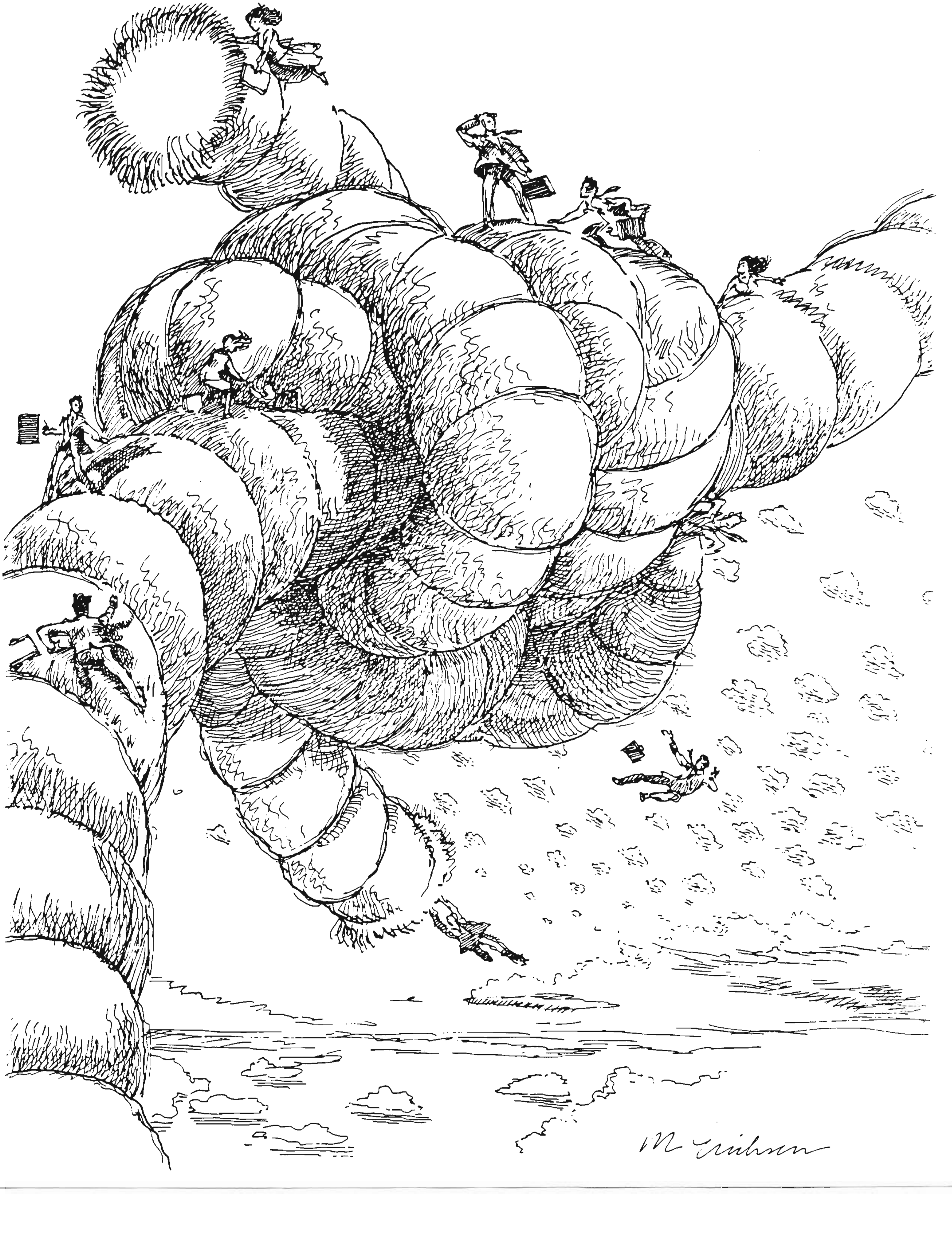
COMMUNICATION WORLD

Elizabeth Howard & Company



MERGER COMMUNICATION: WHAT CAN YOU DO?

BY ELIZABETH HOWARD

Corporations worldwide are changing dramatically in the crucible of "merger-mania." There are no employees, from chairmen of the board to assembly line workers, who can expect to be shielded from these changes. The phenomenon of restructuring is affecting each of us in one way or another.

In 1984, the 100 largest mergers affected more than 4.5 million workers; there were 2,543 transactions involving public companies for a total of US $122 billion. The total tops $140 billion if the value of LBO's (Leveraged Buy Outs) is added. It's estimated that in 1985 on an average business day there were 11 mergers and acquisitions, for a projected 2,860, or 300 more than the previous year. Far from cresting, the wave is gaining momentum—the transactions are becoming more complex, growing in size and scale, and affecting even more employees, according to a recent article in *US News & World Report*, July 22, 1985.

In this "Casino Society," a term coined recently by *Business Week*, it has become much more difficult for corporate leaders to accurately assess and then appropriately influence the value of public companies in the open market. If undervalued, they are prey for corporate raiders. Corporate assets, like a leading brand name, inexpensive oil reserves, corporate real estate, or over-subscribed pension funds can command astronomical prices, as bidders jostle for control and a chance to roll the dice. The stakes go up and the best laid corporate strategies, anti-takeover measures and clean balance sheets become irrelevant against the card-shark and the croupier in the poker game of takeovers and breakups.

The individual who has the most at stake in a hostile takeover or merger is usually the last to know. The average employee—whose livelihood, financial security and self-esteem are on the line—most often receives only scant information about what is happening in the boardroom. Employees are dependent upon—and victimized by—internal grapevines and rumor mills.

However regrettable, it cannot be otherwise: top management is obliged to limit the number of insiders in the know to protect public shareholder value. Because any piece of information can affect the transaction, the media pays close attention to corporate strategy and unusual market activity. Takeover entrepreneurs, arbitrageurs, block traders and various other potent members of the investment community—even institutional investors—in their quest for the highest near-term gain now have the capability, the mobility, and can afford the risk to act quickly upon any information.

More intense scrutiny and pressure puts management on the defensive, further limiting the circle of executives aware of what's happening. Even senior level corporate communication executives are often unaware of merger activity, prompting the SEC (Securities and Exchange Commission) to rule that companies must disclose merger discussions. In the summer of 1984, a spokesman for Carnation said he was unaware of any merger discussions when in fact senior executives were in Switzerland negotiating a deal with Nestle, SA. The spokesman had been uninformed. Confidentiality is extremely important, and "no comment" is the most widely accepted response.

But confidentiality, secrecy and abrupt announcements take their toll on employees. The external pressures of the marketplace are being internalized by management, creating an inordinate level of uncertainty, anxiety and stress for employees at all levels. Thus, there is a genuine necessity for a broader scope of information and

Illustration by Jerzy Kolacz (see pages 23-25) substance in employee communication in three areas:

■ A greater emphasis on the employee's role in profitability and the enhancement of shareholder value.

■ A greater awareness of how the merger and acquisition environment affects the company.

■ A greater understanding of bread and butter issues, like pensions, benefits, health insurance plans, and severance policy before and after a change in ownership.

Employee's role in profitability

Although management is primarily responsible for profits and shareholder value, employees who resist or resent these priorities do so at their peril. The quality of US products has slipped, and the costs have risen, especially for labor, so that the US is losing out to foreign competition in many industries. Since we cannot hope to match foreign wages-to-output productivity, US companies are upgrading quickly to knowledge-intensive enterprises that depend on skilled workers in quality circles doing a broad range of computerized tasks.

Recognizing their personal stake in making the best products to compete in world markets saved Chrysler—and its many employees—from ruin. And the US worker who does not take advantage of every learning opportunity is destined for obsolescence, unemployment and a much lower standard of living. As Peter Drucker recently said in *The Wall Street Journal*, "The only competitive advantage the US can have lies in making productive its one abundant resource: people with long years of schooling..." Improving job skills benefits everyone, increasing corporate productivity and worker self-reliance.

Merger and acquisition awareness

Infusing an awareness of the M&A (Merger and Acquisition) environment in your employee communication program is perhaps the most important step you can take as a communicator. Your first priority is to control uncertainty about the company's stability by conveying management's competence, credentials, strategy and vision to employees. Employees are stakeholders in the company, and their interests should not be ignored by management—neither in a state of siege nor in a long-term effort to maintain corporate independence. Employees will mobilize when they perceive management's strengths.

You must also convey the challenges facing the company, the industry and US business and how management is responding, as well as what employees can do to keep the company profitable and safe from a takeover. Laying the groundwork for a defense begins now:

■ What role does an ESOP (Employee Stock Ownership Plan) play in a takeover? The pension fund?

■ What does it mean when an investor files a 13-D (a form which must be filed with the SEC when 5 percent interest or more of a corporation's stock has been purchased by an individual)?

■ What's a tender offer?

■ How many shares are owned by institutions?

■ What is top management doing to satisfy the need for near-term results and long-term goals?

A question and answer interview with the chairman, followed by division managers, could be the start of a useful series of articles to gain employee confidence and minimize anxiety.

Employees should not be mystified by the jargon of Wall Street: "bear hug," "white knight," "greenmail," "pac-man," etc., are terms that can be best defined long before they are published by the financial press in connection with your company (see sidebar). Above all, it is most important that any employee communication be put simply, in plain English. Avoid legalese and technical jargon. Use glossaries, accurate facts, and tell it LIKE IT IS.

Bread and butter issues

Employees will naturally wish to know specific details about such bread and butter matters as pensions, medical benefits, employee stock ownership plans, severance policies, profit sharing and other matters. All too often employees find out about these issues on their first day and their last, without much information in between. Conveying the substance of these issues with some regularity—and in ways that register management's concern for employee welfare—can be done in the context of merger activity. It will save everyone a lot of trouble and stress if it's done well, in writing, long before any transaction.

More importantly, it can be done constructively, with complete honesty, in a way that emphasizes the employees' stake in the success of the company. ■

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DEFINITION OF FREQUENTLY USED TERMS:-

Tender Offer: Offer to buy shares of a corporation, usually at a premium above the share's market price, for cash, securities, or both, often with the objective of taking control of target company.

Bear Hug: An acquiring company sends a letter to a target company's board of directors that offers to buy the company at a significant premium above the current market.

Pac-Man: Technique used by a corporation that is the target of a takeover bid to defeat the acquirer's wishes. The target company defends itself by threatening to take over the acquirer and begins buying its common shares. The pac-man strategy is named after a popular video game.

White Knight: Acquirer sought by the target of an unfriendly takeover to rescue it from the unwanted bidder's control.

Green Mail: Payment by a takeover target to a potential acquirer, usually to buy back acquired shares at a premium. In exchange, the acquirer agrees not to pursue the takeover bid further.

These two books are excellent resources for defining mergermania terminology:

"Dictionary of Finance and Investment Terms," Barron's, 1985

"Merger Mania Arbitrage: Wall Street's Best Kept Money-Making Secret," by Ivan F. Boesky

TODAY'S TAKEOVERS AND MERGERS PUT COMMUNICATORS IN THE MIDDLE

Four merger veterans tell what it's like waiting for the other shoe to drop.

BY ELIZABETH HOWARD

In the midst of an intense period of business merger and takeover fever, the pressure on communicators to generate effective communication and information flow has never been greater. Ironically, public relations staffs are often the first to be eliminated following a merger. To understand how corporate communicators are responding, I interviewed several who have been involved in takeovers and mergers for their views on the experience.

Carole Smargon is a veteran of two takeover battles. She is currently manager of internal communications at SCM, which was recently acquired by Hanson Trust, and was corporate communications coordinator at Kennecott for five years before it was acquired by Standard Oil of Ohio (Sohio). She told me about the Kennecott deal.

THREE-PHASE PLAN THINS KENNECOTT'S RANKS Kennecott had been involved in a protracted two-year proxy fight with Curtiss-Wright and had acquired Carborundum Company before agreeing to a friendly takeover by Sohio. For Kennecott it was "an intelligent business decision," yet employees had been through a difficult time, including relocation from New York City to Stamford, Conn. "It was a period of recession and high unemployment which made it scary for any professional, and it was obvious," said Smargon, "that in the merged company there were redundant employees."

The reality of unemployment does not hit home until you see it in writing. A letter was sent to all Kennecott employees outlining the three stages of the merger. In Phase I certain employees would be let go; in Phase II a group of employees would be asked to stay indefinitely to help with the transition; and Phase III would involve offering jobs to a small group of employees. The entire public relations staff was in the first phase, although the vice president was asked to stay and assist in the transition.

Employees received a terrific severance and outplacement package that included office space, telephones, copying, mailing and secretarial services; a full day of counseling for clerical personnel; a three-day session with practice interview videotaping for mid-level people; and personalized counseling and testing for director or above personnel. Instead of severance checks employees were kept on the payroll to provide insurance and pension benefits.

But even with good communication, severance and outplacement, "it doesn't make it easy," said Smargon, because it was "career-ladder traumatic." Under the circumstances, she said, "lower management felt betrayed." Although the merger has nothing to do with them, "eventually you take it personally. Not just the company is rejecting you, but everyone is rejecting you, which is psychologically very debilitating, even though it's got nothing to do with you at all." Having survived the Curtiss-Wright fight, employees were deeply disappointed when they lost their jobs in an otherwise friendly merger.

Smargon's advice to anyone in a similar situation—"don't despair, don't get depressed. This is business—tell everyone and never speak ill of the corporation or management. Continue to do the best job you can until the day you leave and make them sorry they had to let you go."

CHAMPION/ST. REGIS, EMOTIONS RUN HIGH In contrast to Kennecott, the battle between Champion International and St. Regis took less than a month. On July 13, 1984 the *New York Times* noticed that the company's stock had jumped three points in heavy trading. Six days later, Rupert Murdoch announced his bid for 50.1 percent of the company. On July 25, after six more days, St. Regis firmly rejected his offer and immediately sought a white knight. After another six days, on July 31, St. Regis announced a friendly merger with Champion International, creating the largest paper company in the US.

Ron Martin was senior project manager at St. Regis and is now director of communications services at Gulf + Western Industries in New York. He recalls how quickly the deal materialized and how emotionally involved St. Regis

ILLUSTRATION BY MARC ERICKSEN

Martin

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Smargon

SMARGON'S ADVICE TO ANYONE IN A SIMILAR SITUATION—"DON'T DESPAIR, DON'T GET DEPRESSED. THIS IS BUSINESS—TELL EVERYONE AND NEVER SPEAK ILL OF THE CORPORATION OR MANAGEMENT.

Shelley

ROGER SHELLEY, REVLON'S VP, CORPORATE AFFAIRS, RECALLS THE "EXCITING CHALLENGE OF HAVING TO BE BRILLIANT ON DEMAND."

people became. St. Regis employees had become attached to the company because of the company's concern for its employees.

"There was a great deal of caring for people, and we wondered whether new management would have the same interest and concern as we did, particularly for the many small operations in little towns across the United States." Out of 15 employees in the corporate communications department, Martin was one of three people who were invited to go to Champion. Because the St. Regis-Champion merger was a "friendly deal," a task force was established to determine how the two companies would be merged. Two months transpired before anyone knew whether or not they would have a job, which created a great deal of anxiety.

Martin said that there were "no complaints about the way people were treated." Severance benefits were generous, including outplacement services. In a special issue of *REACH*, the company's quarterly magazine, a significant effort was made, after agreement was reached, to describe Champion and what St. Regis employees could expect from their new management.

Martin says that being forced to make a career change "isn't always a bad thing" because it pushes people to make a planned or anticipated career move. But, it can cause problems during the transition. Those offered jobs feel relieved they don't face the unemployment line, but they feel disloyal to those who've been let go. "As a result," says Martin, "resentment is easy toward those who have jobs," although they face the difficulty of adjusting to a new management style and corporate culture.

Martin believes in the importance of communicating, particularly with employees. He admits that he "lost some respect for the financial media for giving credence to rumors" through the merger but gained insights into the sensitivities of employees during periods of uncertainty and emotional upheaval created by losing a job.

PANTRY PRIDE/REVLON THRUST AND PARRY The takeover of Revlon by Pantry Pride took about six months, with both sides thrusting and parrying in the financial press every couple of days. By the time Pantry Pride won, several milestones in the world of mergers and acquisitions had been passed. Roger Shelley, Revlon's vice president for corporate communications, recalls the "exciting challenge of having to be brilliant on demand." There was a great deal of pressure on him to interpret every development and announcement, authorize many statements, provide informa-

"PROVIDING INFORMATION ABOUT PENSIONS, RETIREMENT, SEVERANCE AND HEALTH BENEFITS BECAME AN IMPORTANT PART OF THE ROUTINE."

tion and sometimes deny it. He has found the transition to new ownership very smooth. Shelley views the company's new direction in emphasizing return on investment, growth in their core businesses and redeployment of assets as a most positive direction. He believes the philosophy of American business is changing and that the jury is still out.

UNION CARBIDE FACES ONGOING CRISES

For the communication department at Union Carbide, it all began on December 3, 1984 with the gas leak of methylisocyanate in Bhopal, India. This accident placed the company under intense press scrutiny that still continues and was intensified in August 1985 when GAF announced 5 percent ownership of the company.

If you followed the press accounts, it might have appeared that Union Carbide was vulnerable. On the contrary, top management had mapped out a restructuring strategy that protected the company from a takeover, addressed the Bhopal claims and continued to productively and profitably employ many of Carbide's dedicated people. The demands on the company's communication department centered on striking a balance between compassion for Bhopal victims and a deliberate business strategy to protect assets and jobs.

"After so many major events, Bhopal, West Virginia, and GAF, it felt like a 40-year career compressed into 12 months," said Bob Berzok, ABC, assistant director of corporate communications. He also noted a significantly greater sensitivity to words and images after Bhopal throughout the company. That had as much to do with the initial storm of media coverage as with the preparation of information, and briefings for chairman Warren Anderson, and press conferences that took place almost daily. He said "uncertainty" and "concern" were operative words. And maintaining efforts to continue with their business in such a media environment tested everyone's powers of concentration.

During the unsuccessful takeover attempt, Carbide made extensive use of its media facilities, as well as financial press advertising to keep shareholders and employees fully informed about what top management was doing. In addition to the *Wall Street Journal* and the *New York Times*, they garnered daily attention on Dow Jones and Reuters wire services and several major stories in *Fortune*, *Forbes* and *Business Week*. Each message had to be hand-tailored for the particular audience. For employees, it meant expanding their regular communication channels and efforts, with much attention to detail. Providing information about pensions, retirement, severance and health benefits became an important part of the routine.

In January 1986, about four weeks after GAF disclosed its intended takeover, Carbide announced a restructuring plan to shareholders and employees. A special letter from the chairman—one of several—was mailed directly to employees' homes and reproduced in advertisements. A videotape presentation also was available. And the employee publication—normally sent by third class mail—was mailed precisely on schedule and sent first class. By conducting a daily review session at 10 a.m., Carbide's communicators were able to put out materials quickly and clearly every day for both shareholders and employees.

Even though GAF's bid is over for now, the coverage and intense pressure hasn't ended for Union Carbide. Bhopal claims remain unsettled, and in the aftermath of the takeover fight, Carbide must divest its consumer products businesses. More recently the company made top echelon management changes. Through it all, Berzok said, "Carbide employees in general never stopped caring about their company. A good example of their concern is their spontaneous generosity to create a fund for Bhopal victims of more than US $150,000." In retrospect, a big factor for Berzok was that the employees were well informed in a timely and candid manner. Communication was instrumental in averting the takeover of Union Carbide.

In the course of researching this article, I spoke with many people who could not be quoted or interviewed because they were embroiled in a takeover battle or employed at companies that are rumored to be potential targets. For those who had long corporate careers and lost their jobs, there is a great deal of bitterness. Most companies have a strong culture—almost like a family—and many admit that it's hard to leave after many years. But, they also understand the danger in becoming complacent and committed to a certain culture.

Business today is fast-moving, demanding and motivated by global economic factors. Keeping up means staying ahead of the competition, updating skills, using common sense and paying attention to detail. For better or for worse, communicators are in the middle of it all. □

PAUL H. ELICKER DISCUSSES THE CHANGING FACE OF BUSINESS

Elicker is CEO and chairman of the board of directors of SCM Corporation, a US diversified manufacturer of consumer and industrial products, which was acquired by Hanson Trust, a London-based conglomerate, in January 1986. He has been with SCM since 1956, and was elected president and CEO in December 1971 and chairman in 1979. He shares his observations—and experiences—on today's volatile business climate of mergers, acquisitions and doing business in an expanding global community.

BY ELIZABETH HOWARD

CW: *Employees often feel betrayed by management following a merger or take-over. What can a CEO do as a communicator to help with this problem?*

PE: I am questioning this premise to some degree. Do employees feel betrayed? I think there's a mixed feeling. On one hand, employees do feel, whether correctly or not, that management should protect them against a contest. On the other hand, when employees see the size of companies, they can understand that this kind of thing can't easily be controlled in the world we live in.

To the extent you can communicate the steps of what goes on, they are much better off. It's hard to do sometimes for two reasons: One, the picture changes very rapidly while a contest is on; and second, you are under certain legal restrictions—self-imposed—but restrictions as to what you can say. The legal liabilities take such predominance that you can't communicate what you'd like.

CW: *How do you use communication as a management tool?*

PE: We have had in the past—and perhaps this will continue—a variety of internal publications not only for the company as a whole, but also for each of the divisions. Additionally, a great deal of personal contact always takes place. We placed an emphasis on communication in normal times.

CW: *Have you found that it's become increasingly important in SCM's recent environment?*

PE: Yes, I think so. It's during an overwhelming event that people have a vital interest in knowing what's going on.

CW: *Bhopal, Tylenol, the Challenger tragedy, and the threat of hostile takeovers, have placed an emphasis on crisis communication. How can senior management and communicators work together to prepare for these crises?*

PE: I think probably the best thing to do to prepare for the battle, if it is to be a battle, is to have an advance plan, to the extent it's possible, so you can get moving fast. It isn't fully appreciated how fast these things move. You don't have the time to study and ponder the situation. There are lots of experts on the scene, as there have to be and should be, all of whom are pursuing their own particular aspects. This makes it hard to pull everything together. It's difficult to keep an orderly behavior in what's essentially a disorderly situation.

To the extent that you can plan what you are going to do ahead of time, that's very helpful. In our case, we had been through two proxy fights before Hanson Trust. Proxy fights can hinder operations.

CW: *We have become, as prophesied, a global village. What are the biggest concerns of your colleagues, CEOs and other members of corporate boards, toward globalization?*

PE: I can merely restate what you've just said. There isn't any question that in the last 20 years, every business we have, and ours tend to be smokestack businesses with relatively fewer international customers than many, have become much more global in scope. Just as an illustration, 10 years ago you could say "Who are your competitiors in titanium dioxide?", which is a chemical used worldwide. We would have said that we were second in US production.

Today, automatically it comes to mind that we are third in world production. That's just one illustration.

I think it's interesting to note that the takeover process itself is being globalized. What's going on in Great Britain now is new. A few years ago it was unheard of there.

CW: *International business today requires a dialogue with foreign business leaders. How can we get in shape for the new environment?*

PE: In general, our contact from headquarters with people in other countries has been mixed. It depends on the degree to which local management is involved. For example, at our titanium dioxide facility in England there are two plants and a sales force that covers the world, except North America—their buying contact is with the high ranking executives.

On the other hand, we have lots of contact with government authorities and the economic authorities in Singapore where our activity is confined to a manufacturing plant. Therefore, our far-reaching plans are not locally conducted. The more full-fledged the operation, the less likely we are to have continuing contact with the officials in the individual countries.

I THINK PROBABLY THE BEST THING TO DO TO PREPARE FOR THE BATTLE, IF IT IS TO BE A BATTLE, IS TO HAVE AN ADVANCE PLAN, TO THE EXTENT IT'S POSSIBLE...

CW: *How do Hanson's British attitudes and characteristics toward communicating differ from the American perspective?*

PE: I think the differences, and there are some, are not so much national differences. They are just differences in the way various companies conduct business. I think Hanson Trust is as different from the heavy chemical industries, to take an arbitrary example, as we would be from General Motors. I don't see any uniquely British characteristics. I think there are characteristics that are particular to Hanson because of being the company we are.

CW: *The demand and pressures on corporate leaders are perhaps greater than at any other time. What is it like being a corporate leader today?*

PE: Well, it never wants for interest. There are more demands—particularly the threat or the actuality of takeover. That's a relatively new element compared to 10 years ago. The other demands haven't lessened. I guess the scope has gotten bigger.

CW: *Do you think corporate leaders can reach the top without strong communication skills?*

PE: No, I don't. I think, however, that the task for most people is not as formidable as it might appear. Obviously, anything worth doing is worth doing well and has to be come upon by a conscious effort.

But, like anything else, you become more capable with practice. I'm sure everybody has had stage fright when giving a first speech, but by the time you've given 50, it's less. The important thing is to recognize that it's important. ☐