Business

Chicago Tribune Sunday, November 13, 1988

Managers caught in merger squeeze

By Liz Sly

Robert D. Carnahan lives in the mountains of Utah, wears shorts and a T-shirt to his office in the summer and goes skiing most days in winter.

Carnahan is thoroughly enjoying his new lifestyle as a private consultant, though sometimes it all seems a long way away from the humdrum world of corporate Chicago in which he had spent most of his life.

That was until last Christmas, when Carnahan, then senior vice president of science and technology at USG Corp., found himself out of a job at age 51. It happened not through choice or fault, but simply because his company ended up on the wrong side of a takeover war.

USG resisted the raiders, but only by implementing a costly recapitalization program that necessitated strict cutbacks. Carnahan, as well as 80 of his staff, became the first victims.

Takeovers—or their threat—invariably entail job losses, particularly at the top. Hostility between a company's management and its new owners or the duplication of jobs from the combining of two organizations are the main causes of executive fallout, said Lew Sugerman, senior vice president of Sugerman Associates, an executive outplacement firm.

And as companies continue to chase, swallow and digest each other at an alarming rate, a growing number of executives are being knocked off the corporate ladder.

Whereas five years ago, only 2 to 3 percent of senior level executives who lost their jobs would

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Tribune photo by Ernie Cox Jr.

Ousted in Beatrice buyout, Mary Ann Jackson began her own company.

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set up their own business, 20 percent are now becoming entrepreneurs, said Richard Miners of Goodrich & Sherwood, a New York-based human consulting firm.

"There are just fewer and fewer senior management jobs to go around," said Miners. "Some are being squeezed off the merry-go-round while others are making a conscious decision not to work for a company, because they don't want to have to go through it all again."

The number of top jobs lost in takeover activity is difficult to track, Miners said. But national surveys show that, on average, 50 percent of senior executives lose their jobs when their company is bought.

A proliferation in the number of executive outplacement firms reflects the rate at which Chicago companies are being acquired, said John Poynton, executive vice president of Chicago-based Executive Assets Corp., an outplacement firm.

When Executive Assets started in business seven years ago, there were just a handful of such firms, he said. Now there are at least 25. At first, merger and acquisition activity accounted for just 10 percent of its business, whereas it now accounts for nearly half. And business has more than quadrupled, Poynton said.

This year alone, 11 Chicago area companies worth more than $1 billion have been bought by outsiders, more than double the number of equivalent deals last year. Other companies, such as USG and Sears, Roebuck & Co, have been forced into defensive restructuring.

"There are a lot of jobs being lost, and it's a mystery to me how they are being absorbed," said Keith D. Shulz, a merger victim now working at the law firm of Bell Boyd and Lloyd. "I think the answer is that they are not being absorbed."

Shulz spent 20 years rising through the ranks at Borg-Warner Corp. to general counsel until he was kicked out amidst takeover turmoil there last year.

"Blue-collar workers always had to live with the threat of layoffs," he said. "But for an executive, as long as you did a good job and were loyal to the company, you could be sure of continued employment. All that has changed dramatically."

Mary Ann Jackson, a former director of operations at Beatrice Cos., found out how dramatic the change can be. After 8½ years with

Tribune photo by Ernie Cox Jr.

Former Beatrice executives Elizabeth A. Martin (left) and Mary Ann Jackson are setting up a company, My Own Meals Inc., which will sell children's meals to working mothers.

the company, she was given two hours' notice to quit when she found herself on the wrong side of the internecine takeover wars that embroiled Beatrice in 1986.

She received eight offers from corporations but didn't seriously consider any of them. Instead, she is setting up her own company, My Own Meals Inc., which will sell children's meals to working mothers.

"The only loyalty is to yourself," she said. "I'd seen it all happen before so I knew how nasty it can get."

For many senior executives, becoming a merger victim can seem more like winning the lottery, said Sugerman, who caters to executives in the $100,000-plus salary bracket.

Cushioned by generous parachutes and equipped with skills and contacts, the vast majority find suitable employment within months of termination, he said.

But many still feel angry and betrayed after devoting years to their company, said Poynton.

"It's hard for them to realize that the only loyalty is in your head," he said.

Carnahan said it was not bitterness that prompted him to become his own boss.

"It was all very traumatic," he recalled. "But I really understood why it was necessary. I can look back and say what might have been, but that doesn't do any good. You have to look ahead and say, what can I do?"

When Carnahan looked ahead, he realized it was futile to look for another job because his specialty, research, is on the front line of corporate cuts nationwide.

Instead, he saw an opportunity to use his experience providing some of the very research services that are threatened.

He has set up a consultancy that aims to take research ideas that companies cannot afford to implement and turn them into small businesses.

A growing number of executives are turning to consultancy, often selling their services back to their former employer, said Miners.

"It's making corporations more cost efficient," he said. "Companies get the same services but they don't have to pay salaries and benefits."

Shulz isn't so sure the trend is good for America's long-term corporate health, however.

"My worry is that not all the fat is fat," he said. "Excess people are being skimmed off but they're cutting into the bone and muscle, too. That means cutting into long-term investment potential."

In the bloodshed at Beatrice, some 500 managers were let go, which created problems for the company, said Jackson.

"A lot of good people were fired and then they had to hire them back again on a consulting basis because they didn't have anyone who knew how to do the job," she said.

Jackson said her firing was Beatrice's loss, not hers.

"I learned everything I needed to know on someone else's time and money, and now I'm working for myself," she said. "What we're seeing is a net in-flow into small business of people with a high talent level acquired at the top corporations."

"There's a shakeout going on," said Carnahan.

"I was devastated to think of the toll merger and acquisition activity is taking on corporations. But this could also lead to a more sophisticated and intelligent management of human resources."