

Harvard Business Review

www.hbr.org

HBR CASE STUDY AND COMMENTARY

How should Steve
decide who stays
and who goes?

Four commentators offer
expert advice.

Who Goes, Who Stays?

by David A. Light

Reprint [R0101A](#)

This document is authorized for use only in B362C by Dev Team, Rasmussen from February 2013 to August 2035.

The merger between two pharmaceutical companies generated headlines first—and then headaches. One reason: CEO Steve Lindell has two executives for every available slot. As the stock price drops and talented people head for the exits, he must quickly decide whom to keep and whom to let go. Pass the aspirin.

HBR CASE STUDY

Who Goes, Who Stays?

by David A. Light

The merger announcement between DeWaal Pharmaceuticals and BioHealth Labs was front-page, top-of-the-hour news. Pictures of CEO Steve Lindell and chairman Kaspar van de Velde, beaming at each other like long-lost friends at a college reunion, had appeared in newspapers around the world. DeWaal, based in the Netherlands, was an established European drugmaker, and BioHealth, headquartered just north of New York City, had in recent years become competitive at the highest tier of the market. Both companies made and sold a wide range of drugs, from over-the-counter pain relievers to AIDS medications. The new megacompany, DeWaal BioHealth, would reap the benefits of scale: it would consolidate plants and staff while having more products to push through its distribution channels. Global headquarters would be in New York, but European manufacturing and sales would continue to be directed from Rotterdam. The new com-

pany's combined revenues were projected to top \$8 billion.

Now, two months later, the TV cameras had moved on to a new story, and the hard labor of integration loomed. Ever since the announcement, Steve had worked tirelessly on clearing the regulatory hurdles presented by the FTC and the European Commission. And he noted with a mixture of satisfaction and relief that all signs pointed toward approval in the near future.

Yet Steve knew that the anticipated victory would be just the beginning of the game. The real challenge would lie in bringing together two very different cultures as quickly and efficiently as possible. He had to get the new company moving, and the first hurdle—it looked more like a pole vault to Steve—was selecting the top layers of management. At the moment, there were some 120 people on two continents for about 65 senior-level jobs.

HBR's cases, which are fictional, present common managerial dilemmas and offer concrete solutions from experts.

Steve drained his third cup of coffee of the morning and checked his watch. Already 11 AM. He'd been at the office since 6:30 and in meetings for the past three hours. Now he had an hour to prepare for his meeting with Kaspar at one of New York's finest restaurants. Steve had suggested the company cafeteria, but Kaspar had cajoled him into making the drive to the city by invoking "the need to maintain a civilized life in this frantic world of ours." The meeting's agenda consisted of one item: deciding who would fill the high-level management posts.

The Exodus

As Steve gathered up the mass of papers he would need and stuffed them into his briefcase, there was a knock on his half-open door. Alison Whitney poked her head in and said, "Hey—got a minute?"

Alison was BioHealth's director of sales and marketing. She had shot into that position a year ago, at age 33, after establishing herself as the company's best sales rep. She had an easy, bantering relationship with Steve and was known for having her finger on the organization's pulse.

"I'm just out the door. What's up?"

"Yeah, I know, I know. You're meeting with Kaspar—that's what I need to talk with you about. I'll keep it brief."

"Fire away."

"I just have to let you know, before you make any final decisions about people, that everyone, and I mean everyone, here at corporate is terrified. Right or wrong, they think Kaspar is calling the shots. We've already lost, what, five people? And I can tell you, without naming names, that I know of three or four others who are weighing serious offers right now. Like I said, I had to let you know."

This wasn't the first time Steve had heard that people were confused about who was in charge. The question had already been raised by a handful of Wall Street analysts and a *BusinessWeek* reporter. The confusion puzzled and irritated Steve. He was, after all, the leader of the bigger organization and the new company's CEO—end of story. True, Kaspar had lost none of the drive and charisma that had made him one of Europe's most respected CEOs, but he was 62 and widely presumed to be on the road to retirement. That's why he had agreed to the position of chairman, Steve

figured. But Kaspar, with his ability to charm the media, seemed to be creating the perception that he had more say in key decisions facing the new company than Steve.

The two men had worked well together during the merger negotiations. They had carefully traded off the positions at the very top of the new organization. Kaspar had insisted on having his people lead HR, operations in Europe, and global marketing; Steve, in return, had held out for COO, CFO, and head of R&D. Overall, Steve had been happy with the horse trading. The reports of tension between the two were based only on rumors, but Steve knew rumors could sometimes become facts if they are not quickly dispelled. All this flashed through his mind as he faced Alison.

Steve exhaled a big rush of air. He already knew what Alison didn't: that DeWaal's Albert Schenk, based on his extensive knowledge of global markets, was going to take over as the new company's director of sales and marketing. Steve was planning to offer Alison a job as head of U.S. marketing, but he wasn't sure she'd take it. He hated the thought of losing her.

"Look, Alison, do me a favor. Try to calm people down a little. I can guarantee you that our best people will have jobs—I'll see to it one way or another. And remember: this deal is going to be rewarding financially to the people who stay—that includes you. So a little more patience is in order. Okay?"

After a pause, Alison quietly responded. "Sure. Okay. Well." She looked a little embarrassed. "Have a good lunch, and watch out for that third martini."

Steve, who rarely drank, forced a smile. With a short wave, Alison left, and Steve realized that his heart was pounding. Four more people about to leave? That was news he could have done without. Just this morning, he had learned that a leading brokerage was downgrading BioHealth's stock from buy to hold. Steve had watched nervously in the past two months as BioHealth's stock price dipped 20% once the initial euphoria over the deal wore off. He knew that part of the drop was attributable to a general softening of the market, but stories about difficulty with the integration process had certainly contributed. As the company's stock options became less valuable to his managers, could he really be so surprised that people were heading for the exits?

David A. Light is an associate editor at HBR.

Steve picked up the phone and dialed Bruce Bollinger, who would accompany him into the city.

"Bruce, you ready to roll? Let's go."

Going Nowhere Fast

Bruce had been BioHealth's head of HR. It was widely known that Bruce wasn't exactly a workaholic, but in Steve's eyes he made up for his 9-to-5 mentality in other ways. Bruce and Steve went way back. They had worked together for years, and the two played golf together every chance they got. Bruce was known for his stand-up comedy routines at company functions and his good humor on the golf course, which he treated like a second office. More important, he wasn't afraid to give his boss tough messages when he thought Steve needed to hear them, and he had a way of cutting through the baloney at staff meetings. When Kaspar had insisted on naming Christian Meyer as the head of HR, Steve had reluctantly agreed to demote Bruce to director of corporate training.

As Steve walked out of his office, he heard Bruce booming down the hall at him. "Did you see that Tiger pulled out another one? I watched all 18 holes. Unbelievable."

Steve waited for him to catch up and replied, "No, no, I missed it. These days, I'm not sure I'd recognize my clubs if they fell on my big toe."

"You've got to get out more." Bruce continued to analyze Tiger's round until they ducked their heads into the car.

As they drove along, at first rapidly and then haltingly in the stop-and-go traffic of Manhattan, Steve unburdened himself to Bruce about the tough staffing decisions that lay ahead.

"You know, I don't care what the investment bankers say, I like to go with my gut. I like to look people in the eye and find out what they've really got. And I'm not that impressed with a lot of the people from DeWaal. Somehow our guys just seem to get it, and I can't get a good read on the Dutch. All right, so eight of them have left us already. They don't want to move to New York. They're fearful. Alison tells me that our people are too. I mean, I knew the headhunters would be hovering, but I can't believe they got to Sandy Allen. I always thought she would take my job someday, and what really gets me is that I negotiated hard to get the CFO job for her.

Anyway, I'm sympathetic to everyone's fears and I'm trying to be as objective as possible, but...Bruce, help me out here."

Bruce looked up from the interview notes and résumés he'd been flipping through. "I think this meeting today is crucial," he said. "We've got to get resolution on our key people. Don't worry, I'll take on Meyer."

Steve hated to admit it, but Christian Meyer had become a bit of a thorn in his side. He wanted to do a lot of testing of the executives—for IQ, for emotional intelligence, for who knew what else. And he constantly talked about the fairness of the process. Steve's view was that fairness was a noble goal—and one they would strive for—but he had to look at the big picture. And speed, as the market was making clear, was crucial.

"We need to get on with this. Even if we don't make the perfect choices right now, we can fix things later. Meanwhile, we've got to consolidate where we can and get the reps up to speed on all our products."

As they pulled up to the restaurant, Bruce got in a final word. "One more thing: if I see Kaspar working his charms on you and getting the upper hand, I'll signal you by knocking over my beer."

Trouble Abroad

They had reserved a small private room at the restaurant. Steve and Bruce were on time; Kaspar and Christian, staying at a nearby hotel, walked in 15 minutes later. After an exchange of pleasantries, the four sat down and ordered.

Steve, remembering what he'd been told about European corporate etiquette, held back from jumping straight to business. He reminded himself that they had the rest of the afternoon. Still, unlike his counterpart, he wasn't much for small talk—and Kaspar's discourse ran from the fate of the euro to Quentin Tarantino, from Afro-Cuban music to the problems of reaching the world's poorest people with desperately needed medications.

That last topic, in a roundabout way, finally got them to the task at hand as the coffee arrived. Both DeWaal and BioHealth had several foreign plants, and Steve wanted to nail down which ones would remain open and who would run them.

Steve's plan for Asia went like this: they would close the DeWaal plant in Indonesia, which was redundant, and keep the BioHealth

plant in Shanghai. Steve believed it was imperative to maintain a presence in China, and he was prepared to offer someone from DeWaal the number two spot there to sweeten the pill.

Meanwhile, the Dutch company had an operation in Bangalore, India, and the U.S. company had one in Bombay. The Bangalore plant was extremely efficient, and Steve was prepared—in the interests of fairness and despite his fear of seeing the headline “Lindell Caves to van de Velde (Again)” —to close down the Bombay operation. The question was who to put in charge. The Dutch fellow—what was his name, Peter Krug?—had headed up the Bangalore operations for three years, and his résumé was impressive. But Steve had a candidate too. Vijay Naipaul, who had been in the United States the past ten years since coming to business school from Delhi, was an ambitious and talented executive. If not for the merger, Steve would have put him in charge of operations at the Bombay plant. Being in charge of India would be his dream job, and Steve had been told by his COO that Vijay might walk if he didn’t get the job. Steve hoped that Kaspar wasn’t too attached to Krug.

He quickly laid out his thoughts on Asia, hoping to move on to the touchy question of R&D management.

Kaspar looked up from his espresso and broke into a broad grin. “Oh dear, Steve, what are you saying. You know they will have my head in Rotterdam if we close the Indonesia plant—ties to the former colonies and all that. And you know, there are outstanding people running that plant. Really and truly! As for India, well, yes, by all means close the plant, but can we decide so quickly who will run the remaining one? Christian tells me we have a ways to go in the process of deciding such matters—isn’t that so, Christian?”

Steve jumped in. “Well, I’m sure we could find another spot for Krug. Perhaps if he and Naipaul were coleaders of the Bombay plant...”

He was interrupted by the sound of a beer bottle falling to the floor.

How should Steve decide who stays and who goes? • Four commentators offer expert advice.

See [Case Commentary](#)

Case Commentary

by David Kidd

How should Steve decide who stays and who goes?

Many mergers do not create the shareholder value expected of them. The combination of cultural differences and an ill-conceived human resource integration strategy is one of the most common reasons for that failure. Given the well-publicized war for talent, I am constantly surprised by how little attention is paid to the matter of human capital during mergers.

Steve Lindell must be single-minded in staffing the new organization with outstanding people. For all his emphasis on speed, he has moved too slowly. At the same time, he is unwise to think he can make selection decisions now and fix them later if they don't work out. In light of today's competition for world-class executives, this is extremely shortsighted. It is irresponsible to allow talented individuals to leave, and it is time consuming, risky, and expensive to replace them later.

Steve seems to have shown up for the lunch meeting without an overall plan for HR integration. It's not surprising, then, that he's prepared to make decisions haphazardly. He should have come to the table with a plan that, at the very least, included a strategy to retain key executives (possibly by paying them a bonus when the merger is completed), a communication plan to ease their fears, an evaluation and selection process for the top levels in the new organization, and a process to harmonize the two companies' contractual terms and compensation plans—which are often quite different in the United States from those in Europe.

Although off to a bad start, the lunch meeting is still salvageable. Steve and Kaspar must get to work and put together an overall plan. Once the two leaders have agreed to a plan, Steve should embark on a formal effort to evaluate all the top executives of the two companies. An appraisal process would be helpful to Steve for several reasons:

- **Executive Competencies.** It's not clear that anyone has considered the competencies that DeWaal BioHealth will require from its leadership group to deliver superior performance. The first step in the process should be to define these competencies and their associated behavioral indicators.

- **Objectivity.** Steve admits to Bruce that he is not very impressed with the Dutch executives. This is a common problem in any merger, where the tendency is to favor the people you know. It's important to evaluate the executives

in a way that is transparent to both sides; the key is to take the bias and emotion out of the selection process and ensure that the most qualified people are chosen.

- **Fairness.** Christian isn't the only one concerned about fairness; the Americans are also worried about who has the power and how that's going to affect them. Using an objective appraisal process lets executives know that the deck is not stacked against them. It gives them ample opportunity to present their credentials and demonstrate how they match the competencies that the new company requires.

- **Benchmarking.** Unless the merged companies are absolutely committed to appointing everyone from within, the appraisal process should measure all executives against their peers outside the company.

The best approach, in my experience, is to bring in outside help to perform the appraisal. External consultants can provide valuable expertise to the HR integration process, conducting in-depth, structured interviews and collecting 360-degree feedback. As objective participants in the process, these outsiders view the situation without the baggage of internal politics, loyalties, and cultural or power clashes. They are more likely to make accurate assessments of how the candidate pool of executives matches the required competencies. They also tend to be more creative in identifying other roles within the company for those people who are real assets but who came in second during the competition for slots. And outsiders offer a much-needed benchmarking perspective, pointing out when the company might need to go outside to fill a newly defined role.

The sad truth is that Steve could have avoided losing valuable employees by focusing on the problem sooner. Imagine how much better off he would be if he had conducted the evaluation of top executives as part of the due-diligence process, as some forward-thinking companies are doing today.

Steve, unfortunately, is learning the hard way about the challenges of integration. But if he adopts this approach, he has every chance of retaining his key executives and assembling a great team. This will serve him well on the road to a successful merger.

David Kidd is a partner at Egon Zehnder International in Chicago, where he leads the firm's global management appraisal process.

Steve is unwise to think he can make selection decisions now and fix them later if they don't work out.

Case Commentary

by Lawrence J. DeMonaco

How should Steve decide who stays and who goes?

Steve has forgotten that the success of any merger or acquisition starts with an understanding of power—who has it and how you use it.

Steve has brought a softball to a hardball game. He's forgotten that the success of any merger or acquisition starts with an understanding of power—who has it and how you use it. Now Steve needs to push harder on Kaspar to move the integration along. He's had enough experience with the DeWaal leader to recognize that Kaspar's behavior at the lunch is Kaspar's character—period. If Steve continues to try to “understand” Kaspar, he'll become even more tentative. He has to say to his counterpart, “We've done enough noodling. It's time to make decisions.” Because making a decision—even one that leads you to say later, “I wish I hadn't done that”—is better than doing nothing at all.

In the integration process, speed is critical. A few years ago, I talked with 25 CEOs of companies that we had acquired and asked them to identify the one thing we should have done differently in the process. All but one said that we hadn't gone fast enough with the integration.

What Steve needs to do immediately is bring together the top people they have already chosen and make them into the nucleus of a selection team. I'm not sure, however, if either guy from HR should be involved. They both have serious limitations. Christian can't make decisions himself; he wants test results or a computer to do the job for him. Bruce, on the other hand, has some good instincts, and he's not afraid to push back and tell Steve what he really thinks. But he acts like a clown.

So before the selection team meets, Steve and Kaspar should pull Christian aside and say, “Look, we're here to decide today. We don't have the time for testing or for any touchy-feely things. If you're going to continue down that path, you'll become an obstructionist, and we don't want you at the meeting.” And if Steve wants Bruce to participate in the meeting, he has to have a similarly tough conversation and say, basically, “Quit being a clown. I want your help, but you've got to act like a grown-up.”

At the meeting, Steve should present the

criteria for selection—the emphasis should be on business success, decisiveness, and communication and relationship skills. A merger is not a good time to pick the people who need an extra week to get things done or who prefer to have their lunch slipped to them under the office door. The team should debate the criteria and then select as many top people as possible. It should be stipulated that no one leaves the room until they've made their decisions—including backup choices for people who turn them down, and alternative jobs for people they have to exclude from the top 65 but still want to keep. Then they should notify people and give them a day to decide if they want to stay.

One thing that Steve seems to have forgotten to do is reassure people who are vital to the success of the company, like Alison, that they are needed and important. The selection team should go to these people and speak plainly. “Here are our projections for one, three, five years out. If we overlay your options on these figures, this is a big nut. And let me talk to you about opportunity. There are going to be opportunities you've never dreamed of.” In fact, I'd go after Sandy Allen and use every trick in the book to get her back. Steve should tell her, “I need you more now than ever. I want you to replace me someday.” Imagine the boost it would give morale if one of the defectors came back to the company and said, “I made a mistake.”

Finally, Steve needs a plan for himself. If Kaspar can't “hear” Steve's message about the need for speed and continues to stiff-arm him, what should Steve do? By accepting that treatment, he's making decisions about who's in charge. So before he sits down with the selection team, he has to decide at what point it would be best to walk away from the table. If things get to that point, he has to be prepared to move on.

Lawrence J. DeMonaco is senior vice president of human resources at GE Capital in Stamford, Connecticut.

Case Commentary

by Grant Freeland

How should Steve decide who stays and who goes?

Both Steve and Kaspar may think they are focused on selecting key people and that their approach is best. But they are wrong on at least three counts.

First, Steve and Kaspar are at odds about the importance of speed in selecting the new company's top management. Kaspar seems unconcerned about the slow pace, and Steve is right to feel a sense of urgency. Stabilizing the senior team is a critical short-term task and needs to happen as quickly as possible. But it's not enough simply to "get on with this" because we can always "fix things later." The senior executives who are selected will drive the success or failure of the new organization. Poor decisions will have a long-term impact.

Second, it's not clear that Kaspar and Steve are actually using facts to help them make decisions. It's foolish, for example, to design a plant network haphazardly over lunch when they could be using in-depth analyses of cost, quality, and service to make objective decisions. They should be using such data to get the best answer and, equally important, to signal to staff that decisions are not being made arbitrarily.

Third, neither of the two leaders has shown that he can rise above cultural differences. Steve says that his people "just seem to get it," and Kaspar wants to protect his staff in Indonesia. When senior managers look at their future colleagues exclusively through the lens of their own culture, it's no surprise that selection problems arise. The underlying attitude is that "they" are not like "us," and therefore they are no good. Kaspar and Steve must learn to separate a candidate's style—which may reflect corporate culture—from his or her potential performance in the new organization.

Given these problems, what should the selection process be? Christian Meyer is right to be concerned about fairness, but his approach sounds more like a compilation of the latest HR fads than a process shaped by an understanding of the business needs facing the new company.

Fairness is achieved by having a well-planned and broadly communicated process. Senior management must communicate clearly and frequently the details of the process, including timing and selection criteria.

When people don't have such information, they tend to assume the worst, as Alison's comments make clear.

Kaspar and Steve have to make explicit the business objectives of their selection process. For example, will candidates for key jobs be selected purely on the basis of individual performance? Is there a rationale for keeping more of one company's leaders in areas of particular geographical or functional strengths? Is the goal to achieve a merger of equals by balancing the senior executive teams with a 50–50 split of positions? Or will one company merit a greater number of executives because of its larger size or deeper experience? When two people are equally valued, what are the tiebreaking criteria?

Whatever the specific goals are, selection should be done in waves: the first level appointed should help select the second level, and so on. The process should be rigorous but not cumbersome. We would expect the company to interview multiple candidates for each senior-management position, to evaluate past performance reviews, and even to solicit evaluations from third parties such as executive recruiting firms. Some very talented people may not fit an immediate opening, and they should be managed and retained in a systematic way. Finally, it's useful to informally assure the stars of each company that they will have a place in the new organization—but you should make such promises only if they can be kept. At the end of the day, there will always be some horse trading. But horse trading ought to come at the end of the integration process, not at the beginning, and it should be the exception, not the rule.

As they finish their lunch, Steve and Kaspar seem well on their way to creating one of the many mergers that destroy shareholder value. They need to put down their drinks, stop worrying about who is perceived to have more power, and develop a selection approach that will ensure that the new company's top slots are filled with the best executive for each position.

Grant Freeland is a vice president at the Boston Consulting Group in Boston.

When senior managers look at their future colleagues exclusively through the lens of their own culture, it's no surprise that selection problems arise.

Case Commentary

by Patrick O'Sullivan

How should Steve decide who stays and who goes?

Steve's first mistake was to focus on getting regulatory approval while letting everything else languish for two months.

Instead of acting like the CEO of a major company, Steve is trying to make it all happen himself. His first mistake was to focus on getting regulatory approval while letting everything else languish for two months. He should have appointed a team of lawyers to deal with that issue, providing direction only as needed.

At the same time, Steve hasn't done a good job communicating with his people or building the executive team, as his conversation with Alison makes clear. He needs to move quickly to keep his top talent. If there are a few people that he wants to keep, he has to talk to them before they walk out the door. He should tell them, "I can't guarantee anything, but I want you in this organization. Pick up the phone anytime you're bothered, but don't look for another job. And come see me if you're offered one."

If there are too many people for Steve to talk to personally, he should make sure that someone else who has already been picked for the new company is talking to them. Another way to retain key managers is by using what we call "stay pay," which is a bonus for people who stay until after the merger is approved.

Steve needs to get the top team in place and working together as quickly as possible. Steve should have started the process by meeting with each of the three people he had chosen for his team so far, and then with Kaspar and his three similarly chosen people. As soon as he and Kaspar decide on direct reports, Steve needs to get this team working together on delivering the key results of the merger. Steve's major priority has to be to deliver the benefits of the merger that were promised to shareholders and the public.

In addition, Steve needs to take the lead in forging a relationship with Kaspar. Though it may not be easy, these two need to work through important cultural and organizational differences and come to a meeting of the minds very soon. If they end up competing during the early stages of the merger, the rest of the organization may follow suit, with predictable results.

I went through a process like this not long ago. I was CEO of Eagle Star Insurance when the press broke the news in October 1997 that

the company was merging with the Zurich Group. We locked the deal and got shareholder approval in December, and then we had to wait nine months to get regulatory approval.

I was confirmed as CEO of the merged company in January and then was given one month to choose my new management team. During that month, I interviewed all the people I didn't know, and then made my recommendations to the Zurich Group's chairman and CEO. My direct reports then had to push on with the task of selecting their teams, a total of about 250 people from a pool of 400. The long wait for regulatory approval made this part of the process difficult. We did everything we could to reassure people and to get them to stay while we made our selections and formed the merged company.

This process was all the more difficult since the company had to make a major turnaround in financial performance in the midst of this merger. The urgency of our situation forced us to focus on something that is crucial to the success of any merger—bringing people together as quickly as possible to find effective ways to run the organization better. This applied to the top team as well. In the process, we rapidly built one new company, one that is thriving today.

Steve needs to drive this merger with the same intensity he would if the company were failing. By concentrating his efforts on crucial elements of the merger—getting the top team in place quickly, building an effective relationship with Kaspar, and focusing the organization on achieving performance goals—he is much more likely to make this merger a success.

Patrick O'Sullivan is the CEO of Zurich Financial Services Property and Casualty Insurance and Banking Divisions in the United Kingdom, Ireland, and South Africa.

Reprint [R0101A](#)

Case only [R0101X](#)

Commentary only [R0101Z](#)

To order, call 800-988-0886

or 617-783-7500 or go to www.hbr.org