Mergers: Don't Forget the People

By Alan Cay Culler

A company I know is recovering from a disaster.

Most people believe that this company won't make it. Almost half its customer base has switched to the competition. Virtually all its star performers have left, and now even marginal employees are getting calls from headhunters. Suppliers are tightening credit and, in some cases, refusing delivery.

What disaster caused this? Earthquake? Hurricane? Bankruptcy?

No, worse. The company is going through a merger.

The remaining managers of the two companies have just returned from a four-day retreat where they established a plan to save the new entity, now almost a year old.

These companies had wildly different cultures and ways of operating. One was a "family" with strong personal relationships among staff members. One was a "well oiled machine" with strong systems and comprehensive procedures. There was no vision of the combined entity beyond market share projections and financial pro-formas.

The retreat proved to be a very stormy four days. It included a day and a half Outward Bound sailing and rowing experience and intensive conflict resolution by the two professional facilitators. The session cost a lot of money, and the work is just beginning.

In the closing statements, most of the group members remarked on "how productive the meeting had been" and "how much progress had been made." However, one manager stood up and pointedly asked, ***"Why didn't we do this sooner?"***

MOST MERGERS FAIL

A recent *Fortune* Magazine article shows that 70% of mergers and acquisitions in the last twenty years failed to create new value, that is, value that is more than the sum of the parts. The same article quotes a McKinsey ten-year study that reports that only 23% of the mergers studied recovered the costs incurred in the deal. Similarly, an American Management Association study of 54 megamergers of the late '80s shows that 50% have gone downhill in profits, productivity, or both.

WHY DO MERGERS FAIL?

Mergers certainly don't fail for lack of financial analysis (evaluation of assets, examination of projected cash flow, projected price/earnings ratio analysis, and the like). Nor do most mergers lack quantitative market data. They usually have an abundance of financial - and legal - advice.

Most mergers fail because leadership fails to change the beliefs and behaviors of the people.

What generally happens in mergers is that many professional advisors work with the firm's managers (the acquiring firm in an acquisition and of both firms in the rare true merger). This small group makes decisions about additional market share potential, probable cost savings through the elimination of duplication, and the repayment of debt through sale of assets.

There is rarely any discussion about people.

In the disaster described above, the differences between the two companies did, in fact, come up. The investment banker who had the most influence in the group said, "Let's get the deal done. You can handle the *soft stuff* later."

Frequently, this decision group feels a need for secrecy. Leaks can make customers, employees, and suppliers nervous, and, in publicly held companies, affect the share price. Unfortunately, this secrecy often carries over to the transition period, where it creates mistrust among customers, employees, and suppliers.

People make a business run. If you ignore them, they will go away.

WHAT NEEDS TO HAPPEN?

If your company is contemplating a merger, consider these steps towards a *successful* merger.

1. **Measure and analyze the culture.** There are instruments available to assess the beliefs, values, and behavioral norms of both firms, but at the very least diagonal slice interviewing will provide the necessary information.

   - Measure and analyze both organizations.

   - Be prepared to call off the merger in the event of incompatibility of cultures, just as you would if the cash flows didn't work. At the very least, understand differences and develop a plan for overcoming them.

2. **Plan qualitative customer research.** In addition to analysis of the quantitative market data, find ways of bringing all executives face-to-face

with customers (focus groups, video interviews, customer site visits, etc.)

3. **Plan qualitative supplier relationship research.**

4. **Evaluate potential leadership of the new organization in three phases.**
   - **What is required for the Transition period?**
   - **What is required for the real integration period?**
   - **What is required to run the business long term?**

Despite what acquiring managers think, the best leaders of the new organization may come from outside the existing power structure. Leaders will emerge to meet the new challenges.

5. **Take a baseline measurement of employee attitudes and organizational climate.**

PLANNING THE TRANSITION

This is a complex and highly political task. Your objectives should be to:

- Find the best people and adopt the best practices of both organizations.

- Discover synergies between the products and processes of both companies.

- Identify and involve the “survivors” as soon as possible.

Actions include:

- **Creating a strategic communication plan.** This should focus on the vision and value of the new organization - but be reality based. Don’t call it a merger if it’s an acquisition and don’t say, “Nothing will change.”

- **Creating a multidisciplinary, multilevel transition team** composed of members of both organizations.

  -- Make sure these people are politically well connected with both organizations.

  -- Teach them creative problem solving, synergy search techniques, and skills for building internal and external alliances. Make sure they understand the criteria for deciding on best practices.

  -- Have them plan a three-stage transition plan for technical, political, and cultural changes.

As the transition progresses:

1. **Continually measure** organizational climate.

2. **Move** the synergy search, creative problem solving, and alliance building **throughout the new organization.**

During this process, utilize internal expertise as much as possible. Any consultant you hire should teach the organization necessary skills - and then work himself or herself quickly out of a job.

Utilizing this process will:

- Allow for the formation of a new, stronger organization by tapping “hybrid vigor”;

- Focus the new organization on what is important, and

- Mobilize people to search for synergy, create value through innovation, and strengthen relationships with customers and suppliers.

The process may seem longer, but the result will be a stronger business. You intend the merger to create new value, broader market share, greater return on assets. Don’t forget who will create that value. Don’t forget the people.