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Pulling together

- Company mergers mean IR department challenges
- Combined company needs to find single voice
- Advisers discourage hasty decisions to trim staff

By Gwen Moran

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When it comes to merging two publicly traded companies and their IR departments, Kate Patterson knows what she's talking about. As vice president of investor relations at Websense, a San Diego software firm, she has overseen IR for two of the company's 2007 acquisitions: a deal for California-based PortAuthority Technologies, a data security company, and another for SurfControl, a UK-based competitor.



Patterson says whenever two firms merge, there are some basic rules of engagement. 'You have two issues to consider,' she elaborates. 'First, the process leading up to the merger, then the merging of the two departments. How you handle each depends on the structure and needs of the company and the IR team.'

Internal concerns tend to erupt first. Lev Janashvili, vice president of financial communications for global PR firm Waggener Edstrom Worldwide, says a top concern, especially among the people at the acquired company, is whether their jobs will be intact after the transition. This is a situation he experienced when his role as the IRO at Juno Online Services was eliminated in its merger with NetZero.

When firms combine, there are some areas that can absorb the extra head count. But that's not often the case with IR, says Michael Stanchfield, a partner in the Minneapolis law firm Faegre & Benson. 'Unfortunately, the combined company won't need two IR teams,' he explains. 'Often, it's the acquired company's folks that are let go, though not always.'

Deserting the ship

Many IROs simply want to bolt as soon as the merger deal is sealed, so Stanchfield says it's vital to find incentives to retain IR teams during the transition. Some companies offer monetary incentives for people to remain with the firm for a specific period, which, he notes, typically works well.

Other firms may have severance packages that are tied to whether a person stays during such a transition period, so exiting IR professionals should think twice about what they may be giving up, Stanchfield adds.

Any merger can be complicated by an ensuing power play. 'The acquiring company has to minimize the hubris that so often accompanies a takeover,' says Janashvili. 'The IR department of the company being acquired will have diminished control and has to learn to let go. The more professional you are throughout this process, the more likely it will be, by the end of the process, that you'll secure a position with the new team if it needs more talent.'

Len Rand has managed this process several times. After nearly three decades of working for private companies, including his post as CEO and founder of NetBoost, which was acquired by Intel in 1999, Rand is now managing director of San Francisco venture capital firm Granite Ventures, where he routinely helps companies navigate the acquisition process. Differences in corporate culture, especially in functions like IR that serve external audiences, can be stumbling blocks, he notes.

'The IR team has usually learned a way of thinking, a way of dealing with the process, a way of dealing with investors,' Rand says. 'Often, the approach is very ingrained into the culture of a company. There is usually a



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concern about whether it will be compatible with the acquiring company. In many ways, the IR team's function changes more with the company culture and how the acquiring company communicates than it would for someone in engineering, for example.'

The most distinct clashes come when one company is open and accommodating to media and investors, while another is closed and guarded. 'If you're used to being forthright when discussing tough issues and you're going to a company that stonewalls and acts macho, it can be difficult to internalize that culture quickly,' Rand says. 'But that's what you will have to do if you're going to be successful in the transition.'

One voice

In any case, the key challenge for IR is getting the combined company to speak with a single voice. Janashvili says one of the worst things that can happen is for investors and the media to discern a measure of instability due to rapid staff turnover or inconsistency of message.

For some, the accommodation comes more quickly than others. When Websense merged with SurfControl, Patterson and her team were helped by the fact that UK disclosure requirements forced them to distill their messages up front. 'The disclosure document became the focus of everything,' she recalls. 'Everything you were going to say had to be in that document.'

Total information sharing is essential, Janashvili says. The respective IR departments should know each other's inventory of data, contacts, software packages and vendor relationships.

'If you're the IRO at an acquired company, you'd want to receive a large database of target lists – media, buy-siders, sell-siders, analysts – and feedback reports that are typically conducted after conference calls, as well as any large-scale perception studies,' Janashvili says.

If the company conducts perception studies, he recommends reviewing at least three years' worth, to gauge any recent shift in audience perception. That may give IROs an indication of concerns that are likely to emerge and help them prepare to address those concerns, he says.

The new team

When Websense made acquisitions, it kept its own IR team to manage the function, says Patterson. That's typically how companies treat the acquisition process, notes Rand, though he adds that a better course is to take some time throughout the transition process to evaluate the needs of the new entity and the strengths of the various personnel.

He points to Cisco as a company that has done an excellent job of retaining and nurturing executive talent from acquired companies. 'Don't make the decision to cut staff too quickly,' he says. 'Take time to assess who your people are, what their capabilities are, and what you think the combined organization should look like, as well as what its goals are. Get key people involved in making decisions throughout the transition so you can see them in action.'

One mistake companies frequently make is to administer 'death by a thousand cuts,' he adds. Laying off people in fits and starts leads to morale being diminished and companies may lose good people who choose to leave because they're afraid they will be let go next.

Rand recommends separating the team into two groups: the people in one group get the message that their services will no longer be needed, due to duplication of staff, and are given information about their options and severance terms.

'To the others you say, *We're sorry we had to do this, but it's over. You can all go back to work. There's nothing hanging over your heads,*' Rand explains. 'Most people just say, *Whew,* and go back to work.'



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In the same boat

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