A Study of Mergers and Acquisitions: Morgan Stanley Smith Barney and Bank of America Merrill Lynch
The union of soulmates versus a shotgun wedding.

EXECUTIVE SUMMARY

This report juxtaposes how Bank of America (BOA) managers failed during the Merrill Lynch (ML) acquisition against how managers at Morgan Stanley (MS) excelled by inspiring play and active engagement with newly acquired Smith Barney (SB) employees. Through secondary research and direct interviews with executives and employees, we were able to discern how management either raised their employees to new heights, or failed to capitalize on their

potential. Our research identified key factors that are responsible for breaking down the trivial divisions that impede collaboration, and how effective managers imbued their office with joy.

Based on our findings, we believe that successful acquisitions occur when management promotes these four central goals:

- **Keep open lines of communication**- both ideas and helpful critiques are often stymied because of the pressure of being part of an acquired company.
- **Maintain psychological contracts**- sudden radical changes in daily tasks have a propensity to alienate new employees.
- **Be active about terminating fault lines**- mergers are replete with superficial fault lines that impede collaboration in the office.
- **Find opportunities to expand the values upheld by the *new* company**- think of the culture as a new living entity born anew from both companies.

The tale of BOA's poor performance and work satisfaction is diagnostic of their failures to provide these standards. Conversely, MS has emerged from its acquisition strategy with a motivated work force and an enlightened corporate culture due to their commitment to these central goals.

INTRODUCTION

i) About the Organizations

In the midst of the financial crisis in 2008, the financial services industry was experiencing tumultuous changes. With declared bankruptcy of established firm Lehman Brothers, existing firms on Wall Street were attempting to maintain their stature and deal with the rippling changes. On September 14, 2008, BOA, a reputed commercial bank, decided to

acquire ML in the hopes of improving their investment banking division. On the other hand, MS, another respected financial services provider decided to acquire SB on January 13, 2009 in order to boost their wealth management division. Both

ii) Purpose of Our Work

We wanted to diagnose exactly what we can learn from MS as a model of how to make an acquisition successful, regardless of the state of the economy. Outside of the 2008 financial crisis, would these mergers have been more successful? Conventional wisdom would say that these acquisitions both would have encountered additional problems because of the financial crisis. Therefore, some may say that proper management insights could not be seen as a result of this bias. However, we still see MS merge with SB successfully in spite of any difficulties due to the crisis. It is still relevant to discuss both of these mergers at hand.

iii) Methodology

We conducted primary research by interviewing both past and present employees from both BOA-ML and MS-SB. We were able to distribute surveys out to several employees from MS-SB in the New York office. Our secondary research includes articles from national media outlets and from financial industry publications like Forbes and DealBook.

SUMMARY OF MANAGEMENT ISSUES

i) Fault Lines- Preventing Tremors from Becoming Mega-Quakes

Successful managers are able to diagnose and dissipate potential fault lines (Gratton, Voigt & Erickson). MS by dissolving fault lines has facilitated organic cultural growth, and created an environment of play and camaraderie. Interviewees cited examples of play on the trading floors, like managers organizing prop bets for weight lose competitions. At BOA,

employees found ways to manifest fault-lines. Within the office, employees still segregate themselves by referring to each other as being employees of "BOA" or "ML". These divisions manifested themselves in a variety of superficial levels; from the brands of their suits to their segregated elevator rides. For example, ML employees look down on their BOA counterparts as employees that wear cheap suits and "tacky" flag pins. How did MS managers manage to shrink fault lines into innocuous tremors, while BOA's fault lines manage to spiral out of control into a mega-quake of employee division?

ii) Designs to Keep your Employees Psyched

MS kept their new employees motivated by celebrating their skill variety and what they brought to the table. Employees at SB were continually applauded for their expertise in financial advisory, and even allowed to expand their roles to include teaching and recruiting MS employees to join their new division. The celebration of diverse skills and experiences within MS-SB encouraged creative abrasion. Meanwhile, BOA alienated their new employees by changing the job design of ML employees to fit within the framework of a large retail bank. By radically changing the nature of their work, BOA violated their psychological contract, and sapped ML employees of their motivation.

ANALYSIS

i) Seeds of Dissent

BOA and MS's attitudes about their new acquisitions set the two mergers on their divergent paths. MS viewed their acquisition of SB as a joint venture that both firms needed, while BOA considered themselves as saviors for a failing ML (Appelbaum & Goldfarb). MS's perspective allowed them to entrust SB to manage 74% of all wealth management accounts

(Merced). By looking past SB's poor condition in 2008, MS gained goodwill with their new employees. MS managers took full advantage of the Pygmalion effect; by trusting new SB employees and expecting them to be successful, they were rewarded with high performance (Livingston).

BOA's perspective laid the groundwork for mistrust between the two banks. From the start, reports in the national media about ML poor performance, "Thain realized that his firm was in critical condition and might not survive past the weekend. It was a shotgun wedding…" (Silver-Greenberg & Craig) clouded BOA's opinion of ML employees. Ex-ML Managing Director of Investment Banking O'Grady recounts how his pleas to keep customer-driven performance evaluations met deaf ears because BOA executives discounted ML's management model (Exhibit Two). BOA's recent $2.43 billion lawsuit alleges that ML has impeded bank performance because of their toxic assets from the acquisition; this has reinforced strife and fault-lines in the office (Henning & Davidoff). Several ML employees reported feeling ostracized by BOA employees who blamed them for "causing layoffs". These issues have fostered animal group-life in the office, where employees reported feeling like each group were in direct competition and in conflict with each other (Wright).

ii) Inspiring "Being", Instead of Making "Bean-Counters"

By upholding psychological contracts and original job design, MS has inspired active engagement in the office and the spiritual state of being. Before each acquisition, each group was concerned that their responsibilities and day-to-day schedule would change significantly. SB employees, who have the reputation of being a part of a "cost-conscious and conservative operator, which contrasted with its Wall Street Peers [Including MS]" felt initial concerns about

joining a broader more traditional bank (Philbin). MS has alleviated these concerns by maintaining the day-to-day tasks at SB. They even go so far as to praise their original work routine, MS CEO Gorman "we have deep appreciation for the ways in which the SB tradition is strengthening our franchise." MS by applauding the different mentality and skill set of SB employees has fostered creative abrasion in the office. Additionally, by not changing the job design for employees at SB, managers were able focus on managing the people rather than the task. These policies have allowed MS-SB employees to retain a spiritual state of being.

Just the opposite was true at BOA, who instilled an animal state of being. ML recruited employees by promising them a chance to place their relationships with clients first; in fact it is the first item on their mission statement.

> *ML places our client relationships first and is proud to conduct our business based on five unwavering principles: client focus, respect for the individual, teamwork, responsible citizenship and integrity.*

This focus shifted when they joined BOA, who focuses instead on being a leader in the financial services industry. ML employees reported feeling compromised because they were forced to push financial services to clients who they have been loyal to for decades (Exhibit Two). ML employees, originally motivated by building these client relationships, experienced job dissatisfaction because they failed to see the task significance in pushing the BOA portfolio (Hackman & Oldham). Hackman and Oldham suggest that ML employees will fail to find their work relevant and meaningful because they fail to see the significance in their tasks. This conflict promotes and animal state of being because employees detach themselves from their work, and are no longer actively engaged with their coworkers or their clients.

Is your Company Diet more Junk Food, or Fresh Organic Culture?

Executives at MS-SB have fostered an environment of mutual understanding and mutual benefit by allowing the two cultures to organically grow together. In the period directly following the merger, managers from both firms were responsible for amalgamating two disparate business cultures into one cohesive image. Several MS-SB employees noted feeling satisfied by being able to note the values and practices that they believed in and wanted to see in merged venture. One MS-SB executive characterized this organic growth model as "the harmonization of many policies and processes… [that] helped promote the corporate culture". By involving both management teams and disparate levels of personnel, they imbued employees with a sense of ownership in the venture (Exhibit One). This organic model further diluted fault-lines by making every employee a member of this *new* culture.

BOA, on the other-hand, has pushed their decentralized culture onto ML, a smaller company with a strong culture. BOA created a value-vacuum by removing the values that ML advocated, and not replacing them with a tangible structured corporate culture. O'Grady commented that ML employees felt directionless, especially because BOA did not have an educational program on corporate values (Exhibit Two). By failing to provide a new corporate culture to ML, they reinforced fault-lines, as ML employees searching for value in their work, reported tethering themselves more strongly to their original ML values.

RECOMMENDATIONS

Our research and interviews have illuminated how MS effectively integrated MS and SB employees. We believe that some of these tools could alleviate office tension between BOA and ML employees, and help them move from an animal group life into a spiritual one where employees can be present and engaged in their work.

i. Short Term Solutions

Keep the Past in the Past

ML employees have distanced themselves from their work because they feel stripped of their voice in the office. As long as BOA employees keep blaming ML employees for layoffs and bonus reductions, they will marginalize their opinions and build animosity in the office (Henning & Davidoff). The first step towards an open environment where employees can love and be present with each other is to give ML employees a fresh start from their troubles in 2008.

Add Voices to the Choir

Employees at MS-SB have a strong organizational commitment because the company was open to their input, and built the corporate culture around their advice (O'Reilly). MS-SB did this by having managers go around on a "roadshow" where they spent time in a variety of offices to survey employees on what they valued about their work (Exhibit One). BOA would benefit from this type of roadshow; by giving ML employees a chance to manage upwards, managers can learn how to better understand how to motivate their disparate ML workforce. This would also start to build organizational commitment in ML employees, because they finally can get a sense of involvement in the big picture of their firm.

ii. Long Term Solutions

Plant the Seeds of Your Culture

BOA needs a stronger culture to give ML employees values to believe in and norms to guide them into BOA (O'Reilly). Managers in BOA-ML Michigan have already explored how to cultivate a culture, and have recently reaped the benefits of high worker satisfaction. Michigan Market President of BOA, Cockrell and Mideast Regional Manager of ML, Bernard came

together to find aspects of ML's culture that fit with BOA CEO Moynihan's goal to make BOA-ML "the best financial services company in the industry". Together, they decided to legacy in several ML pillars "Our culture now has a principle of 'trust in your team.' Merrill Lynch also had a longstanding principle of respecting the individual. The core value here now is to embrace the power of the people". Cockrell exclaims, "The art, to me, is not to change the culture but to honor the culture, respect it and build upon it. You bring together the best of both, to make an even better culture melded together." a model that the rest of BOA should replicate (Cassano).

Stop the Attack of the Clones

BOA's emphasis on making employees into capable financial service salespeople has enhanced the animal form of group life (Hill). By allowing centripetal force to push employees towards the cookie-cutter personality suited for financial advisory, reducing office diversity. In order to reverse this trend, BOA needs to embrace the unique personalities that ML has recruited for their investment banking function, and to give them more autonomy. Increasing their autonomy would cultivate a spiritual group life in the office by allowing ML employees to reach out to see how they can expand their roles in the office because of the acquisition (Hill). This type of autonomy and worker diversity is tantamount to BOA maximizing the potential of their newly acquired employees.

TAKE-AWAYS

Our analysis has led us to determine that MS-SB has a couple of managerial philosophies that should be applied to any company undergoing an acquisition.

Manage the People, not the Work

We encountered a major theme during our interviews: acquisitions are stressful! Between potentially changing offices, meeting hundreds of new coworkers, and having new supervisors-

employees generally reported feeling more stressed in the quarter immediately following the acquisition (Exhibit One). Managers have a significant role in alleviating these pressures, and need to have their primary focus on making the transition as smooth as possible. When managers lose sight of this, and instead focus on getting maximum productivity from their employees as soon as possible, they apply additional unnecessary stress. Placing employees in a stressful environment where they feel like they cannot succeed only causes them to displace themselves from their work, and demotivate them further (Hackman & Oldman). Following an acquisition, managers need to defuse stress, not reinforce it.

Show-Don't Tell

Another major theme from our interviews was that employees often feel lost after an acquisition. Successful managers provide that guidance by being a positive example, and through education programs on why the company's work is important. BOA-ML in Michigan exemplified this by holding seminars to show ML wealth management employees how BOA commercial banking helped businesses and communities (Cassano). MS-SB led by example when roadshows brought management teams down to local offices to facilitate the transition, and to lead by example on how to conduct themselves in the office (Exhibit One).

CONCLUSION

The two mergers of BOA and ML and MS and SB exemplified how important keeping open lines of communication, maintaining psychological contracts, being active about terminating fault lines, and finding new ways to uphold the new company culture are for successful mergers. BOA and ML experienced employee dissatisfaction, stressful environments, and difficult downsizing periods. In total BOA and ML cultivated an animal state of being,

whereas MS and SB fostered a spiritual state of being. MS and SB were able to achieve such a state of being by embracing the new company, expanding the company culture, and educating the employees to ensure the easiest of transitions. In order for BOA-ML to succeed, some recommendations include keeping ML's negative financial past in the past, creating a solid and well-known company culture, and celebrating individuality and diversity. In all of these areas, MS-SB has succeeded and truly incorporated the new business into every facet of the company culture. As a group, we have analyzed two company mergers within the financial services industry, while noting the drastically different results.

We believe that our findings may be biased because our second exhibit was an interview with an ex-ML executive who had clear loyalty for ML even after working at BOA. This could possibly affect the objectivity of his responses. Our first exhibit could also be skewed because these interviews were distributed to present employees who could possibly be self-censoring their responses in fear that we were planning to share our survey responses with current management at MS. Our secondary sources could also be skewed because major news publications possibly inflated the failures of the financial industry after the 2008 recession in order to sell more newspapers at a time when the industry was so heavily scrutinized.

APPENDIX: GROUP PROCESS "LESSONS LEARNED"

From the onset of this project to the very end, it was apparent that our group had an excellent dynamic. We quickly established our strengths and weaknesses based on our Myers-Briggs personality types and laid out a plan to approach potential conflicts. We were fortunate enough to have a good balance between having three extroverts and two introverts.

The group extroverts took the lead in the early stages of the project by organizing group meetings, but as our group became more comfortable with each other, everyone began to contribute, building on our already well-established dynamic. We utilized each of our strengths by assigning tasks that would best suit each individual. For example, a few members focused on core research while another member specialized in connecting and presenting the ideas. We organized our meetings with agendas that helped keep our meetings efficient. Additionally, we leveraged our connections in order to obtain the best possible research. We had two group members who had connections in BOA-ML and MS. These connections made us significantly more confident about our work, and made us confident that our project choice was correct.

The atmosphere in our meetings was light and we would often joke around. This comfortable atmosphere allowed us as a group to engage in "play", making it fun to work on the project. Our group was reflective that we never argued as a group when we noticed that other groups sometimes had struggles. This made us very grateful for our group members, and made us more conscientious about collaborating.

Although we ultimately were effective in organizing our meetings, there are some things that we could have done better in order to be more productive. At times we were easily distracted and would get off topic because we all got along so well. But, the pressure of deadlines would get our group back on track.

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EXHIBIT TWO

Merrill Lynch / Bank of America Survey Response/feedback:
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Position: Managing Director in the Investment Banking Group

1. Very happy before the merger
2. Had been with Merrill for over 16 years
3. Difficult environment during the financial crisis
4. Concerned with the entire financial system for their clients
5. High level anxiety at every level of the firm
6. Enjoyed the people he worked with very much
7. Was fairly treated by level above him, which were the highest executives
    a. His position might be biased

8. Concerned with the long-term survivability of the company
9. Employees knew that Merrill couldn't survive on its own
10. Trying to advise clients when they are worried about their own company failing
11. After the merger it was very apparent the two companies were very different
12. As an individual, he felt that he didn't chose to work at a big commercial bank like Bank of America, so didn't want that culture
13. Like the culture of Merrill in that the primary business was investment banking
14. The relatively small amount of employees at Merrill, made Bank of America seem much bigger and less of a 'together' culture
15. So many sectors at Bank of America made the Merrill investment bankers feel less important
16. HR policies and strategies were very different at the two institutions
    a. About 300,000 employees vs. 50,000 employees
17. Uniform standards across all business units at Bank of America meant that the same frameworks were used to evaluate bank tellers and investment bankers
    a. So cookie cutter that the bankers weren't being accurately evaluated
18. The entire HR focus at Merrill was to recruit the best investment bankers possible
19. Criteria for performance at Bank of America didn't fit well because it was much less personalized than the bankers were used to at Merrill
20. Bank of America didn't have a strong identity because so of so many acquisitions and mergers; no central culture
21. Merrill Lynch "Values expertise, hard work, client relationships, and diversity in talent and perspective"
22. Being smart and individually talented was very important at Merrill
23. They value what the person brought to the client relationship, whereas Bank of America would value how much credit was loaned out or what kind of other deals they could bring to the client.
24. Merrill never had other business units to incorporate, so this was a major issue to get used to
25. Downsizing was a major focus right after the merger
26. Bank of America needed the brokerage network that Merrill brought in
27. Band of America already had a capital markets group and an investment banking group
28. The group was only ok, not nearly as good as Merrill
29. Mike was in charge of the firing and merging of the two groups
30. Generally he felt that Bank of America was quite fair
    a. In the end more Bank of America people were fired than Merrill employees
31. Fair severance packages were given out to both groups
32. Bank of America was bad by prolonging the firing process over a much longer time period than was necessary
33. They are still struggling to merge the corporate and investment banking groups
34. Problems with integration of the new members
35. Tons of anxiety and lots of stress before, during, and after the merger
36. Had to let people go, keep clients, generate revenue, and all of this during the financial crisis
37. Within months of the merger, Bank of America was in serious financial stress too
38. Regulatory and client problems once Bank of America started having problems too

39. Some clients didn't like working with a commercial and retail bank, so they really hated the merger
40. Added stress was the absolute worse part of the merger!
    a. He said this like 10 times
41. In New York and Chicago the offices of Merrill were moved to Bank of America's offices
    a. The two biggest Merrill branches
42. Did not enjoy the new people as much, didn't feel that they were the same caliber he was used to at Merrill were they had the best and brightest
43. The employees at Merrill felt like they never asked to work for a retail bank
44. Bank of America had B level people and Merrill had A level people
45. After the merger, all hiring needed to raise the overall caliber of the group
46. After the merger there was no education for the new people about what Bank of America stood for or valued
47. Issues with leadership after Ken Lewis was pushed out
48. The new group was trying to gain and retain clients as Bank of America was being battered in the papers
49. Lost confidence as the press stated the shortcomings of the company
    a. Very stressful to deal with clients in this climate
50. Bank of America is much better now with better leadership in the form of a new CEO
    a. Took three years to get back out of the hole