Making Mergers Work

A guide for successful merger integration

A. Lad Burgin, Ph.D.
HRMG, LLC

65 W Vancouver Drive. Port Townsend, WA 98368 . Tel: 360.344.2239 . www.hrmg-llc.com

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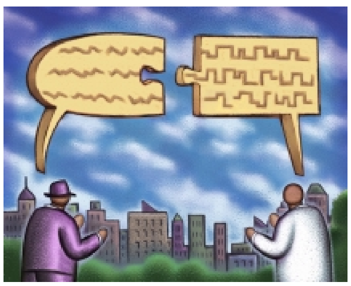
by A. Lad Burgin, Ph.D.

Mergers and acquisitions have become major strategies for accomplishing a variety of business objectives that include: entering new markets, acquiring products and technologies, or building a critical mass in a market. In the haste, secrecy, and excitement that generally surround acquisition activities, it is easy to lose sight of the fact that the ultimate success or failure of the merger or acquisition is critically dependent on the people involved.



Merger and acquisition situations can be arrayed along a broad continuum. At one end is the acquisition that will be left to run as a freestanding business. At the other end is the complete merger in which the people, management, and operation of the merger partners are fully integrated to form a new, usually larger and more complex entity. The closer a situation is to the latter end of the continuum (such as an acquisition that requires reorganization of the acquired company), the more its success will depend on the people involved.

Effectively implemented mergers and acquisitions proceed through a relatively smooth transition period in which the acquired company is integrated into the acquiring organization. Ineffectively implemented mergers and acquisitions follow a different path. After a brief honeymoon period, there follows a turbulent transition in which communications break down, key people leave, or are forced out, and performance deteriorates. All too frequently the hoped for synergies never materialize and the merger is eventually dissolved.

A sharp focus on the human side of mergers and acquisitions is a key factor in ensuring that the business and financial objectives will be realized. By involving organizational expertise in both the pre-merger and implementation stages, the probability of a successful outcome can be greatly enhanced. The key human factors in making mergers work include:

- ❒ Pre-merger analysis
- ❒ Integration of Key People
- ❒ Strategy and Direction
- ❒ Employee Communication
- ❒ Managing Change

Pre-merger Analysis

Businesses are complex social systems. Over time they develop unique cultures, management practices, rules, and procedures, many of which are unwritten and unconscious. People with certain characteristics have been attracted to and chosen to stay with the organization. Others have found the organization to be incompatible with their personal characteristics and have left. Understanding any social system differences between companies that are seeking to merge is a critical aspect of pre-merger analysis.

An **organizational audit** is a key part of the pre-merger analysis that is frequently omitted or given only cursory attention. The audit team interviews key personnel in the companies contemplating merging.

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The team then develops a profile of organizational culture, management style, operating practices, and the personalities and expectations of key people for each organization.

The **pre-merger organizational audit** provides a risk assessment of the merger. In some cases, this audit may reveal such substantial differences between the organizations that the merger will be abandoned. If the risk is acceptable, or necessary to meet business conditions, this audit provides the basis for developing a merger implementation plan that will facilitate a smooth transition.

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Integration of Key People

Acquiring or merging two businesses is like moving two large families into one house. It produces a stressful situation in which the members of both organizations are likely to strive for control over their shared environment. In such situations, conflict is more likely than cooperation; distrust more likely than trust. The situation will be further complicated if there are major differences in the personalities, values, experiences, and expectations of key people in these organizations.

Under post-merger stress, interpersonal differences in decision making, management style, and communications style can cause tension among key people. If this tension is allowed to escalate, the working relationships among the key people can break down. The leadership required to make the merger work is undermined by misunderstandings and interpersonal conflicts.

The following excerpts taken from interviews with two key executives in a newly merged organization provide an example of the dynamics described above:

Bill: "George drives me crazy. He always wants to study things to death. We agree to do something and two weeks later nothing has been done. He is always waiting to talk to someone else, or to get more data…"

George: "Bill is impossible to work with. He is always running off to do something without understanding the downstream implications of his actions. He jumps to solutions before the situation or problem is clearly defined…"

Bill and George tried to cope with their differences by avoiding each other as much as possible. However, the interdependence of their areas of responsibility made avoidance impossible. Over time, their conflicts became more frequent, intense, and open. Similar problems developed among other key people.

Meanwhile, the other people in the organization began to expend more energy watching, discussing, and worrying about the disruption in the social forces of the merged organization than they put into getting their work done. When I became involved with the company, tensions were very high and performance was slipping.

Repairing a merger that has deteriorated to this stage is a costly and time-consuming process. Using organizational expertise early in the implementation stage is a more effective way to integrate key people.

The implementation team identifies individual differences and helps key people develop effective working relationships. Expectations are made explicit and clear so that they can be adapted to the realities of the situation. Key people are helped to develop ground rules and procedures to support effective communications. Decision-making processes are designed to both accommodate and make use of the individual differences among key people.

Strategy & Direction

During the post-merger period, excitement can quickly give way to a sense of uncertainty among employees. In the absence of clear direction, managers are unable

to answer employees' questions or to deal effectively with employees' concerns. Prolonged uncertainty raises the level of stress and makes the adjustment to the new situation more difficult.

Post-merger uncertainty can produce a situation in which employees' attention is focused on speculation and rumor. Instead of working, employees flock together in small groups seeking social support and relief from anxiety.

Because of this natural human sensitivity to uncertainty, it is critical for the senior managers of the merged organization to quickly meld themselves into a team and focus on developing an organizational strategy. Without a common vision, mission, and strategy, it is almost impossible for managers to provide effective leadership.

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In my work with organizations that are having problems making mergers work, I often find that several different perceptions of the direction of the organization exist among the senior executives. The following interview excerpts illustrate how out-of-sync key executives can be with one another.

Chief Executive: "I've been careful to communicate our new strategy and direction to each of my subordinates. Each person knows what he is supposed to do to move the company forward now that the merger is completed."

Marketing Executive: "To make things work we must reduce our marketing costs. In the short run, I am going to stop our sales recruiting and training activities. Our incentives must be placed on selling our well established products to our existing customers…."

Manufacturing Executive: "The merger gives us significant additional capacity for some of our newer products. My people will be working hard to get the volume up so that we can start to earn a profit with them."

Financial Executive: "I have been reviewing our merger partner's cost accounting. It looks like they have phased out several products without taking adequate account of the overhead allocations. The overhead costs have been reallocated and are killing the profitability of some of the remaining products. We need to get the discontinued products back into production to absorb some of these costs."

In this organization rumors were rampant. People at lower levels were comparing notes and finding a lot of contradictory information. Middle managers, wanting to appear knowledgeable, frequently offered their best guesses of what would happen that only set off more rumors. Employees would get together daily to speculate on what was really going on. Speculative comments often found their way into the grapevine and were broadcast throughout the company thus adding to the confusion and uncertainty.

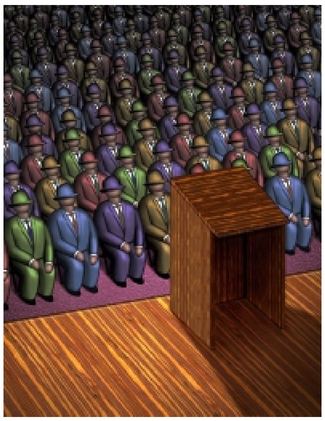
In my experience, these kinds of situations are all too common. In the pre-merger analysis phase, executives in different functional areas tend to focus on specific problems and opportunities that the merger will pose for their areas of responsibility. Often executives have been directed to look at these specific issues by their bosses. It is natural for these issues to then become their agenda items to be pursued in the post-merger period.

To make the merger work, the post-merger management team must create a common vision, mission, and strategy. This is often a difficult process due to the preconceived ideas that executives bring from their pre-merger activities. Getting strong people to listen to each other and hear what is actually being said rather than what they are predisposed to hear is difficult. (The chief executive in the company described above was astounded to discover that each of his key subordinates had interpreted his "clear" communication about the direction of the company in a different way).

Using a skilled facilitator to take the management team through a systematic and rigorous thinking process can be an effective and efficient way to develop the strategy and direction for the merged organization. Achieving a shared understanding of the organization's strategy and direction, the key actions that must be taken, and the employees responsible for them is central to reducing post-merger uncertainty.

Employee Communications

Once the strategy and direction for the merged organization have been forged, it is critical to communicate them clearly and effectively to managers and employees. Because of preconceived ideas and personal biases, it is rarely sufficient to rely on any one medium, such as word of mouth, to bring clarity of direction and purpose to the organization.



Managers and employees are also prone to personal biases. The first few times they hear or see a message about the direction of the company, they may interpret it in their own unique way. It takes consistent and repeated communication to get people's attention and understanding.

The need for a communications campaign is often under-appreciated in merger situations. When an announcement has been made to management and employees, it is often assumed that the job is done. Meanwhile new rounds of speculation and rumor may quickly wash out the effect of the announcement.

Making a merger work at the employee level requires the same attention to communications that would accompany a major change in compensation or employee benefits practices:

- ❒ The mission and goals can be articulated in writing and distributed to employees.
- ❒ Company direction can be made a recurrent theme in management and employee meetings.
- ❒ Newsletters can be used to communicate and reinforce strategy and direction.
- ❒ Managers can be systematically quizzed to ensure that they clearly understand the organization's direction and that it is properly supported across functions and levels.
- ❒ Focus groups can be used to gauge managers' and employees' understanding about the company's direction. Focus groups can also be highly useful to get feedback and may identify barriers to the company's progress and ways to overcome them.

Managing Change

Mergers inevitably result in organizational changes. The effectiveness with which changes are managed has a major impact on how quickly managers and employees settle in and focus on producing high quality products or services.

One goal during the post-merger period is to create an environment in the organization that supports high performance. Both customers and competitors will be monitoring the merged organization's performance. Production, quality, or service problems can quickly result in decreased sales and vulnerability to customer raids by competitors.

Companies in service industries, or in industries where service is an important part of product sales, are particularly vulnerable. Employees may talk freely to their friends and colleagues in customer organizations. It is not unusual for customers and competitors to know about problems before the executives are aware of them.

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Poorly implemented change increases uncertainty; increases stress in the organization; undermines performance; erodes the commitment of employees and managers; subjects the merged organization to potential law suits from employees; and can even result in organized action by employees.

For example, a large insurance corporation acquired a major division from another insurance company. Within the first six months of the merger, a number of organizational changes were implemented. In response, employees launched a union organization drive. After a major expenditure of time, energy, and money, the company prevailed in the union election. Meanwhile, the company's sales tumbled because its distributors (insurance brokers) recommended clients not to buy from the merged company.

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The effectiveness with which change is planned and implemented has a critical impact on the overall effectiveness of a merger. During the post-merger period, managers and employees focus on the executive team. Regardless of what they say, the executives' actions will determine peoples' perceptions of the new organization and their reactions to it.

Key actions that can facilitate effective change management include:

- ❒ **Make a single executive responsible** and accountable for changes that cut across functions and levels.

- ❒ **Communicate frequently** with managers and employees to keep rumors under control. (Follow Winston Churchill's example to maintain your credibility by being candid even when the news is bad. If you try to soft sell bad news, people will not believe you when you give them good news).

- ❒ **Make any necessary but unpopular decisions** on restructuring, reassigning, or cutting people as quickly as possible and inform affected people as soon as the decisions are made. Keeping secrets in organizations is very difficult. Most organizations are full of bright people who will read subtle changes of behavior and generate their own information to fill any gaps left by management. Management is then either forced to compromise its credibility by denying rumors that are actually true, or lose the initiative in communicating to its workforce.

- ❒ **Whenever possible, solicit input from the people** who will be affected by changes *before* decisions are made. Use participatory processes, such as task force teams to work out the details of implementation and get people involved.

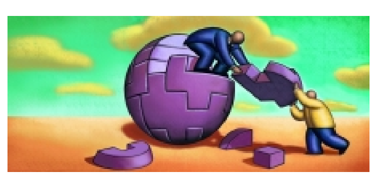
- ❒ **Give people time and support to adapt to changes**. Remember that most people go through stages of shock, anger, and resistance before they are ready to accept major changes. Provide outplacement support and fair severance programs for people who will not be retained.

- ❒ **Use incentives to retain people** who have been identified for outplacement but are needed for specific periods of time. Credibility is severely impaired when people who have been assured that their jobs are secure lose their jobs weeks, or even months, later.

- ❒ **Set up a parallel change management structure** composed of interlocking task forces across both functions and levels to implement large-scale organization-wide change.

The amount of change required by a merger can vary from the outplacement, or reassignment, of one or a few redundant executives to a major restructuring involving the reassignment or severance of many managers and employees. Whether they are large or small, organizational changes impact employees.

In today's litigious environment, any changes that may adversely impact individuals must be made cautiously to ensure that potential civil actions, such as wrongful discharge, discrimination against a protected class member, and constructive discharge can be effectively defended.



By reducing uncertainty, establishing teamwork among key people, providing clear strategy and direction, and managing change effectively, executives contribute to making mergers work and creating a high performance environment in the merged organization.

About the Author

Lad Burgin is a Confidential Advisor and CEO Coach, who helps leaders to build and sustain high performance. For more than 40 years, he has worked as a business executive and a consultant to other business executives and their teams. He is recognized as a master facilitator and seminar leader. Lad's expertise includes business strategy design and execution, key executive selection, executive team and board of director effectiveness, strategic organizational change and transformation, and executive leadership development and succession planning.

Lad's previous positions include President and CEO of HRMG, Inc.; Executive Consultant at Informix Software; President and CEO of Gynecare, Inc. (Public); President and CEO of the Benefits Systems Division of the Transa-merica Life Companies; Corporate Vice President Human Resources and Director of Management Development with Transamerica Corporation; and Manager of Advanced Management Development Programs with SCM Corpora-tion.

His work with executives and their teams has been exten-sively international. He has consulted with executives in more than 300 companies in 25 different industries around the World. He has served on the Board of Directors with 5 companies and consulted with boards to improve their effectiveness. His clients have ranged in size from Silicon Valley start-ups to the top Fortune 100.

Lad is the author of "The Power of Executive Leadership," "Leading Units and Teams for High Performance," and
"Making Mergers Work." published by HRMG, Inc. He is also the coauthor of "Transformation to High Performance," published by SRI International
(Summer 1993); and "Orchestrating The Renewal: Creating and Maintaining a High Performance Board," published in Directors and Boards (Spring 1994).

He is an avid sailor and can be found in his spare time either working on his 40 foot ketch, Shadowside, or sailing. In the summer of 2016, he sailed from San Francisco to Hawaii in the Pacific Cup Yacht Race and then on to Port Townsend, Washington. In total, a voyage of 5000 nautical miles.

Lad is a graduate of The Ohio State University where he earned B.Sc., MBA and Ph.D. (Management and Organiza-tional Behavior) degrees and played football for legendary Behavior.

Additional Information

Research indicates that only 25-30% of mergers successfully realize their potential. This low success rate is generally rooted in the issues addressed in this article: never fully integrating the cultures and the people.

HRMG has helped companies of all sizes and industries overcome these staggering failure rates and integrate their mergers successfully. We have integrated mergers of all sizes including some worth more than $4 billion.

HRMG can guide you through our proven processes to help you realize your merger's full potential. We will customize our processes to meet your needs and walk you through the behavioral changes necessary to succeed.

For more information on our merger integration, pre-merger analysis or other organizational or leadership effectiveness processes, please contact:

Lad Burgin
360-344-2239
info@hrmginc.com