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Michael W. Mercer

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Making Mergers Work

Successfully Managing People and Organizational Problems

by Michael W. Mercer, Ph.D.

As hospitals increasingly dive into mergers, acquisitions, joint ventures, and reorganizations, understanding the emotional reactions of employees to these changes becomes ever more important. People are an organization's chief asset. As such, their emotional reactions play a key role in a business deal's ultimate success or failure (one-third of all mergers fail financially, while three-quarters achieve less than expected).

My experiences as a management consulting psychologist and a management planning manager at a health care-related corporation involved in takeovers enabled me to observe first-hand how employees deal with the stress of reorganization. When people ask me how employees feel during a takeover, I ask them to imagine how they would feel if their lover or spouse had an affair and left them. That is how people feel during a friendly takeover. Then, I ask these same people to imagine how they would feel if their spouse or lover were raped and, to top that off, left them to join the rapist. That is how people feel during an unfriendly takeover.

Staff feel flabbergasted. With breathtaking speed, their jobs, finances, identities, careers, and lifestyles go up for grabs. It is a smashingly rude awakening.

The only certainty is that nothing is certain. Rightly so, people feel uncertain of all sorts of things they previously took for granted. Many distressing questions pop up: Will I have a job? If so, what job? Who will be my boss? And my boss' boss? How about the people I work with now? Will I ever again work with them, eat lunch with them, or socialize with them? What about my salary? Where will I get money? It is the living reality of the ancient Chinese curse: "May you live in interesting times."

Fitting in often proves more important than doing a good job. Managers prefer subordinates with whom they feel comfortable. That is called "chemistry" or "fitting in." Since takeovers usually involve staff reductions and reorganizing, having a post-takeover job depends a lot on fitting in with the right managers—namely, the managers who come out on top in the organization. As such, politicking often takes precedence over working hard and producing good results. And another nagging question begs for an answer: "With whom do I need to fit in?" Until the new management team is announced, employees literally do not know whom they need to impress. They just know they must fit in as soon as they discover who remains as a power broker.

A WHOLE NEW BALL GAME

What was of earthshaking importance in the premerger hospital may prove worthless in the new entity. For instance, one program administrator spent six years in charge of his hospital's cancer program. His hospital was taken over, and execu-

Michael W. Mercer, Ph.D., is a management psychologist, teambuilding expert, and organizational consultant with The Mercer Group in Barrington, Ill. He has authored three books: Hire the Best and Avoid the Rest, How Winners Do It: High Impact People Skills for Your Career Success, *and* Turning Your Human Resources Department into a Profit Center.

tives decided to discard the fine work this manager had labored to accomplish. Such a situation can leave employees no further ahead than they were during their first day on the job. Most people worry during their first day at a new company about whether or not they will do a good job. That reflects how employees feel after a merger, too, even if they have performed well for years. Or as Yogi Berra once said, "It's like déjà vu all over again!"

Most staff like to hear rosy and cheery news reports about their employer. That makes it all the more shocking when employees turn on their televisions and radios or read a newspaper and see their hospital badmouthed in the media. It feels rather disconcerting to hear your hospital called a bully or heartless if it forces itself on another facility. Employees are just as upset to hear their acquired hospital could not hold the fort against an attack. Worst of all, the whole world finds out. Since most employees identify with their hospital to some degree, such publicity can feel downright embarrassing.

During a takeover, language often takes surreal twists. For example, rather than just telling employees they are laid off, managers often inform employees that they are "impacted" or, even stranger, "de-employed." Another example occurs in executive suites. Executives of the acquiring hospital or hospital system often refer to the affair as a "takeover," while executives of an acquired hospital prefer to call the event a softer, easier to swallow term, namely a "merger."

Employees mumble a lot about what they wish they had done. Often heard phrases include: "I should have seen this coming...," "I ought to have started job hunting before...," "I should have taken that other job offered to me a number of years ago...," "I ought to change my profession..."

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Given how greatly staff link their identities to their hospital, employees often feel a deep and profound existential loss when their hospital is taken over. Such a loss is akin to an incident that happened to me a number of years ago while driving to work. A bus hit my car. I called my boss and told her I would arrive late for work, "because I got hit by a bus."

"Ohmygosh!," she shouted over the phone. "Are you okay? Did you break any bones? Shouldn't you go to a hospital?"

I then realized that I identified so closely with my car that rather than saying my car was hit by a bus, I said I was hit.

That incident reflects the same soul-shaking sensation that rips at employees' identities. For example, one employee of an acquired hospital fretted, "We used to be a big hospital and a health care leader. Now we don't even exist. We're literally nothing." This sort of existential loss proves exceedingly hard to swallow.

MAKING MERGERS WORK

Above all, employers must be honest and open if they are to implement a successful merger or acquisition. They must tell employees about all takeover events as soon as this knowledge becomes public. Even potentially unsettling events must be announced. Truth invariably proves preferable to having hospitals run amuck with groundless gossip, rumors, half-truths, and unfounded paranoia.

Recommendations for making mergers and acquisitions succeed include the following steps.

Develop an initial business plan for the combined organizations. Then, devise organizational structures to carry out the initial business plan. Get this rolling as soon as possible, since most employees lower their productivity until they know whether or not they may have a job.

Create a transition team. Such a team must include executives who will remain from both hospitals. The team also needs to represent each major function, such as nursing, operations, planning, human resources, and finance. This team must guide the implementation of organizational plans and transition policies, including layoff policies.

Announce the method used to make personnel reductions. Employees can best swallow the invariable layoffs if they know the logic behind the layoffs. A hidden or vague layoff method only fuels more crises and panic than a clearly explained approach. Typical layoff techniques include:

- Acquiring-company employees

stay, while employees of the acquired company get laid off.

- Executives are appointed from the top, in other words, the "trickle down" approach. These executives choose the next layer of management below them and lay off people who are not chosen. This top-down process is repeated downward throughout the organization.
- Assessments of managers, using business-oriented personality and mental ability tests plus in-depth interviews, are conducted. The goal is to keep the best and lay off the rest.
- "Sandwich," that is, layers of employees are alternated between the two companies. For instance, the top layer probably is drawn from the acquired hospital, and the layers continue to alternate down the hospital.
- Seniority.

Act quickly. As soon as possible, tell employees of their status. Will they be kept or laid off? Remove laid-off people quickly from the work place. Their former colleagues need to get on with work, and letting laid-off employees hang around for a week or a month puts a drag on productivity and damages morale.

Provide outplacement help. No employee enjoys getting laid off. As such, even a little job-hunting training will be appreciated. It may have the side effect of reducing the likelihood of lawsuits by disgruntled laid-off employees. Plus, remaining staff will feel comforted that their employer acted sensitively by providing outplacement.

Teambuild with executives and other work groups. The executive team generally wastes time, energy, and effort due to poor or limited collaboration with one another. The same goes for many work groups. Takeovers or mergers exacerbate such problems. Teambuilding sessions conducted by a neutral, outside expert help bring these problems out into the open in a safe way and facilitate their solutions. The results include more efficient and effective executive teams and other work groups. That spells a better operated organization during a time of crucial changes.

Conduct "actionable" attitude/climate surveys. A smooth-running hospital is easier to manage and more likely to succeed. So, six months to a year after a takeover or merger, all employees need to be surveyed about their reactions to the hospital. Such employee attitude or organizational-climate surveys must be geared to uncover specific ways to improve productivity, morale, commitment, and motivation, plus cut down on costly turnover and waste.

Train or retrain employees as soon as possible. Do not act penny wise and pound foolish. Admit that some remaining employees may not be fully qualified to perform well in their new jobs. Spend the money and time needed for supervisory, managerial, or technical training to bring them up to par.

The wizards who arrange hospital mergers and acquisitions receive a tremendous amount of publicity and attention. Yet, to turn a phrase, behind every successful merger, acquisition, reorganization, or joint venture is an organization composed of productive, motivated people.

What the financial statements do not show are the costs of mergers and acquisitions on human beings' lives and psyches, nor the expensive toll that human discomfort extracts from a hospital's bottom line and growth potential. Fortunately, methods exist to make mergers work, for both the hospitals involved and the people who make them successful—or unsuccessful.

FIRST THE TAKEOVER, THEN THE LOSSES

What a hospital gains in its ledger books from a takeover, it often loses in terms of its most valuable assets—its human resources. Some of these expensive losses include the following.

- *Productivity drops.* Productivity plays second fiddle to worrying, gossiping, and politicking for positions. Plus, staff possess little motivation to produce when they do not know if they still can count on having a job when the dust settles, or if their work is at all valuable in the changing organization.

- *Benefit expenses jump.* Statistics indicate that during and after a takeover, health insurance claims jump for certain types of illnesses, especially stomach aches, ulcers, headaches, liver problems, and high blood pressure. What do all these ailments have in common? All frequently are psychosomatic in origin. They result from nervousness and, in the case of liver problems, excessive boozing. Mergers apparently prove tremendously stressful and costly, both emotionally and medically.

- *Costs of laying off employees.* Laid-off employees deserve severance pay to help fill the void their employer puts them in. This is costly. Also, sometimes hospitals must weigh the cost-benefits of laying off certain employees.

- *Reputation.* Word gets around. If an organization plays in the mergers and acquisitions game, then potential employees may shy away from working there. Or, if a hospital gains a reputation for quickly slashing staff, then many highly qualified people will avoid any employment overtures the hospital makes. Such reactions may hinder a hospital's growth for years or even decades.

- *Corporate nomads.* This is a broad problem affecting more and more hospitals and companies. Partly due to the merger mania sweeping across the nation, increasing numbers of otherwise fine employees are learning that too much loyalty to any organization can take them down the path to financial suicide, emotional and family disruptions, and career setbacks. As such, valuable people learn to look out only for their own skins. After all, why would intelligent human beings sacrifice much for organizations that could love them one day and leave them the next?

—Michael W. Mercer