Why Communication is King
During the M&A Process

The merger or acquisition process can be tumultuous. Entrepreneurs must balance the financial aspects of a merger and acquisitions (M&A) with the legal and operational tasks of selling a company, all while continuing to run their businesses. This juggling act places heavy burdens on business owners. Consequently, valuable employees who are integral to the business and the success of a sale are often overlooked during the M&A process.

The Pitfalls of Employee Communications

If communication with employees is not managed properly during an M&A process, it can lead to employee backlash and attrition. This can be detrimental to the ongoing company operations and possibly put the entire transaction at risk.[1] Thus, owners must make a critical decision during the sale of their company — how to break the news to their employees. How much should they disclose? Who should they tell? When is the right time to reveal the news?

There are no guarantees in an M&A. It's a sensitive process with many moving parts and constantly-changing information. That's why it's important to be careful about disclosing too much in the early stages of a transaction. Sharing information with employees that isn't set in stone could lead to false alarms. It might even jeopardize a deal that hasn't been finalized. On the other hand, too little information can be equally as dangerous. That's particularly true in small businesses where employees have been with the company for its entire lifespan and have a level of trust in the owner. They are perceptive to changes in the owners' behavior, and likely can tell if they are withholding information. In such situations, lack of communication breeds rumors and distrust, potentially harming ongoing operations.

Entrepreneurs should respect their relationships with employees and keep them in the loop as the company approaches a sale. If employees hear news of a sale through a customer or a blog, they will not only be shocked but also feel a lack of respect. For this reason, business owners should first break all new developments internally, but only when they are certain of the information's veracity and permanence.

Once business leaders have informed employees about the possibility of a sale, a host of other challenging problems may crop up. According to Deloitte, employees whose jobs are at stake may exhibit anxiety, lower productivity, and absenteeism.[2] Associates who know they will no longer have jobs may lose their motivation to work. Even those who have been tapped to continue working for the buyer can suffer emotional impacts. They may grieve their coworkers who will not be a part of the company's future and feel anxiety about the change, their new roles and the potential of heavier workloads.

Owners must acknowledge what both groups of employees are feeling and give them time to move on. Regardless of whether "move on" means working for the buyer or transitioning to a role outside of the company, all associates should be able to air their concerns and have them addressed.

Thus, open and honest communication is the most important part of managing employees during M&A. It is, however, challenging because there is a fine line owners must straddle between too much disclosure and excessive secrecy. Revealing large amounts of information can overwhelm and scare employees and harm day-to-day operations. At the same time, keeping knowledge secret for too long can pose an ethical dilemma. Owners risk that employees feel they are hiding the truth.

Walking the Tightrope with Confidence

Given the risks involved in walking this tightrope, it's crucial for owners to establish a communication plan long before a sale. Above all, they should be sensitive to *how* they communicate with employees. In many transactions, owners dump the information on the employees of the acquired company all at once and leave them to make sense of it on their own. Instead, owners should communicate with employees in-person in a structured and thorough way. That includes explaining the rationale for a sale, the benefits to the company's customers, and how it will impact different groups of employees. For questions to which owners do not have answers, they should set up methods to obtain that information from the buyer. Owners should also address individual employees' concerns privately, follow up with periodic updates on the status of the sale, and generally remain visible.

A company cannot afford to ignore its employees during a sale of the business. After all, they are often its most valuable assets. Owners who communicate openly and effectively with their employees throughout the entire sales process are poised to come out on the other side of the transaction with less stress, more satisfied buyers, and, most importantly, happier employees.

[1] Mark Swartz, Monster, Prepare Your Staff for a Merger or Acquisition

[2] Deloitte, Retention After a Merger

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