Navigating Mergers Successfully by Val Sedounik

When Steve Case, CEO of America Online, and Gerald Levin, then chairman and CEO of Time Warner, merged their companies in 2001, they had high hopes for big success and big returns. But AOL Time Warner never lived up to the hype. Within three years, its stock had plummeted 64%. Many of the executives who engineered the merger had left. And were no signs that things would get better anytime soon.

Less than half of all corporate mergers or acquisitions achieve their desired outcomes or reach their promised strategic and financial goals. When this happens, the consequences for employees, customers, and stockholders can be severe.

Why do mergers fail? Often, it's because senior executives ignore cultural incompatibility or fail to manage the "people issues" that inevitably arise throughout a merger. A Harvard report notes that employees are normally productive for about six hours in an eight-hour workday. Whenever a change of control such as a merger takes place, though, productivity plummets to less than one hour a day. Mergers and acquisitions come in different shapes and sizes, but regardless of industry, they all share similar pitfalls. For companies contemplating a merger, or those currently navigating the merger maze, improving the acquisition integration process is one of their most urgent and compelling challenges.

During a merger, the unexpected is always waiting to pounce on the unwary. Companies that fail to plan carefully, or execute carelessly, will struggle far longer to find their way back to success -- if they ever do. Focused and planned intervention at four critical junctures, however, can keep the merger process on track.

Phase one: Culture due diligence [before the merger or acquisition]

In the pre-acquisition phase, most companies focus on the hard facts of the deal. After extensive negotiations, both parties generally have a solid understanding of what the financial state of the combined companies will be. Given the intensity of the deal-making process, most businesses assume that their managers have enough information and insight to begin the process of integration.

This is exactly what happened in 1994, when Swedish-based Pibrex, the world's largest developer of petrochemical-based polymers for the plastics market, purchased a plant in Russia. Three years after the merger, there was no sign of integration or business success. Headquarters complained about operating losses and was losing interest in its Russian operations. What went wrong?

After the deal was done, Pibrex introduced a decentralized structure in the Russian plant, overlooking the fact that the Russian plant was accustomed to working with centralized power projects that cut across functions. This new approach required multiple approvals and slowed down the decision-making process. Communication between management and employees was dysfunctional and produced disengaged employees and retention problems *(Reference 2)*

Like many other companies, Pibrex learned the hard way that integration is not a stage that happens following a deal; successful integration begins with cultural due diligence during the negotiation process.

In contrast, the Wachovia and First Union merger in 2001 offers an example of successful pre-merger negotiation. Cultural issues have been the downfall of many mergers in the past, particularly among service firms. Managers of both companies approached the merger process fully recognizing their cultural differences: First Union's "Ready, fire, aim!" culture was more entrepreneurial, ""while Wachovia' was more cautious: "Ready, aim, aim!" Both parties sought a merger of equals; the challenge was to reconcile the differences of these very different cultures.

Issues including the brand name of the combined firm (now called, simply, Wachovia), the structure of its board of directors, the composition of the top management team, and compensation had to be discussed and agreed upon. Prior to the merger's close, the banks conducted a comprehensive cultural survey of both companies. More than half of the employees responded, and the data were published on the combined firm's Intranet. A careful analysis of the survey's results enabled the banks to craft a new mission statement that would appeal to both organizations.

After crafting a vision and the mission statement, the banks introduced them to the new organization, along with the brand. Following the merger, it was agreed that the brand process helped cement the merger and unleashed the energy needed for a successful integration process. (*Reference 3)*

The primary value of cultural due diligence is that it leaders and managers aware of potential sources of friction, such as culture and leadership style, early on, so they can be actively managed during integration. A cultural audit can help identify these differences, which need to be given as much attention before, during, and after the merger as divergent information and financial systems. Although end solutions can take various forms, senior management must recognize cultural differences and respect and value them as sources of synergy and efficiency to manage them effectively.

In creating a framework for cultural due diligence, one approach is for the two merging companies to form a series of cultural-assessment task force groups with equal numbers of participants from each cultural unit. These groups assess the missions, leadership styles, goals, measurement systems, decision-making approaches, selection and reward systems, and status both corporate cultures.

Another approach is to use focus groups or a cultural survey to gather information from employees and costumers, similar to the approach used in the Wachovia-First Union merger. A careful analysis of the results will reveal key differences in how employees and customers perceive each company. Executives then use the consolidated data and report to negotiate and develop the integration management plan.

For the merger to succeed both sides must invest time and resources in discussing the hard and soft facts; both must also agree on who will take on the top leadership position in the combined firm.

Phase two: the announcement

Immediately after the deal is announced, the new management should invest time in explaining the transaction to their key stakeholders, including employees, customers, and investors. In most failed mergers, management waits too long to begin this process, which unnecessarily increases discomfort or unease among these key groups.

When mergers occur, organizational and personnel changes usually follow, and so will problems among employees, if they are uncertain about their future with the new company. Lacking solid information from the executive team, employees often rely on rumors and other informal methods of communication, which further exacerbates their tension and stress. As stress rises and satisfaction decreases, so does employee commitment to the organization, as Gallup Organization research shows a drop in employee commitment has a negative impact on customer relations and any failure to communicate and send coordinated messages to stakeholders will negatively impact future relations.

The best way for management to defuse the anxiety and turmoil following a merger announcement is to communicate the new strategic direction and anticipated effects at the earliest possible opportunity. Stakeholders will generally understand that management will not have all the answers at the beginning of the integration process. But they do expect a clear statement about why the merger is taking place and the future direction of the combined companies. A transparent and orchestrated communication process will help management build a foundation of trust and engagement.

In 1998, French car manufacturer Renault entered negotiations to buy Romanian automaker Dacia, with the goal of establishing a foothold in the emerging Romanian market. Renault's senior managers knew they had an enormous task ahead of them and carefully prepared an overall communication; their top priority was to give employees back their dignity and focus on their strengths. Management "walked the talk," using face-to-face communication and discussion forums to disseminate information and set the tone for employee engagement. Human resources played a prominent role in overhauling the pay system and retraining workers and team leaders for the new team system. A few years later, Dacia was on course to start making a profit, and in 2004, it launched its own brand, the Dacia Logan

A formal merger communication program offers valuable support for management. The plan should cover the merger's short-term effects on each work unit as well as the long-term benefits it offers. Management needs to sell the merger to the staff, just as they need to sell it to investors -- and don't underestimate either group's need for information. Companies must use every communication channel available and "walk the talk" throughout the merger process; in situations like these, it is nearly impossible to over-communicate. Managing employee concerns is key to the future success of the merger; creating online and offline discussion forums can give employees opportunities to voice their concerns and feelings in a constructive way and will help build trust as the merger progresses. .

Phase three: the first 100 days

Integration management is a full-time job and needs to be positioned as an important and separate function. By appointing members of the integration team, management sends a symbolic signal throughout the organization about the importance of the task. Integration team members should be experienced senior members or high-potential employees or managers from across all disciplines and belonging to both cultures. The integration team should also be assigned clear roles, responsibilities, and expectations.

Integration managers are the messengers of the merger process. They bring people together and help them understand each other and the merger; what's more, they help employees identify with the new company. They should understand the different psychological phases of the merger, which can include surprise, shock, skepticism, high expectations, disappointments, anger, and withdrawal, and have the emotional intelligence and maturity to handle these different reactions. They also understand the different corporate cultures and know how to balance diverging needs and realities.

In June 1998, California-based Wells Fargo and Minneapolis banking company Norwest announced a merger that was designed to create the Western Hemisphere's most extensive and diversified financial services network. By the end of 2003, the merged entity, Wells Fargo Company, was impressing analysts and shareholders with its successful financial performance and efficient integration. In fact, CEO Richard C. Kovacevich was named Banker of the Year by American Banker

The key drivers of this success come from the positioning of the merger; it was not about size, but about creating value and a merger of equals. As part of the merger integration process, the CEO appointed an integration committee of 25 people, a group comprised almost equally of Wells Fargo and Norwest employees. The committee met regularly, drafted an integration strategy plan, and identified best practices within each organization so they could be combining to become a stronger new company. Transition team leaders from both companies were asked for their opinions and input and critical and lively discussions were encouraged Kovacevich understood that a successful merger is not about linear thinking -- about how to move quickly from point A to point B; instead, a successful merger requires executives to lead people through turbulent times while managing negative emotions and resistance. *(Reference 5)*

Managing a Successful Merger: Leading the Integration Team

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- Develop a communication plan for key stakeholders, including employees, customers, and shareholder. Use the first message to set the tone for the overall integration process as a "merger of equals."
- Throughout the merger process, leadership must "walk the talk."
- Respect the past achievements, while building a successful future.
- Make social connections through ongoing communication and dialogue.

- Interpret and understand the customs, language, and cultures of both companies in a fair, unbiased way.
- Address hot issues and offer conflict resolution promptly.
- Give employees safe venues to vent their feelings and concerns. Don't patronize them; respect their need for information and reassurance.
- Engineer success by identifying critical milestones.
- Create structure and mobilize joint teams; design events to celebrate key milestones in the merger process.
- Provide flexible integration frameworks and sufficient resources for the integration process.
- Orchestrate transfer of best practices between companies.
- Monitor progress against goals; support integration efforts by setting and meeting deadlines.

(Reference 6)

Phase four: Continue the evaluation and integration management process

An integration effort that is not managed continuously will not yield desired results. Ongoing evaluation is essential to monitor progress and identify barriers to integration. Companies should also study how employees and customers perceive the newly formed company. The first measurement of the integration efforts should take place 10 to 12 months after the merger; effective measurements include questionnaires, stakeholder interviews, and focus groups.

Many unexpected challenges can test the best-planned merger integration efforts, as Daimler-Chrysler executives can attest. The 1998, merger of Daimler-Benz AG with Chrysler Corporation created one of the largest car companies in the world. When the merger was announced, many observers considered it a merger of equals. Now, seven years after the transaction, the merger is still debated and the question remains: How well did management handle the integration issues?

Shareholders and analysts have stated that cultural issues were among the most contentious. Assimilating differences in the cultures -- between Daimler's traditional, disciplined, quality-oriented culture and Chrysler's more flexible, decentralized marketing-oriented culture -- became key issues. When it appeared that the German cultural model would dominate, high-profile U.S. executives and talented engineers and designers left the company.

Functional integration and branding policies were also core problems in the post-merger process. Instead of insisting on integration and collaboration, top management chose a more selective approach, defining detailed rules for each car brand.

More problems arose when Chrysler losses reduced the net profit of DaimlerChrysler more than 50%. In recent years, Chrysler has invested energy and resources in crisis management to keep the company afloat. DaimlerChrysler's key challenge in the future is to revamp and drive the integration process to win back investors' confidence. (Reference 7)Over the long-term, too many merger integration efforts fall short. These failures leave employee frustrated and unmotivated while alienating customers.

Too often, these efforts falter because companies underestimate the length of the integration process; most estimates suggest a successful integration process will take from a two to four years. In addition, although priorities may need to change over time, many companies fail to adjust to these shifts. Often, competitors and shareholders drive companies to focus on short-term financial goals, urging them to reduce the resources and energy available for the integration efforts.

Making mergers work

To successfully negotiate the merger maze, companies must invest time, attention, and resources in the cultural due-diligence process prior to the merger and in effective communication immediately after the deal closes. They also need to invest in a comprehensive integration effort in the first 100 days following the merger, then follow up with ongoing evaluation and management of the integration for several years thereafter. Managing all four phases intensively helps ensure mergers that are successful and profitable in the long term.

Managing a Successful Merger: Key Drivers

- **Cultural due diligence:** Prior to the merger, gain insight into how the companies' cultures diverge and converge.
- **Vision and mission**: Communicate the vision and mission for the combined company early in the merger process. Tell employees where the new company is heading and what a successful integration will look like.
- **Communication**: Employees and customers need to know the reasons behind the merger, so don't be afraid to give them this information often. Make sure the new companies early wins and successes are communicated throughout the company -- top-down and bottom-up.
- **Leadership support:** Appoint an integration leader and team to emphasize the importance of integration efforts. Give key stakeholders face time with the team and its leader. Support integration management with infrastructure and resources needed to develop processes, people, and systems.
- **Integration management:** Provide integration architecture and a communication plan for the integration; develop project structure; and set measurable goals and milestones. Define clear deliverables, due dates, milestones, and information flows
- **Evaluation:** Ask for continuous feedback about the integration process; communicate critical milestones and celebrate achieving them.

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