

MERGERS AND ACQUISITIONS: FINDING SYNERGY AND AVOIDING THE REEF

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Companies are joined nearly every day, but often two companies end up weaker together than they were separately. Indeed, a KPMG study showed that 83% of mergers and acquisitions failed to produce any benefits - and over half actually ended up reducing the value of the companies involved.

One of the main problems is that mergers and acquisitions are often planned and executed based on perceived cost savings or market synergies; rarely are the "people" and cultural issues considered. Yet, it is the people who decide whether an acquisition or merger works. Customer and employee reactions determine whether the newly combined organization will sink or swim.

Before the merger

Before the merger takes place, the leaders of both organizations - at least, of the dominant firm - should have a strategy mapped out, including communications to employees and customers, where layoffs will take place (if any do), and how the cultures should be merged.

ASWOT (strengths, weaknesses, opportunities, and threats) analysis should be done for the combined company. If possible, a brief culture survey (preferably done via interviews as well as paper or Web/e-mail) should be undertaken

in both companies to discover what the cultural differences are. Sometimes this will be obvious in some aspects -e.g. one culture values teams and bottom-up innovation, the other favors command-and-control tactics - but not in others, such as how and whether individuals and teams are rewarded for innovations, how failure is dealt with, whether conflict is addressed openly,

etc. This will prevent disconcerting delays between the announcement and the implementation of the merger/takeover.

If the real purpose of the merger is to acquire another company's assets,

in terms of a particular product or brand, its factories or patents, etc., that should be acknowledged and dealt with up front. If employees are fooled at first by pleasant words, they will react more strongly when those words become taunts.

Finally, *before* the merger or acquisition takes place, the leadership teams should consider the non-financial issues. Will people in the two companies be able to work together? Will acquiring a company, or merging with it, destroy the properties or drive away the talent that made it worth having? Can a simple partnership, alliance, or even stock ownership without integration provide more benefits than combining the two companies? These issues may be overlooked by the leadership teams — just as they

Most mergers fail to meet expectations.

Can your organization beat the odds?

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are often ignored or downplayed by investment bankers who want to do the deal.

Power relationships

In many ways, it makes sense to consider mergers in the same light as acquisitions. It has become a truism that there is no such thing as a merger — one side will come out dominant in each function, even in the friendliest of “mergers.” There can, in the end, only be one CEO, one head of each function, one head of each department. Therefore, we will generally consider mergers and acquisitions to be interchangeable in this paper.

Power issues should be confronted directly to avoid drawn-out conflicts and confusion for employees. Conflicts must be controlled but addressed, to avoid protracted turf wars, lasting bitterness, and employee withdrawal and retention. (Withdrawal can be psychological as well as physical - employees can simply not go that extra mile, and do the absolute minimum required of them. They can also sabotage change efforts and new initiatives. This can last for many years, long after outsiders have forgotten about the merger.)

Personal issues

In most takeovers, both companies’ staff lose some productivity (and people) as employees divert their attention to their own place in the future, merged company. Will they still have a job? Will they have advancement prospects? What will be their role? Will the company gain or lose? This is the time when the best employees may jump ship, because they will find it easiest to get jobs elsewhere — which strengthens the competition even as it weakens the integrated company.

Mergers can be a profoundly demoralizing time, especially if communications from the leaders are sparse or misleading. Many agree that the best way to handle this is to constantly communicate to everyone in the company, using a variety of methods - face to face included - so that people understand the reasons for the

acquisition, the combined companies’ strategy, and how the two companies will combine. If layoffs need to be made, they should be announced quickly and directly, again with the reasons and rationale clearly expressed.

As people devote more time to exchanging rumors, trying to find out their status, and dwelling on the change, productivity tends to drop. In the absence of credible, continued information, the grapevine will spread inaccurate rumors with amazing ease. For that reason, the transition should be as short as possible.

If there are layoffs, the role and situation of the survivors should be addressed. There is a separate line of research on this, which we will not delve into.

As the integration of the companies proceeds, many may feel that their past ways of working and their contributions are not valued. In addition to celebrating success, the company must show in word and in deed that it value the best of the old ways, the tradition and heritage of the company being taken over. If the new organization shows total disregard for the heritage of groups being taken over, people will take longer to get over the shock of transition, and may sabotage change or simply “vote with their feet.”

Cultural issues

Culture - the shared values, beliefs, and preferred ways to behave - is hard to control, and in most mergers, it seems that nobody tries very hard to do it. The end result is that the culture usually is not as productive as it should be in the combined organization, moulded primarily by the leaders actions and politically adept or powerful people in each organization.

The goal in a merger is for the *best* of two companies to be preserved, resulting in synergy and continued profit. This applies to culture as well as to operational processes and technologies. The cultures of each company should be carefully examined, and care taken to guide the combined organization’s culture so it incorporates the best of each.

One interesting note on cultural change is that it often seems to come about only when an organization feels that its very survival is threatened. A merger or acquisition provides a fine opportunity for change!

The role of organizational development

When an OD consultant is brought into the merger / acquisition process, there are a number of roles they can play:

- **Helping the leaders to agree on a clear and specific set of goals** for the merger. Setting up measures helps the leadership team to focus on tangible, measurable results, which brings misunderstandings and conflict into the open. Measurement is also an excellent communication tool, since it is an action — which gives the words more credibility. Measuring the results at a number of milestones can also point to potential problems before they become crises, helping to make the merger / acquisition smoother and increasing the likelihood of success. It also helps to keep leaders focused on a balanced set of issues.
- **Scenario planning** - will the merger work if there is a market decline? What are the likely responses of customers and regulators? We wonder if, in the Daimler-Benz takeover of Chrysler, anyone considered reactions to Chrysler no longer being an American company, including a loss of sales (since most of its customers are in the United States) and the de-listing from many indexed mutual funds. The 2001 power crises in California was also seen as a result of lack of scenario planning - in this case, testing the assumption that natural gas prices would stay flat. The OD consultant should not usually lead the scenario planning, but they should be there as a process consultant to ensure that every team member's contribution is heard, and that people are honest with each other and with themselves. (If that sounds too "touchy-feely," just think about the plight of the California utilities).
- **Exploring options** - are there other ways to accomplish the same goals without a merger? Again, going back to Chrysler, the company was seeking international expansion and financial security. A partnership with Daimler-Benz, or acquiring an Asian or European automaker, would probably have served the company more than becoming a division of a culturally very different conglomerate. Once more, the OD consultant may be most effective as a process consultant rather than as a leader.
- **Investigating assumptions** - while usually not a separate exercise, the OD consultant, as an outsider, is in a unique position to bring out hidden assumptions. This should be done continuously throughout the process, though scenario planning and exploring options are expressly designed to explore and test assumptions. Sometimes, brief tactical surveys can be taken to test assumptions; sometimes, questions are enough.
- **Communication** - ensuring that a steady stream of information is released by the organization's leaders; keeping that information balanced, direct, clear, and accurate; and preventing undesirable subtexts from being communicated. The OD consultant should also probe leaders when their words and actions contradict each other, to clarify one or change the other.
- **Rewards** - compensation systems are one thing; intangible rewards are another. Research shows that most people are generally *not* motivated by money, though they may take a job (or keep a job) for financial reasons. Even where bonuses or profit-sharing help to increase motivation, the money itself is often symbolic, a measuring stick for achievement. The OD professional should help the organization to set up milestones and celebrate small and large successes along the route to integration, so that people not only feel progress, but also feel

that their achievements are being rewarded. Otherwise, integration may seem like a long, long road.

- **Cultural assessment** - clarifying each organization's culture to make the task of integration easier, and to ensure that communications and actions do not accidentally cause more harm than good.
- **Cultural change** - working with both organizations to clarify their shared vision of what the culture *should* be, and then working to make it that way. Johnson & Johnson maintains a shared culture among a large number of companies, some acquired, some home-grown; they do it by having a clear, shared vision and values, and by working with newly acquired firms to ensure that their culture is brought to the J&J way.
- **Leader coaching** to integrate the leadership team, address conflicts, and assure mutual involvement and dedication to the merging process. OD professionals should work at every level of the organization where the merger is taking effect. The goal is to build the ability of the leaders to communicate their intentions accurately, build trust, and manage conflict and tension. Strong leader credibility is key to successful integration.
- **Working with process teams** to identify the best practices in each organization and assure that they are not overtaken by less-effective standard procedures from the

dominant company, but *become* the standard procedures for both. This includes operational and service processes, but can also be applied to aspects of the culture.

- **Integrating initiatives** - one problem that is not unique to mergers and acquisitions is initiative overload, where managers are overwhelmed with not just the merging of two organizations, but also quality initiatives, customer projects, SAP implementation, etc. One of the more challenging projects for an OD professional is integrating initiatives and helping leaders to make tough judgement calls on which ones should be suspended, eliminated, or combined.
- **Watch key processes** - often forgotten in the integration are key processes such as new hire orientation, training, and even compensation systems. These processes all support or sabotage both the present and desired culture. OD professionals understand the role of each organizational system plays in the culture; they must keep an eye on all important systems and processes.

By remembering what makes mergers succeed and fail, keeping an eye on the human issues as well as the financials, and using the most appropriate organizational development tools, companies can avoid "bad" mergers — and make the good ones work.

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Version 1.1b, August 2005