KEYS TO GUIDING A SUCCESSFUL
MERGER OR ACQUISITION

White Paper

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Merger and acquisition has been a popular growth strategy for companies in a variety of industries over the past few decades. Whether two companies merge together, or one is taken over, the surviving company and its employees will undergo tremendous changes. How the company anticipates and plans for these changes will determine the outcome of the transaction and the organization’s long term success. In fact, most companies do not experience success. According to research on transition structure, “Well over three-quarters of mergers, acquisitions, and alliances fail to achieve their financial and strategic goals.” (Marks & Mirvis, 2000, 40.) This is largely due to companies not anticipating the major organizational culture shift that occurs when companies are merged or taken over. Even when it is expected as in an M & A transaction, a recent article on organizational change states “90 percent of culture change initiatives fail in achieving their objectives…the success rate of new organizations blossoming from merger and acquisition activity is also pretty dismal” (Atkinson, 2005, 14).

Mergers and acquisitions are fraught with potential pitfalls, because they involve many steps and multiple parties. There are several reasons why the majority of companies fail to succeed at least in the near term, after the merger or takeover happens. First, most companies focus on the financial aspects of the takeover, along with overall systems aspects and role shifts, while other important areas such as culture are neglected. Secondly, the teams which are appointed to design the new “transitioned organization” fall prey to several issues. In some cases, teams are undirected, have no vision, and drift aimlessly through the process. On the opposite end of the spectrum, teams often succumb to politics and power agendas, and decisions are not made based on the best interest of the new organization. Another problem is insufficient debate and suppressed controversy. While some may think
that absence of controversy is a positive thing, the lack of overt conflict is unhealthy and results in failure to challenge issues with the goal of productive recommendations.

Another significant problem which occurs when a merger or takeover occurs, is that employees often disengage from their jobs once the announcement is made. Employees may become strongly resistant to the change, which results in lower productivity. In turn, the drop in productivity often results in a decrease in profitability. This naturally leads to a final reason for failure, which is the fact that a new business culture is not anticipated or planned for as part of the merger process nor when beginning to build the new organization. When a company’s merger or acquisition fails to succeed, it is often as a result of one or a combination of the above problems. To prepare for a merger or acquisition of an organization, there are some key areas to consider in order to ensure success of the new company.

**Preparation is Essential**

To begin, it is necessary to allot enough time for proper planning to occur, with the integration processes prepared as far in advance as possible. The earlier the preparation, the better these processes will unfold. In addition, it is important to allow an adequate period of time to elapse for the entire merger process to take place. From beginning to end, there needs to be enough time for support, coordination, implementation and change to occur. It is important to take enough time to select the proper individuals for leading the integration process and to take into consideration possible problems that may arise. Strong leadership is essential throughout the process. Because of the difficulties that will invariably arise, leaders need to anticipate this, and plan accordingly. Perhaps most importantly, leaders need to get
on board by believing in the importance of creating a new culture and being mindful of how it will affect each employee.

During this time, it is crucial to appoint a team of individuals to serve as a kind of “task force” for the transition. These individuals should be talented professionals who are experts at integration, transition, and managing change. This team of people will make recommendations throughout the process on how to design and implement the combined organization. These individuals will be responsible for understanding the nature of the business, the competitive environment in which it operates, and should be those who specialize in optimizing the functionality of organizations. Team members should be selected based on their ability to be more diplomatic rather than political, and more open-minded than narrowly focused. Members should be more inclined to make decisions by coming to a consensus, rather than to dominate the processes and procedures.

The Human Element is Paramount

Finances, systems and technological issues are usually among the first (and sometimes only) to be considered when the process of a merger or acquisition occurs. Companies often overlook a key piece of the puzzle: the human element. Senior management should engage around the topic of organization culture, specifically what organizational development steps need to take place in order to create an optimal new organization. The Human Resources department in particular needs to be intimately involved in the merger process. HR professionals can act as advocates for and counselors to the employees of the newly created company. In the midst of significant change, nearly every employee will be dealing with questions concerning the future and his/her specific
company role going forward, as well as confronting a sense of loss over the past and “what was.”

A basic yet essential element in mergers and acquisitions is communication. Not only does open communication need to occur between members of the leadership team, it needs to happen often and early with all employees. Leaders need to remember that it is acceptable to not necessarily have the answers to all questions, but to adopt a posture of readily relaying information when it is available. If subordinates have questions that can’t be answered, leaders can honestly explain they do not know, but plan to find out. Leah Shepherd states “With under-communication, people always assume the worst” (2009, 12). This links back to employees’ lack of engagement during the transition process. If employees feel as if they are not a part of the process and out of the information loop, they will disengage from their jobs and potentially resist fitting into the new organization.

Throughout the entire process it is important for leaders to remember to discuss issues as early on as possible, and when and where they arise. Senior leadership should be truthful in relaying information to their subordinates. Employees should not be given a false sense of security when change is inevitable. Leaders should do their best to give employees the most accurate picture of what is occurring and what might be expected in the new future. If there is nothing to report, managers can tell their employees so, and assure them that they will be briefed with information and options when available.

Managing the Transition

In a merger or acquisition situation, it is important to be mindful of three key elements: knowledge, relationships, and transition management. Building the shared
knowledge of the two existing companies will be essential when forming the new organization. This process will take time and will involve deliberate efforts to exchange knowledge in such settings as training sessions. Likewise, relationship building will be key in forming the new company. Personnel from both organizations- senior leadership, coordinators, transition teams- will be working closely with one another for an extended period of time. Paying attention to building relationships through intentional as well as informal activities will be important. Lastly, transition management team and several sub-teams should be created to integrate the people, processes and cultures of the existing organizations. As stated by Marks & Philip “Transition teams often involve people close to the technical aspects and key business issues implicated in the combination” (2000, 37). One of the most important focus areas for the transition management team is conducting a cultural assessment in addition to an operational systems evaluation. Based on these assessments a strategy for the newly integrated organization can be carefully developed.

Creating the New Culture

Organizational culture is the set of shared values and norms which guide employees in their interactions with one another and others outside the organization. As stated previously, this is an area which is often overlooked by leadership in an M & A transaction, because for many years it was a concept not easily defined, and its importance was not fully understood. Culture was often categorized as “soft stuff” and was pushed off until there was enough time or only after other issues were addressed. For many years it was almost impossible to measure culture quantitatively, which is the main reason it was ignored. Leaders did not believe there was a direct link between culture and important performance
metrics such as profitability, market share and sales growth. There was also the popular misnomer that once a culture was established, it was impossible to change.

However, more and more research is insisting culture could be the most crucial thing to an organization’s health: “Culture might very well be the single most important thing on which we can focus to create and support sustainable bottom-line results” (Fisher & Alford, 2000, 206). Because culture essentially defines how an organization runs and whether it operates in a high performance way, it is important to realize how this culture will change when two organizations come together. In particular, it is key to understand how to prepare for and develop a well-conceived plan for creating the “new culture” of the combined entities. Perhaps the most important part of this is conducting a cultural assessment of both companies. In this process, representative samples of employees from every department and function should be tapped to gain insights on the key elements that comprise the current culture, what areas are of most concern to employees going forward and what can be done to increase the odds of success for the new company. From there, action plans can be developed which will address cultural integration issues throughout the organization.

Perhaps the most important part of the action plans are the steps which deal with employee buy-in. Obtaining the enthusiastic buy-in of team members is challenging but can be done. If employees are honored and respected in the process as well as made to feel integral to the success of the transition, then the ingredients for success will be present.

Conclusion

Mergers and acquisitions will occur as long as businesses continue to grow and develop. Whether the combined companies in any given transaction will prosper will likely
depend on how the transition is handled by leadership and the team members planning for and guiding the process. Companies often fail in this process due to overlooking issues such as culture, communication and employee buy-in. In order for the company to succeed throughout the merger or acquisition, it is critical to first allow enough time for the change to happen, to plan ahead as best possible, to involve key leadership, and to appoint appropriate people to the transition teams who are experienced in dealing with organization development issues. In particular, “soft issues” such as culture, communication and relationship building cannot be ignored. By keeping communication lines open and involving all employees in the process, the potential success of the merger or acquisition will be greatly enhanced.
References


