BOSCOBEL MARKETING COMMUNICATIONS

BLUEPRINTS *for* SUCCESS

A WHITE PAPER SERIES FROM BOSCOBEL MARKETING COMMUNICATIONS

TOPIC | Stakeholder Communication in Merger & Acquisition Environments

I. Introduction

Mergers and acquisitions have become a commonplace occurrence and an increasingly prominent strategy in all business sectors. Strategic forces that drive these transactions are many and varied. They range from brand extensions to reduction or elimination of a competitor's market presence, from expansion of one's own presence to fast-track acquisition of new intellectual property. In many cases, it is simply easier to buy a competitor's technology or portfolio than to develop the same resources in-house.

While the strategic and tactical appeal of a merger or acquisition can be great, the success rate is surprisingly low.

While the strategic and tactical appeal of a merger or acquisition can be great, the success rate is surprisingly low: some 65 percent of all mergers and acquisitions fail to meet expected productivity levels or profit margins.

No wonder firms are keeping a keen eye on every aspect of managing these often perilous new alliances.[1]

It's no surprise that merging or acquiring firms take into account the effect of the change on the company's major external stakeholders: their shareholders. With the general success rate at only about one in three, many shareholders smell trouble when their firm decides to either acquire another or be acquired. And the failure rate is only part of the dire forecast. In 61 percent of all acquisitions or mergers, the acquiring firm's stock price fell immediately after the deal was announced.[2] This grim history can only add to the stress of the transaction, making it even more difficult to succeed.

But while millions of advertising and public relations dollars are spent influencing shareholders, another, perhaps even more critical, stakeholder group is often treated as a secondary concern: the employees of both firms.

Clearly, the transaction's success is dependent upon the support it receives from employees and other stakeholders within the company — before, during and after the conclusion of the transaction.

This support, in turn, depends on the quality, quantity, timing and content of communications between company leadership and these groups.

This White Paper discusses how communications to both internal and external stakeholders should be used to help a firm successfully accomplish the goals established for its merger or acquisition.

[1] "Eliminating The Merger & Acquisition Blues: The Sagacity Group"
[2] Henry, David "Mergers: Why Most Deals Don't Pay Off"

II. Challenges for Stakeholders

Internal Stakeholders

Company employees hold an enormous, but rarely addressed, degree of influence over the success or failure of a merger or acquisition.

Unfortunately, employee concerns are often among the last considerations as a deal is coming together.

Their stake is twofold: they are often shareholders themselves, and they are always the ones who do the work to keep the company going. Their commitment and loyalty, therefore, are indispensable.

Their power relative to mere shareholders is further enhanced by the intellectual and emotional kinship inherent in their employee status. While shareholders are occasionally of one mind, they are rarely in one place or of one culture. By contrast, employees all share cultural common ground and have a shared hierarchy of concerns. Accordingly, this quasi-tribal unit can function as an extremely cohesive group, united not only by culture, but also by geography and, perhaps most important, by e-mail.

From the moment there is even a single molecule of news that change is coming, employees must be treated with extreme care, even caution. It cannot be emphasized enough that disaffection, worry, distraction and resentment can spread through a company like a virus, with tangible and debilitating effects. Nor can it be overemphasized that even the most positive courtship and marriage of two companies will inevitably generate palpable stress and distraction from everyday work.

Faced with the very real possibilities of either losing their jobs or keeping their jobs in a company that will definitely change (and probably fail — remember, that's a 65 percent likelihood), some high-performing employees (or subcontractors, another key internal stakeholder group) may leave the firm for a more stable environment at a competing firm. Indeed, statistics show as many as 50 percent of key executives will leave the acquired company within the first year and 75 percent will leave within three years. Other studies have shown that more than a third of managers and key technical employees typically leave after a company is acquired.

Competitors know this all too well and are not adverse to welcoming defectors.

Additionally, some employees, feeling abandoned or simply worried, will let the caliber of their work slip. This will certainly affect customer service, product quality and overall productivity.

Unfortunately, as noted, employee concerns are often among the last considerations as a deal is coming together. Why? Because deals are made by dealmakers. And dealmakers are driven by numbers. How many product lines, how many plants, how many offices, how much revenue, how much operating cost, how many divisions, how many customers, how many staff, how many shares, how many workstations, how much per workstation, how many months, years, dollars and on and on.

EMPLOYEES OF BOTH THE BUYING AND THE ACQUIRED COMPANIES HAVE PRESSING QUESTIONS THEY NEED ANSWERED.

Every number is a critical piece of an equation that ultimately determines the likelihood that "you + us = success."

But in half of all gone-south mergers or acquisitions, it was not bad numbers that were to blame.

It was the 800-pound gorilla. The one hardly anyone talks about.

Non-numerical, left-brain-dominant, intuitive, emotional and sometimes irrational, the gorilla is a key actor in every merger and acquisition drama. He/she is high-maintenance, high-value, volatile and has a universe of needs that cannot be quantified.

The gorilla is known collectively as "the employees." And, while they're deeply concerned with the "how" issues having to do with compensation, these tend to be resolved (or not) early on. This leaves the "who" issues — the "you" and the "us" in the equation — looming very large indeed as factors determining success.

Employees of both the buying and the acquired companies have pressing questions they need answered. "How will this affect me? What new policies are coming down the pike? Will I have the same job? Who will I report to? Will I have to move? Will I have a job at all?" Especially important to those employees with families are the possible changes in the healthcare and insurance policies. These concerns will only increase levels of stress and tension.

As noted, subcontractors also should not be overlooked. With across-the-board changes in management and structure a likely possibility, they will have similar questions and concerns and would be foolish not to scramble to find new revenue sources.

The problem is this: the questions often start well before all the answers have been determined. So even a well-managed communications program will generate a legitimate share of distraction as employees and management grapple with a fluid, evolving structure.

As one acquiring CEO said of the entire merge/acquire process, "It's fraught with danger. It requires very little to screw up completely."

His own experience bears this out: his company made a $1.7 billion purchase in 1999. Several key executives in the acquired company departed. Sales growth, which had propelled an elevenfold increase in revenue during the year prior to purchase, plummeted. With it went the stock: down 86 percent a year later, 99 percentage points below communications equipment stocks.

And just how little does it take to "screw up?" Consider Cisco's acquisition of Cerent in 1999. Universally lauded for its sensitive and comprehensive integration tactics, Cisco learned that something as little as a coffee mug can land you in hot water.

It was the day that Cerent employees were to learn that Cisco was buying their company. They were all brought together, almost all expecting an update on their pending, wealth-making IPO. Almost all; some in the crowd suspected otherwise: they'd been tipped off earlier by loading dock workers. That very morning, they had unpacked boxes of coffee mugs sporting the Cisco logo and an enthusiastic "Welcome to the team!"

In cases where a company merges with an industry competitor, customers can easily become confused over issues of brand image and company values and quality.

Cisco was able to drive through the initial surprise, worry and resentment, but its lesson was learned. The company has re-examined its shipping practices.

Recap

- Mergers and acquisitions will dramatically increase internal stakeholder stress in a company.
- Management must be sensitive to the legitimacy of all internal stakeholder concerns early on in the process.

External Stakeholders

With the statistical probability of failure looming, shareholders worry about the sensitivity of their stock when a merger or acquisition is announced. Studies have shown that shareholders of an acquiring firm often earn close to zero returns on the transaction.[3]

For example, in 2001when the Hewlett-Packard/Compaq acquisition was announced, stock values for both firms decreased.

Customers, another major block of stakeholders, are also affected by both the news of and the implementation of a merger or acquisition. In cases where a company merges with an industry competitor, they can easily become confused over issues of brand image and company values and quality. This is a particularly pointed issue when domestic and foreign companies, with products perceived as dissimilar, join forces. Think Daimler-Chrysler and Jaguar-Ford: two prestigious European luxury brands joining with two middle-of-the-road (and often criticized) US brands — one of whom, Ford, is synonymous with mass production, the antithesis of Jaguar-style craftsmanship.

Customers question whether they will receive the same quality product and level of service. They'll want to know why the merger or acquisition is even being considered. And they'll want to agree that the reasons they hear are good ones.

Communication to this key stakeholder group, in fact, must begin well in advance. And it must be handled with the same care as other groups — because getting on the wrong side of a customer base can prove fatal to the transaction.

3 Hitt, Ireland, Hoskisson, Strategic Management

The companies' suppliers and vendors will also have legitimate concerns about their status and relationships after the merger or acquisition.

A recent Oracle-PeopleSoft situation tells the story well.

When Oracle CEO Larry Ellison announced a hostile takeover bid for rival PeopleSoft(TM), he perhaps should have expressed himself differently. When he said he intended to stop selling and developing PeopleSoft products, he stirred up a storm of protest, resentment and resistance. While there may well have been market and investor merit in his strategy, and while he deserves credit for candor, these were lost on the people with multi-million, multi-year investments in PeopleSoft installations.

PeopleSoft customers sent the company one message after another, encouraging the rejection of any offer from Oracle.

Oracle changed its tune, promising to support PeopleSoft for 10 years, but it is difficult to reverse negative impressions.[4]

Among external stakeholders, the web of worry extends even further outward. The companies' suppliers and vendors will also have legitimate concerns about their status and relationships after the merger or acquisition. The third-party providers retained by both the acquiring and the acquired firm will question whether their current contracts will be upheld and what new policies or procedures they will have to follow.

As with other stakeholders, the concerns of suppliers and vendors must be taken seriously. While third-party partners might be considered interchangeable in the context of normal business practice, their voices, like those of other stakeholders, can become amplified in the charged environment of a pending merger or acquisition. If they have negative opinions, their voices will resonate in the shareholder community far more powerfully than if there were no merger or acquisition pending.

Recap

- More often than not, mergers and acquisitions negatively affect the company's stock.
- Brand image and customer expectations can become confused or distorted.
- Concern about new policies and procedures can cause a decrease in customer attention.
- Suppliers and vendors have legitimate concerns when their customers merge with or acquire another company.

[4]Gilbert, Alorie, "People power to derail Oracle plans?"

Solutions for Communications

Internal Communications

Information must be dispersed quickly and efficiently before, during and after the transaction.

Given the certainty that employees will be worried and the attendant certainties that many will be looking for options with other employers, it is imperative that a comprehensive communications strategy be in place and ready to launch. It will be the best available deterrent to damaging defections by key staff, and the best possible motivator of continued, focused productivity.

Timeliness is of paramount importance. Information must be dispersed quickly and efficiently before, during and after the transaction.

In addressing internal stakeholders, management must be ready to answer questions relating to how the new company structure will affect current employees and subcontractors. Ideally, there will be a designated spokesperson and/or communications team who will address concerns, which could include:

• Why the transaction is occurring;
• Its importance in terms of long-term goals; and
• How it will create better conditions for customers, for shareholders, for the company, and most importantly, for employees.

Every member of the management/communications team must understand the stakeholder mindset at this time. It can be summed up in one word: worry. Employees justifiably worry that their lives might soon be turned upside down. Job lost, career derailed, financial plans undone, rent or mortgage or tuition payments not met ... it is a list of nightmare scenarios. Those most directly and most immediately affected by acquisitions and mergers are employees and subcontractors. They are the first who should hear the news of such plans. And they should hear it right — the first time — in a clear, simple and comprehensible presentation.

This means that management's approach to internal communication must be proactive. A positive presentation of the reasons for the transaction, the projected outcomes, the expected timing — of all the business issues — should be clearly spelled out.

Employees' questions and concerns should be anticipated, and answers prepared, but they should not be addressed before the employees raise them;[5] information overload is a possibility, which can add to the stress of the proposition. Giving employees the opportunity to be heard helps them retain a sense of empowerment.

[5] Ackley, "Acquisition Communication"

The rising company's mission, its values, its intended style of management, must all be committed to writing and shared formally.

It cannot be overemphasized that management and its spokespersons must be prepared with answers. The role of each employee in his or her work group, and each employee's place in the larger organization, must be clearly spelled out. The rising company's mission, its values, its intended style of management, must all be committed to writing and shared formally — declared, as it were — to all members.

Any gap in information will be filled immediately by rumor and speculation. Any question unanswered by management will be answered by supposition. If employees are not given information by their leadership, guesses and gossip will begin to filter — or fly — through the organization.

In instances when specifics aren't available or can't be disclosed yet, honesty and candor remain the best policy. "I don't know" is better than a fudge, a waffle, an assumption, an estimate or a guess. Credibility is the goal — more so than ever.

■ *What about me?*

The most common question from employees will be "What about me?"

In the early stages of the negotiations, management will have already considered how the transaction will affect the jobs, pay and benefits of the employees of all firms involved.

Answers should be worked out in as much detail as possible, bearing in mind that each employee is the center of a web of relationships, which is now subject to change. And each change in this dynamic is a legitimate cause for concerns and questions.

While Cisco's acquisition of Cerent had its moment of mug drama, the company earned high marks for employee communications. "Every Cerent employee had a title, boss, bonus plan, health plan and direct link to Cisco's internal Web site"[6] by the time the negotiations were complete. Though these might seem like no-brainers, it's rare that so much is so well settled so early in the game. The result? Employee migration was kept to an absolute minimum.

■ *Multiple Open Channels*

In addition to a spokesperson, there should be channels of communication that can be accessed by employees with personal questions. One of the fastest and least expensive is the company's Intranet. Information can be posted and accessed here by internal stakeholders alone, without fear of outside sources finding and abusing the news.

If there is no Intranet, e-blasts are also an efficient channel. These company-wide e-mails can address frequently asked questions and explain how new policies will affect employees and subcontractors when enacted.

In addition to the e-blast, the firm may want to send each employee a corporate voicemail with the latest news or information regarding other channels that can be accessed to find the information needed.

[6]Hurm, "Cisco Defies the Odds"

Office meetings at all levels of leadership should be conducted in order to keep all employees informed.

In all cases, employees should be clearly informed of the response channels they can use to ask questions and raise concerns.[7] E-blast messages, for example, often come from an address that will not accept return mail. Employees should be told where to e-mail their issues. A voicemail message should always include instructions on how to respond. An employee question box should be created and used to answer employees' personal questions, as well as to formulate a FAQ list. The box can be physical (clearly visible and accessible in several locations) or virtual (i.e. an e-mail address), or both.

The questions and answers gathered can then be distributed throughout the firm in office newsletters, via e-mail, on posters and cafeteria cards, online or via other media. It has been shown that putting things in print "reinforces what was said and implies a strong commitment."[8]

Periodic announcements can provide recaps of internal meeting decisions, as well as updates on the progress of the merger or acquisition and how it relates to internal stakeholders.

Personal Communication

It is important to remember the impact and power of face-to-face communication as well. Office meetings at all levels of leadership should be conducted in order to keep all employees informed. Utilizing small internal focus groups will assist in this process.

In the acquisition of Cerent, Cisco made a point of hosting question-and-answer sessions in order to reduce employees' uncertainty, alleviate their concerns and answer their questions. It cannot be overemphasized how well this simple approach can reduce employee stress and ensure minimal distraction and optimal focus on productive work.[9]

Another, less formal method of personal communication is an internal event or function. Management can bring employees together during or after work hours. Again, this will simultaneously provide a venue for airing issues and serve to bolster morale during this stressful time. It is important to keep the employees focused and not let the quality of service drop.

Recap

- Internal communication must be proactive and excessive.
- It is better to over communicate rather than leave room for gossip and rumors.
- Multi-channel communication should be implemented through:
  - Intranet;
  - E-blast;
  - Voicemail;
  - Question box;

[7] Ackley, "Acquisition Communication"
[8] Ackley, "Acquisition Communication"
[9] Hurm, "Cisco Defies the Odds"

- FAQ;
- Newsletters;
- Posters/cafeteria cards;
- A2 cards;
- Focus groups; and
- Internal events and functions.

The firm must communicate the reasons why the transition is being considered and how will it benefit the company and stakeholders.

External Communications

Given the many legitimate concerns of external stakeholders, it is critically important that a firm — in the midst of a merger or acquisition — effectively communicate the direction it is headed to its publics.

Management and communications advisors must be proactive in anticipating the questions which clients or shareholders will ask. Inevitably, these will concern reasons for considering the transaction and the impact the proposed change will have on the firm's products, services and external relationships.

Again, in the absence of proactive, authorized communication, rumors will arise and circulate quickly. More often than not the gossip spread during negotiations is negative, creating more problems for the management team to deal with and making management responses seem defensive. The firm, therefore, must communicate the reasons why the transition is being considered and how it will benefit the company and stakeholders.

Appoint an Accessible and Believable Spokesperson

Unlike communication with internal stakeholders, communications with external stakeholders during negotiations tend to be "more limited, less frequent, and are somewhat more reactive in nature."[10]

Still, it is important to plan these communications in advance. A designated spokesperson who has been fully briefed to field questions clearly and candidly will provide a strong and consistent image and can assess the reactions of major stakeholders. His or her ability to "read the room," to craft answers to the audience, and to predict likely questions and concerns will be a key factor in the success of both proactive and reactive communications efforts.

That said, it must be remembered that questions will arise which have no clear answers at the time. In these situations, it is critical that an honest response is given, even if the response is, "We don't know — yet." Rather than giving a less than truthful answer for the appearance of closure, communicators must let the questioners know that their questions will be taken into consideration and followed up when the answers are found.

[10]La Piana Assoc., "External Communication"

Adherence to a clear, consistent, alert and insightful communications strategy will head off any number of possible problems.

Define the New Company

If there is no communication indicating the messages and the image the firm wants to portray, external stakeholders are likely to develop an inconsistent perception of the new firm. Again, adherence to a clear, consistent, alert and insightful communications strategy will head off any number of possible problems.

ITS Services, Inc., for example, a professional services company, announced in January 2004 the planned acquisition of SEA, a technology company. Both firms provided news releases detailing the progress of the transaction and the final effect it would have. Particularly important is the issue of company names. ITS announced in June 2004 that the combined company would be renamed Apogen Technologies to reflect its new updated services and capabilities. All stakeholders knew that a new name was coming and all had their opportunity to comment.

The communications provided by ITS are a good example of ensuring that external stakeholders understand the effects of the acquisition and the impact it will have on their businesses.

Fast and Effective

There are many options for communicating with external parties. Multi-channel communication is the most successful approach to take.

The least expensive, and one of the most responsive and efficient channels, is the corporate Web site. Each company should provide links to pages it has created to discuss the issues and provide feedback channels. It may be necessary to direct each audience segment to a particular component of the information provided, i.e. "Employees click here," "Shareholders click here."

Along the same lines, e-briefs or electronic press releases can easily be sent to the individual segments with relevant information. This is also an inexpensive and timely communications channel.

Traditional Press Releases

Although the Internet is a major communications force, some people are still accustomed to print communication. It is therefore necessary to create materials, such as news releases (print and electronic), editorials and/or letters to the editor for local newspapers and publications that address the current issues facing the firm's merger or acquisition. These items should, of course, anticipate and respond to any concerns voiced by the external stakeholders.

To be sure the intended audiences receive this information, it is advisable to also send direct mail announcements. As with the e-blast, these mailings must be segmented according to the audience and sent accordingly.

Give stakeholders an opportunity to personally address a spokesperson from the company, ensuring that they do not feel excluded or marginalized.

Personal Communication

Face-to-face communication is extremely beneficial. Putting a live speaker before a live audience gives the firm on-the-ground intelligence and insight. This interactive process is invaluable in helping the firm discover and address stakeholder concerns early in the process, and to get a sense on how effective their communications have been.

These options also give stakeholders an opportunity to personally address a spokesperson from the company, ensuring that they do not feel excluded or marginalized.

Opportunities for personal communications include media tours, press conferences, purpose-built roadshow events and trade shows.

Recap

- External communication is just as important as internal.
- Management must use a proactive and reactive strategy. Predicting and planning must be done to effectively address the concerns of stakeholders.
- Communication channels include:
  - Web site;
  - E-blast;
  - Press releases;
  - Direct mails;
  - Media tours;
  - Press conferences; and
  - Trade shows.

IV. Conclusion

Mergers and acquisitions are a popular strategy for many firms, especially among technology companies, to increase market power, diversify and attain new technologies. However, many firms are not learning from the mistakes of others and the number of unsuccessful transactions remains high.

Effective communication with both internal and external stakeholders is critical for the successful joining of two companies. Merging or acquiring companies must take into account all parties that are affected by the transition, how they will be affected, and how the firms' communications tactics and strategies can help gain stakeholder support and help ensure a positive outcome.

V. Works Consulted

Ackley, Dennis. “Acquisition Communication: Eliminating Uncertainty at Full Speed”. Employee Benefits Communication. 2002. Feb. 1, 2004 <http://www.dennisackley.com/pdf/acquisitioncommunication.pdf>.

External Communications in the Negotiation Phase. 2001. La Piana Associates, Inc. Feb. 11, 2004<http://www.lapiana.org/resources/ tips/negotiations/03_2003.html>.

Gilbert, Alorie. “People Power to derail Oracle plans?” CNET news.com. July 10, 2003. <http://att.com.com/People+power+to+derail+Oracle +plans%3F/2100-1012_3-1024583.html>

Henry, David, and Frederick F. Jespersen. “Mergers: Why Most Big Deals Don’t Pay Off.” BusinessWeek Online. Oct. 14, 2002. Business Week. Mar. 10, 2004 <http://www.businessweek.com/magazine/content /02_41/b3803001.htm>.

Hitt, Michael A., Duane R. Ireland, and Robert E. Hoskisson. Strategic Management-Competitiveness and Globalization. Mason: South-Western, 2003.

Hurm, Scott T. “Cisco Defies the Odds With Mergers That Work.” Best Practices, LLC Benchmarking and Consulting. Mar. 1, 2000. Best Practices, LLC. Mar. 10, 2004 <http://www.best-in-class.com/about /articles/wsj-merger.pdf>.

Sagacity Group, The. “Eliminating The Merger & Acquisition Blues: Why Deals Fail; What Makes Them Work.” Articles & Publications. 2000. The Sagacity Group. Mar. 10, 2004 <http://www.sagacitygroup.com/PDF%20Files/Doc-Eliminating%20The%20M&A%20Blues.pdf>.