THE NEXT THREAT TO M&A: EMPLOYEE ACTIVISM

By Blair Hennessy and Pat Tucker

EMPLOYEE ACTIVISM is having a moment. From walkouts to social media campaigns on issues spanning from social injustice to sexual harassment, employees have mobilized to prove that they can create real change and influence corporate decision-making at the highest levels. The rising influence of employee activism is on a path to collide with one of the critical corporate actions any company takes: transactions.

At its core, employee activism pushes companies and management teams to do more (i.e. stand up for social justice) or be better (i.e. improve climate commitments). Employee activism in M&A is rare because it demands employees go one step further by outwardly rejecting a decision that management has endorsed. For this collision of interests to occur, a number of puzzle pieces have to come together.

Board directors need to consider this new risk in dealmaking. While a rare occurrence right now, employee activism on a transaction could have broad-reaching impacts on the deal and the longer-term ability of the organization to attract and retain talent key to its growth.

The risk factors for employee activism around M&A to be considered are:

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A largely millennial or digitally native employee base. Millennials are the driving force behind employee activism because they are both internet-oriented and socially engaged. If either the target or the acquirer has a largely millennial employee base, the deal has a higher risk for employee activism because they are a highly engaged group that understands technology and how to use it effectively.

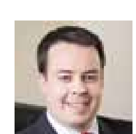
Existing social, environmental or political risk. Issues ranging from #MeToo, climate change and social injustice to politically driven issues have traditionally been at the heart of employee activism. Combine any of these issues at either the target or acquirer with the uncertainty and change that is inherent for employees in M&A, and the risk for employee activism increases.

Unionization concerns or a largely unionized employee base. Unions are the original form of employee activism. After a transaction is announced, this group can quickly mobilize a large portion of the employee base against the deal. The tactics and political capital that unions have at their disposal make them particularly able to effect change at a company.

A perceived or real culture gap between the acquirer and target. Lack of cultural alignment is one of the biggest reasons why deals fail. Employees know more about their peers than ever before. If employees of either company have a perception either before or as a result of a transaction that the culture of the two organizations are not aligned, they are much more likely to push back against a transaction.

A large group of employees with simmering or underlying resentment against their employer. A transaction could be a trigger for groups of employees who have underlying resentment to speak out against a company and its transaction. Covid-19 has unearthed a whole new set of issues, from safety precautions for in-person employees to remote work burnout, that all companies are facing coming out of the pandemic. Over a year into the pandemic, many companies have employee bases that are at best facing low morale and at worst outwardly hostile. Any simmering tension between employees and management could prime the pump for employees to push back against a deal.

Once a transaction is announced, the employee reaction is vital to the successful integration and long-term value creation of the combination. As companies look to effect transformational change with strategic M&A, it is vital that boards consider how the employees will react.



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