organisations developed comprehensive communication

Figure 2: The change curve



Source: Adapted for use with organisational change from Kübler-Ross (1969)

programmes. However, not all integrated their employer and customer communications effectively. Equally, some organisations didn't communicate throughout the merger or acquisition process.

The implications of this were far-reaching. Employers that invested in face-to-face meetings with management teams were rewarded with higher levels of engagement and clearer understanding amongst employees. Those that did not risked confusion around messaging and employees misunderstanding what companies expected of them.

Effective communication can dispel some of the uncertainty and insecurity felt by individuals in mergers and acquisitions.

The key point is that it is open, honest and authentic.

4 Employer brands do set expectations

From the outset of this research exercise we were keen to identify whether brands with clear employer dimensions set expectations to employees involved in mergers or acquisitions. Our case studies suggest that they did.

Sometimes these expectations would be shaped by employees' perceptions of an employer brand. At other times they would be framed by perceptions around the master brand.

When the employer brand is little known, employees perceive master brand

attributes such as organisational values as representative of the employer brand deal. This association of master brand attributes is well established in employer brand dynamics and, of course, it is not necessarily the reality in terms of the deal that emerges.

Once again, our findings support this point, although high-proximity talent groups tend to be more informed and less likely to fall in the knowledge gap with unfounded perceptions. (High-proximity talent segments are people with core skills and experience within their sector, for instance, pilots in air travel, store managers in food retail.)

5 There is a lack of cultural considerations

It is not surprising that the early stages of organisational restructure – particularly when it involves the acquisition, disposal or merger of businesses – are planned by a small group of senior executives. In fact the regulatory environment in which much of the world now operates demands a very careful approach to exploring mergers and acquisitions. Consequently, third party advisers are frequently appointed and become significant players in shaping the merger or acquisition process.

Although these advisers usually raise the question of ‘cultural match’ and the engagement of talent through the process, it appears only a minority of organisations do substantive cultural assessment as part of planning their approach. This is surprising given the number of leaders who

acknowledge the importance of a focus on culture to the success of such a change.

6 There is a lack of longer-term plans beyond an initial operational integration

In most of our case studies the focus of planning was from due diligence until the legal finalisation of the deal. Pertinently, ‘integration’ was treated as the operational aspects of change, including for some the equalisation of terms and conditions, rather than a longer-term plan that ensured change was embedded. Typically, third party advisers exited at the completion of the legal deal and therefore the focus of their project plans tended to end at this point, too. It is clear that many organisations underestimate the time that successful transformation takes and do not fully appreciate that change has other dimensions beyond operational ones.

7 The process of change is an engagement lever in itself

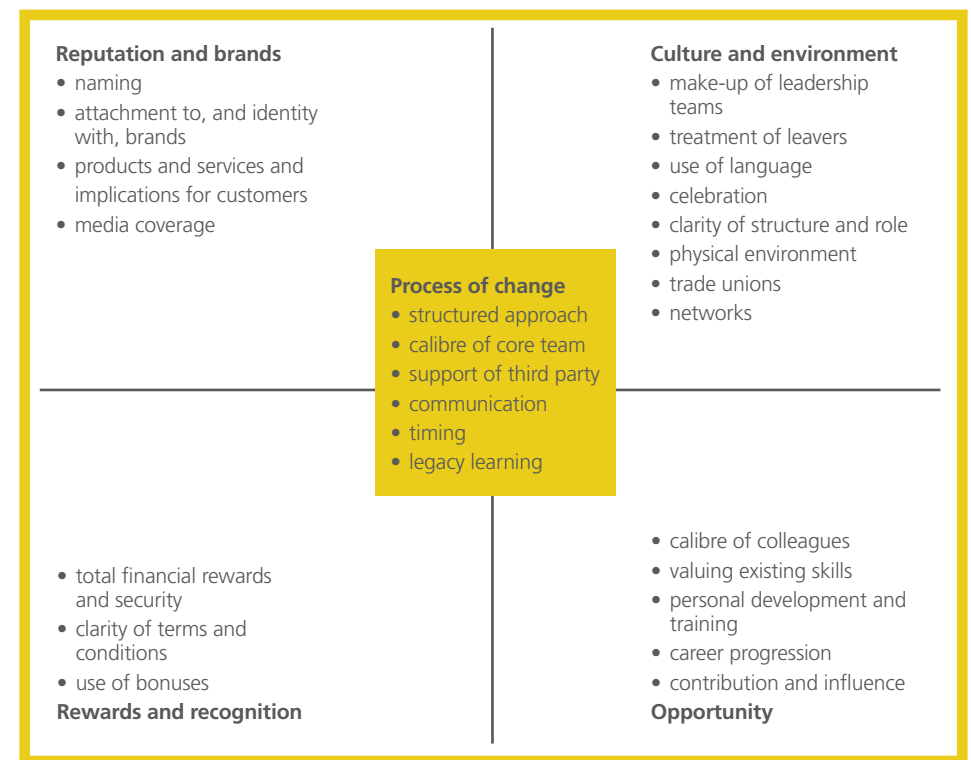
As the employer deal is often unclear in a merger or acquisition, many factors will determine how effectively individuals reframe their view of the deal and remain engaged with the organisation. There is no single measure of engagement in these circumstances and how change is delivered in the organisation will in itself shape the desire of employees to commit to going forward.

The factors influencing engagement vary with seniority, reflecting progressively more complex sets of needs depending on level in the organisation. Such a correlation around

motivation was first identified by Maslow in 1943 but has been updated by other commentators. Tamara J. Erickson of the Concours Institute in the USA recently observed that each employee segment she identified cared deeply about several aspects of the deal (Erickson and Gratton 2007).

A number of factors within the left-hand side of the brand balance model (Figure 1) have emerged through the research as particularly meaningful to the deal and employee engagement. We have captured these in an engagement matrix, which also recognises the impact of the process and the emotion of change. This matrix (shown in Figure 3) is an evolution of an original engagement model published in 2009 (Rosethorn et al 2009).

Figure 3: Key factors driving engagement through M&A



Source: Adapted from Rosethorn et al (2009)

We have isolated the factors that relate to the process of change – the ‘how’. The remaining factors highlighted in the matrix are outputs of change – the ‘what’ – but they are impacted significantly by the change process of which they are a part.

Summary

The research has uncovered a number of key findings, often a combination of the ‘how’ and the ‘what’ in relation to change.

The one finding that we believe puts all the others into context is the question of choice. Mergers and acquisitions challenge the free market dynamics of the employer brand. They remove employees’ freedom to make compromises or other choices about employers’ various attributes and features, and this fundamental reshaping of the employer deal should be considered by all those planning and managing such change.

BACKGROUND TO THE RESEARCH

This research summary provides an overview of the findings of CIPD research by Bernard Hodes Group into the impact on employer brands of the process of change brought about by mergers and acquisitions.

Background

The overall purpose of this piece of research was to scope and assess the impact on employer brands in the integration phase of a merger and acquisition. Within this purpose there were a number of distinct aims:

- to assess the challenges and implications of mergers and acquisitions for organisations’ employer brands
- to examine the impact mergers and acquisitions have on the engagement, motivation and performance of current employees and the attraction of new ones
- to identify the challenges a merger or acquisition poses to the definition and development of a new employer brand
- to add to existing CIPD insight into employer branding, engagement and mergers and acquisitions, and better understand the relationship between these three concepts and their impact on the world of work.

Although the research was initially targeted at the integration phase, it became clear

This report has been written for the CIPD by a team from Bernard Hodes Group:

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Annette Frem – Head of Solutions Consulting

Paul Crowsley and **Fiona Scullion** also contributed to the research for this report and **Andy Rigden** made editorial amendments.

from our findings that issues in the planning phase could have a profound impact on names and master brands.

Research approach

We initially intended to case study a number of employer brands that had been through a merger or acquisition. However, it proved far easier to find willing partners who had been part of acquisition scenarios. Interestingly, this correlates with the current M&A landscape where structural organisational change appears to be more driven by acquisition and disposal than by mergers. This includes the financial services sector, where there have been some significant deals in the last 12 months, notably the acquisition of Halifax Bank of Scotland by the Lloyds Banking Group, funded in part by the UK Government.

We also carried out a survey of the opinions of nearly 300 employees currently working in other organisations to assess their experiences of and attitudes towards mergers and acquisitions, as well as to gauge awareness of merger activity within the sectors being covered by the research.

Experience of the takeover scenario was also the most prevalent among our external survey respondents. Some 37% of those surveyed said they have experienced some form of merger or acquisition as an employee, while 14% had worked for a company that had been taken over by another.

Initially, we drew on the experiences of five research partners – and later added a sixth organisation, which commented on the findings from their own perspective of structural change.

With the collaboration of each research partner, we sourced data and insight on their organisation from a number of sources:

- senior stakeholder interviews
- existing engagement data – for their own organisation and the organisation they had either acquired or merged with
- external adviser interviews
- focus groups or structured interviews with existing employees
- survey of perceptions from relevant potential employee groups.

Our five research partners:

- BNY Mellon
- easyJet
- London & Quadrant Group
- Morrisons
- William Hill.

Staples acted as a commentator on the research findings.

In addition, we assessed the existing literature and research surrounding the subject of employer reputation and people engagement through merger and acquisition.

Our methodology is set out in more detail in the full report.

In this report we refer to insights from the experience of our research partners. Wherever possible, we reference the organisations involved, but some examples are sensitive and therefore anonymous.

In general, the research indicates that the featured mergers and acquisitions were successful. Many employees looking back at their experience were comfortable with the outcome. However, we have highlighted some points of learning where change management could have been approached differently.

FURTHER SOURCES OF INFORMATION

The full report including insights from the case study research with our research partners will be available for CIPD members to download at www.cipd.co.uk

CIPD resources

Buy our research on *HR: making change happen* (2005) from the bookstore www.cipd.co.uk/bookstore

Read a collection of essays by academics, consultants and practitioners: *Employer branding: fad or the future of HR?* (2007) www.cipd.co.uk/researchinsights

Download our *HR director's guide to employee engagement* (2009) www.cipd.co.uk/researchinsights

Other useful resources

GALPIN, T.J. and HERNDON, M. (2007) *The complete guide to mergers and acquisitions*. 2nd ed. San Francisco, CA: Jossey Bass.

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