Managing change in biotech: mergers and acquisitions

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A boom in biotech mergers and acquisitions brings staffing challenges on all sides.

As biotech companies continue their growth and development toward product success, they struggle with a highly competitive deal environment as well as regulatory and commercialization challenges. Generally, big pharma is seeking to acquire potential commercially viable products that can shave years off of R&D effort, whereas biotechs are often eager to gain regulatory and marketing expertise—both of which are big pharma's strengths. In addition, mergers among biotechs have long been a way for smaller companies to acquire complementary technologies and strengthen their financial footing.

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Although the biotech initial public offering market showed promising activity in the first quarter of 2007, mergers and acquisitions valuations have risen dramatically as big pharma and mature biotech companies have become willing to pay for the right strategic assets. Recent evidence of this trend includes Pfizer's (New York) acquisition of Esperion Therapeutics (Ann Arbor, MI, USA) for $1.3 billion in October 2003 and Merck's (Whitehouse Station, NJ, USA) acquisition of Sirna (San Francisco) for $1.1 billion late in 2006. Biotech companies with good early clinical data tend to be strong prospects, with the highest valuations going to companies with distinct products in late-stage clinical trials.

When one company merges with another or is acquired, the business rationale is most clear at the shareholder, board and CEO level, according to Linda Fitzpatrick, a senior human resources strategy advisor. Employee impact is significant and often misunderstood. This article is the second in a series on managing people changes in life science companies; the first segment focused on dealing with changes during the startup and growth phases (*Nat. Biotechnol.* **25,** 479–480, 2007).

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Understanding the impact of mergers and acquisitions

Mergers and acquisitions are, with few exceptions, organizationally complex and emotionally demanding. Not only is there uncertainty among employees about the future, but the passion and purpose of the work, an intrinsic motivator for most, often stops with limited warning. "It can be like having trained for a marathon, and arriving at the race to be told, 'This isn't a race, it's a carnival,'" says Fitzpatrick. "While the carnival might be truly amazing and even more appealing than running the marathon, that's not what captured your heart, mind and passion in the same way that the marathon did. Helping employees understand how their work continues to have purpose is the key to engaging and retaining those vital to achieving your desired outcome."

Employees of the acquired company typically experience uncertainty about whether or not they will have a role in the combined company and what role they may be asked to play during and following the transition. These employees usually demonstrate resistance to the integration process and may express unfounded optimism or pessimism. Employees of the acquiring company often feel uncertainty about their roles after the integration of the companies, as well as a range of other reactions from positive to negative. Executives of both companies also react to the uncertainty surrounding their roles and responsibilities and often unspecified changes to their span of control and level of influence over outcomes. Many mid-level managers can feel caught between executive management expectations and loyalty to the people who report to them. Investors seek confidence in company leaders and reaffirmation of the company's business strategy.

The transition process

Though often very challenging, nothing is more important during the transition process than open and honest communication with employees. In the earliest days following the inking of the transaction, numerous and often complex decisions are being made. The following can be helpful: in the earliest stage of the transition, resist making promises, however tempting. Make regular and frequent communication with employees a priority. Communicate what you can—if only to say that decisions are being made and will be communicated when specifics have been determined. Convey consistent messages and, finally, meet or exceed communication commitments. Company leaders should strive to provide as much transparency as possible to decision making and address employee concerns such as changes to roles and responsibilities, compensation and employee benefits as promptly as practical.

Most often, the actions required to bring companies together take more time than expected and involve substantial thought and care under adverse conditions. Individuals whose knowledge and cooperation are central to the integration process are, understandably, feeling highly distracted, dispirited and quite possibly, disengaged. Typically, acquiring companies assemble integration teams, comprised of knowledge-keepers from both companies, charged with the responsibility for transferring information of all kinds. Often, employees retained for the period of transition are provided special compensation, over and above any severance benefits available, that is designed to reward their commitment to the transition period.

In some cases, geography and time zones affect the speed and timeliness with which decisions are made and communicated. Staffing decisions related to the retention of employees essential to the transition are a priority. Depending on the value drivers of the acquisition, certain employees may be offered positions with the acquiring company.

The 'quiet period' during which these important decisions are being made can be painfully frustrating to employees who are anxious to learn about their status and plan their next steps. Company leaders can favorably influence the effectiveness of the transition when they make clear decisions as promptly as practical, qualify decisions as necessary and allow for revisions and course corrections. They should also clarify roles and responsibilities (both short and longer term), quickly identify and re-recruit key talent, communicate near-term plans and manage expectations.

Hints for employees in transition

Uncertainty can be paralyzing. When specific information is not forthcoming, it is tempting to believe that important information is being intentionally withheld. It's more likely that complicated decisions are being discussed and specific courses of action are being determined. Decisions related to staffing and integration requirements deserve thoughtful deliberation. Some tips for enduring the stressful 'quiet period' between the announcement of the merger or acquisition and the availability of information on the specific changes that follow include: trying to suspend judgment about the intentions of the acquiring company and the course for the organization's future direction; holding reasonable expectations of the management team as they work through decisions that are sufficiently fleshed out and ready to be communicated; resisting the impulse to imagine catastrophic (or fantastic) outcomes; asking for clarification when information is incomplete or confusing; and being open minded and willing to be amazed.

Conclusions

There is no formula for effective acquisitions and the complex integration process that follows, even for those companies with a strong track record of acquisitions. Every integration process holds unique challenges, weighty staffing determinations and sometimes significant hurdles for advancing product development. Outcomes are favorably impacted by clear, timely decisions well communicated and an honest effort to balance the needs of the new organization and the needs of all those affected by the transition process.

COMPETING INTERESTS STATEMENT
The author declares no competing financial interests.