Beating the Odds – Getting Value From a Merger

Most mergers fail to generate increased value for shareholders. Senior leaders can reverse this trend by treating mergers as corporate transformations.

Ron Wiens

AT A GLANCE:

- To realize value from a merger, senior leaders must thoroughly understand and relentlessly champion the merger as a corporate transformation.
- Leaders must be tireless about communicating and enlisting support for the organization's new vision and business objectives.

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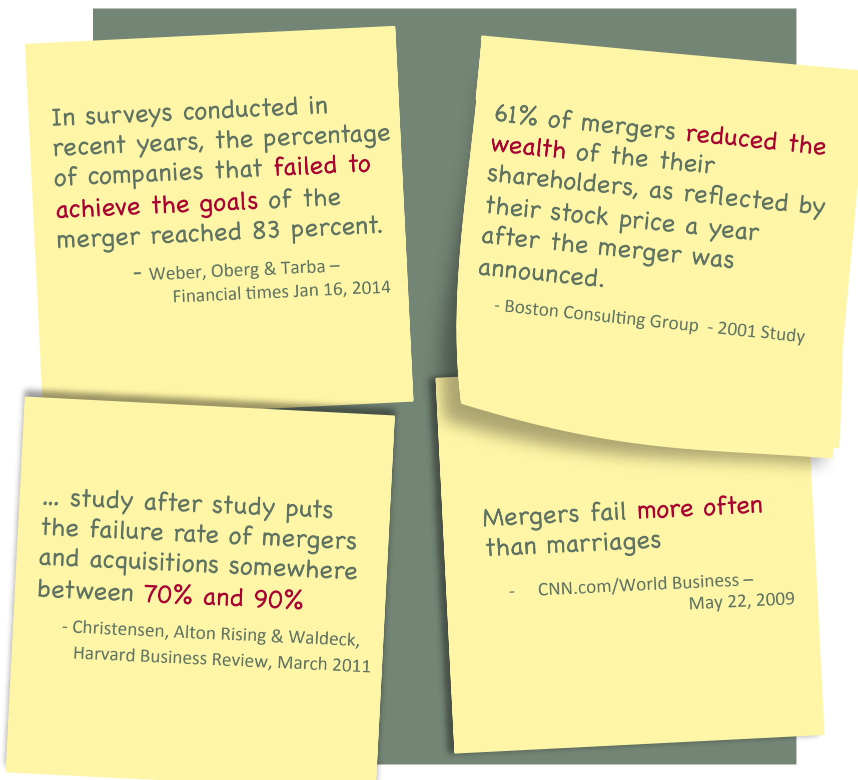

WHY DO MOST MERGERS FAIL?

Those mergers that fail tend to do so for the following reasons:

- **failure to build a vision for the future** that excites staff, a vision that gives the courage to go through the pain of change
- **failure to create common goals and objectives** for the organization

- **failure to account for the impact** of the stress of change on staff's productivity (up to a 20% loss)
- **failure to understand**, in detail, the strengths and weakness of the merging organizations and to use this understanding to make explicit the gap between where the "new" organization is and where it wants to be
- **failure to make choices** – (i.e. Mergers create opportunities to do more, to do better. These opportunities, however, involve change and organizations have limited energy for change. The challenge is to align the organization around those few opportunities that will do the most for moving the new organization towards its desired future.)
- **failure to produce detailed plans** for the integration of the two organizations
- **failure to appoint a champion** to drive and manage the integration process
- **failure to involve staff** in the change / integration process
- **failure to communicate**
- **failure to make the timely decisions** that keep the integration process moving rapidly ahead
- **failure to build a culture** in which people are working for the good of the whole

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When all is said and done, merger failure is really a failure first in understanding and second in leadership. Organizations frequently fail to understand that successful mergers are fundamentally not about merging. When two companies come together, a whole new mix of assets and resources come into play. The challenge is combining this new mix to maximize shareholder value and build enduring competitive advantage. In most mergers the answer has been to simply bolt the pieces together. Under this approach, the whole can never be more than the sum of the parts. Given the challenge of conflicting cultures and agendas that are always present in a merger, the whole is almost certainly going to be a lot less than the sum of the parts, even if the bolting involves selectively taking the best from each organization. This is why the majority of mergers negate value.

AND WHY DO SOME SUCCEED?

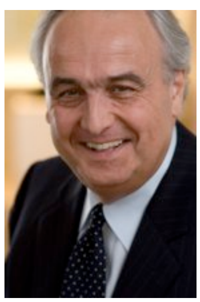
If successful mergers are not mergers, what are they? Answer – they're "transformations". Successful mergers don't just bolt the pieces together. Successful mergers take the perspective that the new asset/ resource mix provides the opportunity to fundamentally rethink how business gets done.

Mergers often fall into the trap of "winners and losers". The winners' perspective is "my team has won, you have to change and I don't". The losers feel like victims. They feel they are being coerced into changes that they do not believe in. Mergers that create groups who feel that they have lost end up creating fertile grounds for head-hunters. However, under the transformation approach, the company-wide objective becomes one of taking the two merging organizations and building something new, something better. Under the transformation approach, the company is not split into winners and losers. There are just people working and building together. The transformational approach builds common cause, and common cause unites. Moreover, what people are being united around is building value. The transformational approach brings two companies together, creating a whole that is more than the mere sum of the parts.

Staff need to see their leaders engaged and making the tough decisions which demonstrate to all that they are serious about making the whole more than the sum of its parts.

The second key failure in mergers is leadership. And here we are talking about the organization's senior leaders. The senior leaders have been concentrating on getting the deal done. These leaders have put a great deal of time and effort into moving the merger from idea to reality. They are the merger's birthing mothers. They have put countless hours into meetings, discussions and due diligence. By the time the papers are finally signed, the leaders are exhausted. They feel that their job is done. At this point, they happily pass the torch to their subordinates. The senior leaders now believe that they can move on to other things as their lieutenants take on responsibly for untangling the workings of the two organizations and recombining them into a new competitive juggernaut. However, the second and much more significant piece of work, in terms of time and effort, is the integration of the two companies. This is where mergers can fall prone to the fatigue factor. Creating truly new ways of working requires the organization's executives to lead the charge, to set the strategy, to model the new way and to hold people accountable. If the organization's staff are to truly transform how they do their work, they need to believe that their leaders are serious about change and realizing the merger's intended benefits. This means that leaders must relentlessly communicate the organization's desired future. Staff need to see their leaders engaged and making the tough decisions which demonstrate to all that they are serious about making the whole more than the sum of its parts.

The path to merger success has three major steps. It starts with a detailed picture of the future that the leaders are passionate about achieving. This picture makes clear the benefits that the merger is intended to deliver. The next step on the path to success sees every member of the organization not only understanding this vision and its benefits, but also believing that achieving them is worthy of their time. In essence, the leaders have created a company of zealots. This is a company in which there is no "we-they". This is a company in which its members are working for the good of the whole. This is a company which has the energy and courage to tackle the hurdles that separate it from the desired future. The third step is a detailed work plan for the integration of the two companies. This plan makes explicit what is going to change, and the timetable for these changes. This plan has a rigorous governance process that holds people accountable for delivery against plan. The governance process leaves the organization no way out, making success the only option.



ABOUT THE AUTHOR

Ron Wiens has spent the past 30 years helping organizations build high performance cultures. His most recent book, titled '*Building Organizations that Leap Tall Buildings in a Single Bound'* is a leader's guide to culture as competitive advantage. To contact Ron, send him an email at ron@ronwiens.com