Proactively identifying and addressing potential risks are a key function of effective public relations practices and increase the probability that a crisis can be avoided or minimized.

However, not all risks are inherently bad. Accepting some risk is necessary for organizations to grow and adjust to current economic and culturally driven circumstances. One method of adapting to these factors is by merging similar, or complementary, businesses together. However, the probability that the merger will produce stress within the organization being acquired is high and ultimately communicating with the impacted organizations about the impending changes is critical to its success. In fact, strategic communications is the pivotal point on which the success of the merger rests.

It must be recognized that employees whose work life is influenced by the merger have limited choices in how this business decision will impact their way of life. People resist change and enforced change can be even more difficult to accept.

Therefore, a risk assessment of the potential problematic issues must be conducted. This allows for a strategic communication plan to be developed and implemented in order to effectively address employee concerns and move the organization forward. A failure to communicate typically results in employees seeking relevant information and speculating about the potentially negative impacts that may occur as a result of the merger.

A lack of information can drive the impacted employees to seek information from outside sources such as the media and colleagues within the industry. This can produce a short-term loss of productivity, impact the retention rate of employees and ultimately negatively impact the financial well being of the organization.

The Merrill Lynch-Advest merger

In recent years the number of firms who provide a full menu of investment services to its clientele continues to dwindle. This is primarily due to a continued pattern of change in the industry, with middle market, or “regional” firms being purchased by and consolidated into the dominant firms in the industry. Merrill Lynch, along with several other large brokerage firms, is in a constant battle to increase the size of their sales force in order to stay one step ahead of their competition. As a result, firms like Advest are constantly vulnerable to being acquired.

In September 2005, Merrill Lynch and AXA Financial announced the execution of a definitive agreement for Merrill Lynch to purchase Advest Inc., a wholly owned subsidiary of AXA Financial, with offices located primarily in the North-eastern region of the United States.

This transaction, which closed in December 2005, was expected to help Merrill Lynch grow their private client group network through the addition of Advest’s 500-plus financial advisors and their clientele.

In late September weeks after the merger announcement had been made, Advest’s retail managers were asked to evaluate every financial advisor in their complex and asked to place them into one of three categories with the following results:

1. Confirmed as moving to Merrill Lynch – 57 per cent.
2. Confirmed as leaving before the deal closes and not joining ML – 13 per cent.
3. Undecided – 30 per cent.

The management team at Merrill Lynch felt confident that they would be able to retain
approximately two-thirds of the undecided advisors. Therefore, a retention rate of 75 per cent or higher would be considered a success. A “failure” rate for this transaction would be based on Merrill Lynch being unable to persuade 65 per cent or more of Advest’s financial advisors to move over to the Merrill Lynch platform.

**Strategic communication**

Identifying the relevant issues and providing appropriate information is key in a successful merger. A pre-merger risk assessment should identify the key issues for all the organizations and employees involved in the merger.

“As the deal neared its close, Advest’s advisors began to leave the firm in large numbers and continued to leave even after the close date.”

The major risk associated with the Merrill Lynch/Advest merger was quite simply employee retention. Therefore, potential areas of concern for existing Advest employees should have been distinguished in order to identify the strategic communications channels and products that would best address these concerns.

Merrill Lynch did not conduct this type of risk assessment and therefore did not effectively develop or communicate the level of comprehensive information that addressed these concerns even when later asked directly by Advest advisors. Instead, Merrill Lynch adopted in part the Merger Syndrome tactic of increased centralization and decreased communication with employees.

Much thought and planning went into the announcement of the merger. The timing of the merger announcement was developed to allow for the simultaneous distribution of information that included the media as well as existing Advest and Merrill Lynch employees. However, the timeline for communicating with employees after the merger was announced took significantly longer and failed to address Advest advisors’ key concerns.

**Organizational culture**

The likely change in the organization's culture was the key issue of concern for the Advest financial advisors. Most of the 500-plus advisors had been through two previous acquisitions in recent years and suffered the accompanying stress. The post merger result during these transactions was that the organizational culture had remained largely unchanged and that the advisors were allowed to continue to operate under the existing entrepreneurial spirit post merger. This independent culture was clearly not going to continue once the Advest advisors became Merrill Lynch employees.

The divisiveness of these two company’s organizational culture is easily documented:

- Advest was a small, regional firm consisting of 515 financial advisors, while Merrill Lynch was a global enterprise consisting of approximately 14,000 advisors.
- Advest’s advisors were free to run their practices as they saw fit. Merrill Lynch was known in the industry as “Mother Merrill” for their top-down ways of having their advisors function under the Merrill Lynch umbrella.
- Advest had no internal products freeing the advisors from having to meet quotas. Merrill Lynch has internal funds, etc., that brokers are encouraged to recommend to their clients although they are free to offer outside products as well.
- Finally, and most significantly, Advest’s advisors, in their minds, “owned” their clients, while at Merrill Lynch, it was clear that the clients were “owned” by the company itself.

Had a risk assessment been conducted, Merrill Lynch would have been aware that at least 50 per cent of the existing Advest advisors had previously been employed by Merrill Lynch-style firms.

The 80-20 rule, where 20 per cent of the brokers generate 80 per cent of the sales and the other 80 per cent generate about 20 per cent of the sales, held true for Advest advisors as well. However, of the 20 per cent of advisors generating 80 per cent of the sales, almost all been employed by a Merrill Lynch-style firm previously and had left those firms to come to Advest because of the independence it offered.

**Mass exodus**

A risk assessment beyond the financial worth of Advest clearly would have aided in the decision-making process as to whether the company was a good candidate for a merger. However, a risk assessment was not conducted and the fact that Advest advisors were unlikely candidates to accept Merrill Lynch style management, based in
part on their employment history, did not come to light.

The perceived and real differences in the organizational culture of these two companies eventually had an impact. As the deal neared its close, Advest’s advisors began to leave the firm in large numbers and continued to leave even after the close date. This exodus became the focus of media stories in both the local news and industry outlets. By the deal’s close date, over 260 advisors decided not to pursue a career at Merrill Lynch, leaving approximately 250 former Advest advisors transitioning.

In the months leading up to the merger announcement, Merrill Lynch representatives evaluated whether acquiring Advest was a good financial move. Based on the history of the revenue generated through Advest advisors, a decision was reached to acquire Advest. However, Merrill Lynch made mistakes that may have been averted if a risk assessment had been conducted:

- Merrill Lynch did not investigate the employment history of Advest’s advisors. Had this work been conducted, the organizational culture issue would almost certainly been detectable.
- Therefore, Merrill Lynch was not prepared to proactively and aggressively combat the pre-conceived negative perceptions that Advest’s advisors had in regard to this deal, primarily the issues associated with the differing organizational cultures.
- Additionally, Merrill Lynch showed no sense of urgency in communicating to Advest’s advisors as evidenced by the delay in meeting with them in general, and identifying and meeting with the opinion leaders specifically. Consequently, the organizational culture issue was allowed to assume a life of its own.
- Ultimately, Merrill Lynch’s lack of response to the media in terms of the number of advisors leaving before the transactions closing data exacerbated the situation.

If Merrill Lynch had reviewed the employment history of Advest’s financial advisors as part of a risk assessment, they could have predicted that this merger would not succeed at the desired level and been able to predict at least some of the difficulties they would encounter. As it occurred, Merrill Lynch clearly misjudged the level of animosity that Advest’s financial advisors had towards the organizational culture existing in large-scale firms like Merrill Lynch.

More to the point, Merrill Lynch could have developed a target strategy of identifying the “opinion leaders” at Advest, and utilizing them to help present the benefits that an advisor enjoys as part of Merrill Lynch. Ultimately the retention rate of brokers moving to Merrill Lynch fell far short of the industry norms of 70-80 per cent post merger. Over 50 per cent of the employees left the firm by the closing date in December 2005. By July 2006, seven months after the deal closed, 80 per cent of Advest’s financial advisors employed at the time of the merger had left.

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This is a shortened version of “Risk assessment as a function of a successful merger: Merrill Lynch-Advest merger”, which originally appeared in the Journal of Communication Management, Volume 11 Number 3, 2007.

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