



# The Effects of Mergers and Acquisitions on Employee Engagement

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In the world of business, mergers and acquisitions are a way of life. M&A activity lessened in 2008 and, with the global economic meltdown now in full swing, activity for 2009 is also expected to be lower than in the recent past. However, as the worldwide recession comes to an end, and especially as company stock prices rise, history indicates M&A activity will also rebound. Even now, in the midst of the recession, cash-rich companies are finding acquisition targets at seemingly bargain prices.

Given the reality that M&A is an often-used business strategy, in this article we seek to answer four questions:

1. What proportion of the U.S. workforce is impacted by M&A?
2. How do proportions change from year to year, and do they vary by industry?
3. How does the experience of being acquired by, or merged with, another company impact employee engagement and its drivers?
4. From the employee perspective, how can the negative effects of M&A be mitigated?

To answer these questions we turn to WorkTrends™, one of the databases maintained by the Kenexa Research Institute (KRI). WorkTrends is an ongoing annual panel survey of a representative sample of workers from countries around the world. In WorkTrends, we ask the types of questions typically found in the surveys Kenexa conducts for its clients. In addition, we ask questions that would not be found in client surveys. Such questions include “My organization has laid off employees in the last 12 months due to a downturn in business” and “Within the past year, my company has outsourced jobs or functions to a consulting or third-party contracting firm resulting in the

elimination of jobs.” In addition to using historical WorkTrends data in this analysis, we also use 2008 data obtained from workers in the following countries: Australia, Brazil, Canada, China, Germany, India, Italy, Japan, Mexico, the Netherlands, Russia, the United Kingdom and the United States.

## What Proportion of the U.S. Workforce is Impacted by M&A?

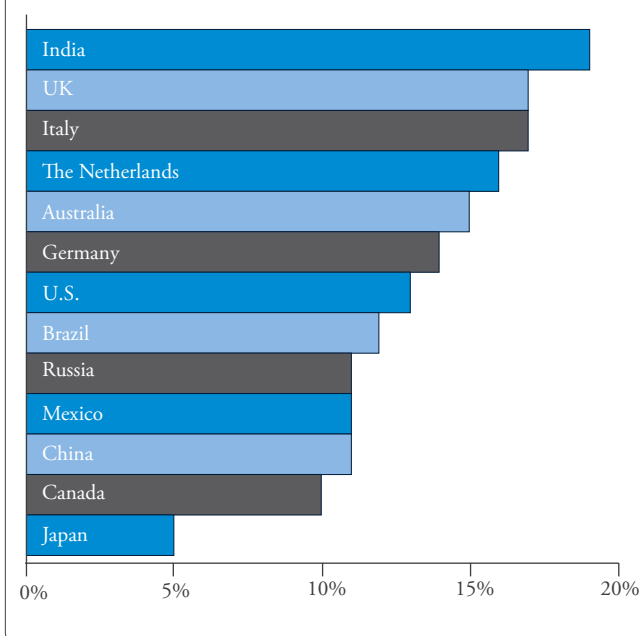
From WorkTrends we learn that 13% of the U.S. workforce went through the M&A experience (see Figure 1) in the year preceding the 2008 survey. Comparatively speaking, the experience of U.S. workers is very similar to that of workers from The Netherlands, Australia, Germany and Brazil. The highest M&A impact was felt by workers in India, one of the hot growth economies of 2007. The lowest M&A impact was experienced by workers in Japan, where M&A affected only 5% of the workforce. Taking a broader view, Figure 1 tells us that in 2007, mergers and acquisitions touched the lives of 5-20% of workers based on this representative sample of the world's largest economies.

## How Do Proportions Change From Year to Year and Do They Vary by Industry?

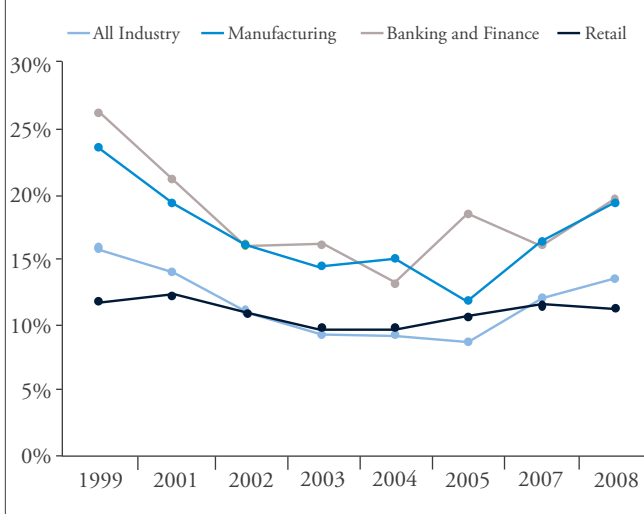
A review of overall M&A activity in the U.S. over the past 10 years, as well as M&A activity in three selected industries, is presented in Figure 2. The all-industry trend line shows that M&A activity, for this 10-year timeframe, was at its peak in 1999 (16%) and hit its trough in 2005 (9%) before rebounding in 2007 and gaining more strength in the year preceding the 2008 survey (12%). The trend for the manufacturing industry parallels that for all industries. Among the industries featured in this analysis, the highest level of activity is found in the banking and finance industry. In 1999, more than one of every four workers in that industry reported their company had been involved in a merger or acquisition. Even in 2005, when activity

was lower overall, close to 20% of workers in the banking and finance industry were affected by M&A. The past 10 years has also shown a higher level of M&A activity in the retail industry than in the all-industry average.

**Figure 1: Percent of Organizations Affected by Mergers and Acquisitions**



**Figure 2: Review of Overall M&A Activity in the U.S.**



### How Does the Experience of Being Acquired by, or Merged With, Another Company Impact Employee Engagement and Its Drivers?

To answer this question, we must first define engagement and describe how it is measured. For the purpose of this article, we define engagement as “the extent to which employees are motivated to contribute to organizational success, and are willing to apply discretionary effort to accomplishing tasks important to the achievement of organizational goals.” In past research published by KRI and other Kenexa thought leaders, engagement has been shown to be related to a variety of positive organizational outcomes such as team performance, customer satisfaction, customer loyalty, net income and total shareholder return. Thus, increasing employee engagement levels is one of the levers managers can pull to increase organizational effectiveness and performance.

In addition to defining engagement, we also want to describe how it is measured. While different organizations have their own formulations for engagement, KRI measures engagement using Kenexa’s standard four-item index, which measures pride, satisfaction, advocacy and retention. The items are presented on a five point Likert scale and the actual item text is: 1) I am proud to tell people I work for my company; 2) Overall, I am extremely satisfied with my company as a place to work; 3) I would recommend this place to others as a good place to work; and 4) I rarely think about looking for a new job with another company. Scores on these four items are averaged to form the engagement index score, which is most typically presented as percent favorable.

For this analysis, we chose to focus on the U.S. workforce. To identify the drivers of engagement for U.S. workers, we conducted a special step-wise statistical regression analysis to identify those item results contained within the WorkTrends survey that most impacted the engagement index scores of U.S. workers. The top 10 drivers of engagement are:

1. Having a promising future
2. Having confidence in the organization
3. Company support of work/life balance
4. Safety being treated as a priority
5. Stress levels being reasonable
6. Having the opportunity to improve one’s skills
7. Working for a company that delivers high quality products and services
8. Having a manager who treats one with dignity and respect
9. Being excited about work
10. Having confidence in the organization’s senior leaders

Improving the scores on these items will produce higher engagement index scores, which is why we refer to them as drivers.

In Figure 3, we display the percent of favorable response on the engagement drivers for three different conditions:

1. Working for an organization that has experienced no M&A activity in the past 12 months
2. Working for an organization that has been merged with or acquired by another company in the past 12 months and has not laid off employees
3. Working for an organization that has been merged with or acquired by another company in the last 12 months and has laid off employees

**Figure 3: Employee Engagement Drivers Under M&A Conditions**

U.S. Engagement Driver	No Activity	M&A w/o layoffs	M&A w/layoffs
Promising future	52	53	45
Confidence in the future	66	66	51
Supports work/life balance	58	57	54
Safety is a priority	72	71	68
Stress level is reasonable	58	55	58
Opportunity to improve skills	56	59	52
Quality products/services	64	68	61
Manager treats me with respect and dignity	75	74	70
Excited about work	54	51	58
Confidence in senior leaders	51	52	46

There are several revealing findings contained in Figure 3. First, a comparison of the “no M&A activity” and the “M&A activity but no layoffs” conditions indicate the impact of M&A activity on the most important engagement drivers is limited. Six of the 10 comparisons show no difference, or a difference of only one percentage point. Interestingly, of the four items showing the largest differences, two items favor the condition of “no M&A activity” and two items favor the condition of “M&A activity but no layoffs.” The level of stress is more manageable, and being excited about one’s work is higher when there has been no M&A activity. This speaks to the preference some employees have for the status quo. On the other hand, the opportunity to improve one’s skills and the company providing its customers

with higher quality products and services is higher after a merger that resulted in no layoffs. Presumably, employees see more opportunities for improving their skills in the larger merged entity, as well as being able to provide customers with better products and services. The latter result, of course, reinforces a typical reason behind a strategic merger or acquisition in the first place.

The comparison of the two M&A conditions produces the most dramatic differences and the trend is quite clear. For 8 of the 10 engagement drivers, the results are notably more favorable for the condition of “M&A activity but no layoffs” than for the condition of “M&A activity with layoffs.” When an acquisition or merger occurs but no layoffs ensue, employees are much more favorable (by at least six percentage points) on the following engagement drivers: confidence in the future of the company, confidence in senior leaders, seeing a promising future for themselves, the opportunity for skill improvement and being able to provide customers with higher quality products and services. This tells us, at least in terms of the employee experience, that it is not change per se that is traumatic but rather the employee layoffs that are often simultaneous to the occurrence of mergers and acquisitions that produce the real deterioration in employee engagement.

We see the same pattern in the results displayed in Figure 4. Instead of a focus on the individual engagement drivers, Figure 4 presents employee engagement index scores. This allows us to examine differences by industry more efficiently. Whether we view the all-industry average, or the engagement index scores for the three industries we introduced earlier in this article, the conclusion is the same: It is not a merger or an acquisition per se that causes a significant slide in employee engagement, but rather it is the combination of a merger or being acquired with employee layoffs that produces a nosedive in employee engagement.

**Figure 4: Employee Engagement Drivers Under M&A Conditions**

U.S. Industry	No Activity	M&A w/o layoffs	M&A w/layoffs
Manufacturing	56	60	51
Banking and Financial Services	62	62	53
Retail	54	55	52
All Industry	60	60	52

### From the Employee Perspective, How Can the Negative Effects of M&A be Mitigated?

This question addresses directly the role of senior management. Others (Schweiger & Denisi, 1991; Covin, Kolenko, Sightler, & Tudor, 1997; Nikandrou, Papalexandris, & Bourantas, 2000; Appelbaum, Lefrancois, Tonna, & Shapiro, 2007) have reported the negative consequences of M&A activity. When coupled with employee layoffs, the consequences can be lessened when senior managers take a much more visible and active role in explaining the merger or acquisition, the rationale behind it, and what employees can expect going forward. We decided to put this belief to the test.

Using the WorkTrends database, we created two special segments of employees: those who work for senior managers who are “employee centric” and those who work for senior managers who are not. To be in the employee-centric segment, employees must agree that senior management:

1. Is credible
2. Provides a clear picture of company direction
3. Displays concern for employee well-being
4. Shows employees are important to company success
5. Creates confidence in the future
6. Responds quickly to marketplace changes
7. Is capable of dealing with the challenges faced by the company

Twenty nine percent of U.S. workers agree with all of the above statements. If an employee is uncertain or disagrees with all of the above statements, they are placed in the “not employee centric” segment. This category represents 22% of U.S. workers.

Having created these two segments of the U.S. workforce, we next computed employee engagement scores for each segment. Figure 5 shows the comparison between employees working for employee-centric senior managers and those working for senior managers who are not.

**Figure 5: Employee-Centric Senior Managers**

	No Activity	M&A w/o layoffs	M&A w/layoffs
Employee Centric	93	84	92
Not Employee Centric	21	19	15

The results are dramatic in two respects. First, consider the sheer level of employee engagement of those working for employee-centric senior managers. Regardless of the M&A conditions, their employee engagement index scores exceed 90% and are four to six times higher than for those working for senior managers classified as not employee centric. Second, even under the normally traumatizing condition of a merger or acquisition accompanied by layoffs, the average engagement index score of those working for employee-centric senior managers is an incredibly high 92%.

These results prove that the negative consequences to employee engagement of mergers and acquisitions combined with employee layoffs can be mitigated. What is required? The answer is having senior managers who are sensitive to the concerns and worries of employees and who, aided by this understanding, take the necessary counter-balancing steps. Such steps include being visible to employees, showing concern for their welfare, communicating a clear picture of the direction the company is taking and reinforcing how employees are critical to the organization achieving its goals. When this happens, senior managers emerge as credible and capable, which in turn causes employees to be confident of the future. These are the very actions that sustain employee engagement even under normally trying circumstances.

### Summary

Mergers and acquisitions are a way of life in industry today. Over the past 10 years, 10-15% of U.S. workers have been impacted by M&A activity. The engagement of workers whose companies have merged with, or been acquired by, another company does not automatically decline. However, when layoffs are involved, the impact is usually negative. The drivers of engagement that suffer the most include confidence in the organization’s future and its senior leaders, employees believing that they have a promising future with the company, and that the company provides its customers with higher quality products and services than its competitors. These declines in confidence can be offset by employee-centric senior managers who take the time to be visible to employees and clearly explain the company’s future direction. When senior leaders credibly display this type of concern for the welfare and morale of the workforce, employee engagement levels can actually soar. It boils down to leadership and the value senior managers place on the human assets of the organization. ■

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### About Kenexa

Kenexa provides business solutions for human resources. We help global organizations multiply business success by identifying the best individuals for every job and fostering optimal work environments for every organization. For more than 20 years, Kenexa has studied human behavior and team dynamics in the workplace, and has developed the software solutions, business processes and expert consulting that help organizations impact positive business outcomes through HR. Kenexa is the only company that offers a comprehensive suite of unified products and services that support the entire employee lifecycle from pre-hire to exit.

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