The Merger Laboratory

A New Strategy for Bringing One Corporation Into Another

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This is the study report of a merger of one corporation into another. The merger was brought about by laboratory methods.

The study deals with an often neglected aspect of such a transaction: The humans involved and the web of relationship factors that, if well handled, can increase the likelihood the merger will be a success. In comparison, previous studies of this problem are centered mostly on the legal and financial aspects of the merger. Here a different approach is described. A *method* of working out the detailed legal and financial problems directly *through* the people involved in the merger itself, rather than by using the classical approach of forcing the people to fit a pre-determined pattern evolved by financial and legal technicians is described. An example of the concrete application of this method in bringing one corporation into another is offered.

Background of the Merger Laboratory Idea

This experiment came into being as a result of two considerations. One is the widespread dissatisfaction with the eventual outcome of mergers. Another is from satisfaction with the application of the team training learning approach and the belief that its use could overcome many of the difficulties encountered in attempting to make past mergers work.[1] The basic reasoning went something like this. Many mergers have been consummated clumsily. Misunderstandings, communication failures, morale problems and like issues have been dealt with quite effectively within industrial organization during the past several years. The vehicles of laboratory training[2] and team training[3] have been foremost in these efforts. Therefore, it was reasoned that this relatively new learning tool should contribute to the merger situation as a way to eliminate some or all of the problems previously encountered in organizational improvement work. In essence, it was predicted that a merger that began with a focus on, and concluded with resolution of, major human problems could then move smoothly on to a delineation and solution of the financial, legal and procedural problems.

Also of significance in suggesting that a laboratory approach to the merger situation should pay high dividends, was the previous work concerned with get-

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ting improved relationships between groups — such as a headquarters and a plant reporting to it[4] — which would retain their identity. Much of this latter work, in turn, was based on experimental laboratory investigations of the past decade[5] which tell a basic story about competition and cooperation in intergroup behavior.

The line of reasoning, then, was this: It already had been demonstrated that antagonisms between groups which retain their autonomy, can be reduced or eliminated effectively by laboratory methods. Why would not the same strategy apply under circumstances where old group boundaries, norms, standards, and so on, needed to be eliminated because they no longer made sense?

Participant Observations and Reactions

The feelings of key line executives of the surviving corporation in this situation can best be conveyed by this quote from the senior executive responsible for the merger described herein:

"Companies in the consumer credit industry historically have grown substantially through "buy-outs" and mergers. The competition within the industry in the past several years has become increasingly great and, as a result, small and middle-size companies in the field, as well as the large companies, have been facing stepped-up pressure on profits. This has resulted in a greater availability of companies to "buy-out" and of mergers between companies.

In my own company, the opportunity to purchase or merge with other companies has been very great. Our experience in the past has developed an awareness of the difficulty which is involved whenever a "buy-out" or merger is made. Frequently months, and in some cases years, passed before a merger of the human resources being brought together actually occurred. These trying experiences created a heavy drain on both companies' manpower resources and they limited the number of "buy-outs" and mergers that could have been consummated.

Experiences which we have had in the past several years within our own company in developing communicative relationships among employees who were being challenged to accept a completely new procedure involving automation and an integration of two previously separate divisions, suggested that a human relations or management laboratory might very well be useful in bringing together the management personnel of two merging companies. It was felt that the same fears and frustrations would likely exist in the newly-acquired group as we found them to exist in our own company when we were changing organizations or systems.

Perhaps the best example of our concern for better methods for merging work groups occurred several years ago. One company within the industry purchased another company and twenty-three of the top officers and supervisors resigned within days of the merger. My company employed all of these men to use their skills to develop our company's operation in another geographic area (an area in which they were familiar). From the very start of this group's association with our company, personnel problems began to develop and within five years all but two or three of these highly skilled men were either released or resigned from the company.

Another experience which highlights the problem to be solved involved executives in another merger and my company wherein both groups saw each other as being single-mindedly motivated to find ways to dominate the other. As a result, communications were reduced to zero. Cliques were formed. Groups within and without worked against each other. There never was truly good feeling even about visiting. People from both sides tended to stay away from each other rather than becoming involved in what seemed to be inevitable conflict."

The ideas of this senior corporate office were supported by the organization's ranking employee relations specialist whose feelings follows:

"I am concerned with the impact a merger has on employees. It is very easy for staff personnel to evaluate, at least on paper, the comparative differences between employees' benefit programs, salary practices, and all the things that affect the well-being of employees. In a recent merger, problems relating to benefit programs, group life insurance, medical plans, etc., appeared to have been explained and interpreted for the benefit of employees by means of bulletins, letters, brochures and group meetings in which the groups were told about these benefits. However, after almost a year, we have recognized the fact that many of our programs were not only misunderstood but misinterpreted.

Perhaps the most important consideration in any merger involves the employee benefit programs, including the pay practices, of the firms concerned. For example, is it advisable or desirable to have the merged company come under the "umbrella," so to speak, of the company which has purchased them? Is it desirable to have common benefit plans, pay practices and other benefits? A decision such as this cannot be made solely on the basis of a comparative analysis of both programs by an analyst or a staff expert. Traditionally, it has been our practice to rely on such an evaluation of benefits, salary administration and other programs involving the training and developing of employees. Often, we have utilized outside consultants. In so doing, we did not take into consideration the *feelings* of the people involved. Rather, our decisions were based, as we saw it, on objective criteria centering about the most effective and desirable method of converting or merging the programs involved. In so doing, however, we have had some unpleasant experiences.

One example involved a company which had a Christmas remembrance program. We decided to eliminate this practice since our company did not have a similar one. While we felt that our other benefits outweighed the so-called Christmas remembrance program, nevertheless we did not take into account the impact on employees as far as their take-home pay was concerned. In effect, they had additional life insurance, a better medical program, they now participated in a profit-sharing plan, and, in general, it seemed they were much better off in all respects. However, a year later we recognized that its effect on the employees was almost momentous.

I am sure, as we look back, they felt that we were trying to *save* money in making the changes we had. The fact was that, in some cases, while their take-home pay was reduced, the overall amount the company was paying for their benefits was greater. We obviously did very poorly in communicating this fact to the employees.

As I indicated earlier, it has been over a year since this action was consummated and we still have employees upset and discouraged because of the manner in which this merger was effected, even though, momentarily speaking, each of them is better off. In almost every merger situation I am familiar with, there has been a basic difference in benefit programs. These differences must be understood, discussed and reconciled, if possible."

So much for the setting in terms of the feelings and attitudes of these key persons in the acquiring organization. Both are explicit in their dissatisfaction with past experiences. Both look forward to new and better methods of accomplishing the task of bringing together two formerly autonomous units. The attitudes they expressed are rather typical of more widespread negative reactions regarding problems produced by mergers.

Now let us turn to the key man in the acquired organization. His comments follow:

"As the top man in the company being acquired, I foresaw no real difficulty. As a result of knowing my employees for many years and working very closely with them, I assumed that our merger with the larger company would be readily accepted, providing I honestly told my people that the deal had been made with them in mind and that they would be well treated.

The preliminary announcement of our merger was made some sixty days ago by means of a memorandum explaining that the merger was contemplated, and if and when the transaction was completed, they would be further advised. In the meantime, I suggested that the effect on them would be nil and in practically every case they would go on as in the past.

After a formal agreement to merge was reached, I called a meeting of my management group, primarily for the purpose of explaining why we had decided on this step and also to discuss some of the details and how they would be affected as individuals. The meeting appeared to be successful. There were few questions and I assumed that I had answered, to the satisfaction of each individual, any questions that they might have had. I felt in this one-half day meeting that the subject was covered adequately. This meeting was held about four weeks after the announcement.

In the meantime, the first meeting with the acquiring company was scheduled for three days at a place with a resort atmosphere. The meeting was to be attended by the key management group of my company in conjunction with the top executives of the acquiring company and two behavioral scientists. We felt that this was a waste of time and money, since the details had been covered in our previous meetings. It was the general feeling of my people that the meeting could just as well be held in a more central location and that perhaps it could be handled in no more than one day.

I was amazed that after the first few hours of this joint meeting I had not covered all the points of concern to the satisfaction of my people. There were feelings of misunderstanding and numerous underlying fears. I was at a loss to understand this. My people's fears and doubts had not been brought up at our own meeting. During the first day of the joint meeting it was discovered that there was a misunderstanding between the companies as to the benefits being offered under the retirement program. Our people previously had been advised that they would be included in the acquiring company's program and their past service would be vested on a contributory basis. This misunderstanding was readily discovered by both companies and the problem was openly discussed. As soon as the economic implications were analyzed, it became apparent that such an arrangement would have had a significant impact on the financial transaction involved in the merger itself. Members of the company being acquired saw the programs in a different perspective and readily acknowledged that the arrangements they had believed to be true would have been quite inappropriate. Numerous members of my company have pointed out how pleased they were that the situation is cleared up rather than lurking in the background as a sure source of later trouble."

So much for the opinions and feelings of the participants from the to-be-merged organization. Now let us examine the actual progress of the merger laboratory. The description that follows is taken from the notes kept by one of the behavioral scientists in attendance and represents his record of the highlights of each of the sessions held during the three days.

The Basic Strategy of the Merger Laboratory

The merger meetings were started with the key officers and executive personnel of both companies sitting together in one large group with the laboratory trainers, who asked, by way of introduction, that feelings about this merger be presented. The acquired group, after considerable hesitation, began to express some of their feelings and anxieties which centered around the following items:

1. "We are going to become numbers —we will have no identity — we will be just cogs in a big machine."
2. "We will cease to exist and it will be like losing an old friend. Big corporations aren't friendly."
3. "We have a lot of respect for our supervisors and we will probably lose them."
4. "I am concerned about my customers and the service I can give them. Under a big company we won't be permitted to make individual decisions and have our customery flexibility."
5. "Under you people we will be forced to transfer to other areas or else our career and our salary progression will suffer."
6. "Our benefits and bonus may be much less than under our current arrangement."

Soon after these concerns had been voiced at considerable length, the president of the acquired company expressed great amazement. He told the group that, in essence, they had had a lengthy meeting on the subject of the merger and he believed he had answered all of these problems. He further remarked that he had felt that this particular meeting (the laboratory) was superfluous because everyone had accepted the merger and had no further feelings or anxiety or fear about it. He emphasized that obviously this was not true and that this laboratory was going to be of great help if it could straighten out a lot of misapprehensions that still existed and if it could quell the groundless fears that people seem to have.

Following this particular part of the meeting, a detailed presentation on employee benefits and the policies governing employee activities in general was made by the acquiring group. This material was very well received. Comparisons were drawn between the programs of each of the two companies and the acquired group stated that the misunderstanding thus produced helped to allay many of their fears and concerns. Each item, as it was presented, was thoroughly discussed by the group. A number of problems, such as sick leave coverage, were discussed and agreements readied.

During the course of this presentation, a very serious misunderstanding was uncovered. It was found that the acquired group had, erroneously come to expect that the new owners would vest them with full service under their pension plan. This misunderstanding was explored at length and reasons for and for not vesting full service evaluated in depth. The rationale for the decision, once understood, was entirely acceptable. There is little doubt, however, that if it had not been uncovered there would have been grounds for ill feeling about the merger for years to come. As one man said, "Had this not come out now, and we found out about it a year from now, we all would have felt duped. Our general feeling now is that the fellows from the acquiring company are 'square shooters'."

The next step in the merger laboratory was a meeting, in the hearing of the acquired group, of the key officers and executive management acquiring corporation. During this meeting they discussed their own plans for integration of the new company and laid out an actual time table of things that needed to be done. During this process a number of items that had not been planned for adequately were identified and arrangements made for dealing with them. Also, it seemed to give the newcomers the security of a feeling that the buyers were carefully planning to make them a part of the new corporation family.

The acquired group then met in the hearing of the buyers' group. They discussed a number of their own concerns about their internal operations and some of its shortcomings. Among other things, they pointed out that they had, in the past:

1. inadequately trained their lower echelon personnel;
2. suffered from lack of sufficient home office and line supervision;
3. had a faulty organization structure in their supervisory branch.

Following this series of meetings they met privately, but with the behavioral scientist, to discuss some of their own internal problems and concerns. During the course of this meeting they discussed at some length the behavior of one of their supervisors; the latter did much to rectify this particular problem.

During the evening, the operations personnel of the surviving company made a presentation on their own operating procedures and policies. This was very well received, and, again, beyond the educational purpose it served, it brought out quick understanding of differences in operating practices of the two concerns. At this time a number of handouts covering the acquiring company's organization, its policies, practices, and history were made available. The merger group had a large number of questions, comments and suggestions, all indicative of interest in what soon was to become their own organization.

The next morning was split into three separate periods. During the first period there was a further discussion and clarification of some of the preceding material. During the second, the acquired group met and formulated five items of operational policy and practice that they felt were unique to themselves and that could be beneficial to the surviving company. The third period was devoted to a summary by the behavioral scientist and a discussion of the methods of taking information gathered during this meeting back to the employees.

The meeting closed at noon with strong feelings on the part of both groups that all outstanding problems had been identified. Most had been fully handled. Both were ready to start work under the new arrangements the next morning.

Summary of Concepts and Methods

The merger is a massive factor in American industry and business. It is possibly among the most important methods of achieving rapid corporate growth. Strikingly enough, in spite of its importance, its far-reaching implications, and its contribution as a way of growth, relatively few experiments on how to bring a merger about in a constructive manner have been conducted. Little has been said or written about it. What little analysis there is deals with explanations of its financial and legal aspects. Studies of its human and organizational implications are sparce indeed.

One result of this paucity of information in the human and organization aspects of mergers is that one can surmise that these aspects often are dealt with in a hit or miss, "seat of the pants" fashion. Possibly one assumption underlying this approach is that there is no need to plan for the human or organizational aspects. Or, conversely, while there may be a need, there is no way or not enough knowledge available about how to do this. In reality, when merger practices are reviewed, one would be hard put to find any effective pattern for the welding together of what had been two autonomous human groups. Of course, thousands of mergers have taken place, ostensibly without such a pattern. Therefore, this implies that since there had been no designated formula or formulae, there was presumably no need for one. However, one need only to turn to merger employees who have been involved, to find the conflicts, grievances, regrets, reports of malfunctions, and the like which remain sometimes years afterward.

Let us look at some of the general reasons that might be cited that possibly could make a merger less of an effective union than might be desired:

1. When, as is customary, the merger consists of the ascendancy of a small group by a large one, it is usual to find that the small one is forced to adopt some, if not all, of the policies and practices of the larger acquiring organization. In many cases the policies and practices may be contrary to the traditions and customs of the mergee. In other instances, policies and practices of the surviving organization may be quite inappropriate when viewed in light of the local situation confronting the mergee. Under these circumstances people resist change not because change is "bad," but because the change appears to be disturbing, threatening, unfair or impractical.
2. Employees at all levels of the acquired entity are likely to have anxieties and fears about the acquiring organization's personnel policies and practices. This seems particularly so as they relate to salary benefits and job security. In this area, the concern is with relation to the fairness of the integration of existing programs with those of the acquiring organization as such, if not more than with literal details.
3. Smaller organizations, because of the relatively closer personal ties that may exist in them, may have extreme bonds of loyalty that have developed along with the growth of the organization. Such loyalty cannot be transferred to the surviving organization by executive fiat. It must, in effect, be earned through behavior on the part of the new or acquiring organization that commands respect and confidence.
4. A loss of identity, that is, a feeling of smallness, of powerlessness, of lack of uniqueness, often seems to strike those members of small concerns who are "swallowed up," as it were, by a larger one. This feeling may be expressed as the fear of becoming a number rather than remaining a person. The feeling may

be fear of manipulation by an impersonal group in some far distant headquarters.

5. While it is true that many, if not most, mergers have careful financial and legal planning, often including careful scrutiny of the mechanics and economics of employees' welfare programs, there are, nevertheless, a number of psychological benefits that can never be adequately analyzed or described in the written contract of agreement. The full security implications of seniority, the income equivalent of company automobiles, the status implications of office furnishings, credit card privileges, and the like, often are dealt with only *after* the fact, if at all. Rather than working these issues through to equitable resolution, the tendency is to apply formula, and to do so in an arbitrary, mechanical way.

   If these are all factors of importance, then what is needed is a precise formulation of the human factors undergirding any merger attempt. Knowledge of these factors can generate a pattern of action which can serve as a guide in the integration or unifying two otherwise autonomous human groups.

With this statement as a starting point, a merger may be viewed as a business activity that proceeds essentially in the following phases:

1. Price bargaining by the owner-executives of the two organizations concerned.
2. In the traditional scheme, this would be followed, then, by key financial and legal technicians establishing the mechanics to which the employees concerned must conform to a new pattern. However, in the procedure being described, this second phase would entail a meeting of the two key management groups involved to mutually work through first the personal and interpersonal fears, anxieties, conflicts, suspicions that the change has generated. Within this Step 2, then, the following sequence of action is suggested, based on the experience that forms the nucleus for this report:

   a. A meeting of the two key groups on a social basis to begin the process of acquaintanceship building.
   b. The mixing of the two groups in a general meeting with a behavioral scientist as a facilitator for the purpose of diagnosing concerns at both the administrative and the employee level and establishment of an order of priority for dealing with both.
   c. Following the joint evaluation and ranking of concerns, there is an interjection in a more standardized format of factual and historical data that relates to high priority points of concern. Since this is often supplied by the acquiring company, who in many cases, relate this information from a background of greater breadth of historical depth, it is necessary that such information be introduced slowly and carefully, with frequent pauses for questioning, comparison, assimilation and integration. In addition to meeting a real need for information, this step also permits a reduction of the tension associated with a lack

of information on the part of the acquired group. The result reduction of tension then enables them to hear better subsequent discussions with the acquiring group.

d. At this point, a rather superficial level of action has been established. A preliminary census of concerns has been taken, and some factual material has been exchanged. It is suggested at this point that each group can learn more about the other by observing in turn how each functions as it works. Therefore, either the acquiring or the acquired group meet in the hearing of the other (who sit as observers) to discuss the mechanics of the merger process. Thereafter each group inquires of the other as to the implications of what they had seen and heard.

e. Additional steps, as indicated earlier, are taken until the human problems of merging have been dealt with effectively.

The merger strategies described here have been repeated, since this manuscript was written, with generally similar procedures employed. The only important difference is that a block of time now is used for each group to provide the other with a rather detailed description of its own organizational chart and functioning. This step is a most important one, for it quickly identifies areas where work will be needed in order to effectively mesh the two systems into one.

The merger laboratory method described here has now been applied by others who report results strikingly similar to those described here.

Conclusion

Techniques and knowledge of how problems of intergroup relations can be reduced, and how team effectiveness can be increased has developed rapidly over the past decade. A new focus of these methods deals with how to eliminate boundaries that separate people, once those boundaries are no longer meaningful. The merging of one corporation into another constitutes an example of this new focus.

This paper has presented a study of how such techniques and knowledge were employed to bring one corporate body into another. The strategies involved have been repeated on several occasions since this article was prepared. Results obtained are generally comparable with those described here.

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