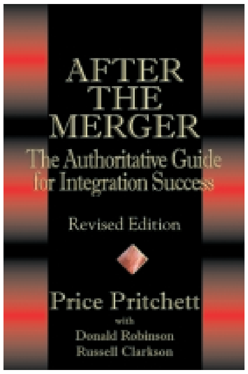

After the Merger

The Authoritative Guide to Integration Success
by Price Pritchett with Donald Robinson and Russell Clarkson

158 pages

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Take-Aways

- More than half of all mergers are unsuccessful for the acquiring company.
- Many mergers take place without sufficient planning.
- The four types of mergers are: the rescue, the collaboration, the contested situation and the raid.
- In a rescue, the acquirer saves the target from financial doom or from a hostile takeover.
- A collaboration is the most successful merger, because it joins a willing buyer and a willing seller.
- In the contested merger, the target might not be willing initially, yet often comes away from the deal pleased.
- The raid, in which the buyer targets a firm not willing to be bought, is the most adversarial type of merger.
- The raid can prove detrimental to the acquirer's long-term health.
- Change, upheaval and frustrated employees are inevitable parts of mergers.

Rating (10 is best)

Overall	Applicability	Innovation	Style
8	9	7	8

Review

After the Merger

Despite the breathless headlines about the latest billion-dollar merger, most mergers don't work. In fact, more than half of all mergers fail, derailed by a common set of pitfalls. Companies merge without considering how they'll integrate after the deal; they don't communicate properly with their employees, and executives don't make decisions quickly enough to placate frightened workers. The executives who navigate mergers effectively are those who communicate well, deal with ambiguity and make decisions in times of instability. Author Price Pritchett offers an easily digested primer on the hazards of mergers, and lists hints for avoiding common problems. The authors provide plenty of concrete examples showing how such companies as Sony, Wells Fargo and the *Chicago Sun-Times* suffered from the dilemmas that accompany mergers. *getAbstract.com* recommends this comprehensive guide for managers on both sides of a business marriage. Caution: Read *After the Merger* before you merge.

Abstract

Thriving on Ambiguity

Companies often embark on ambitious mergers without planning for the nuts-and-bolts details that such combinations entail. As a result, most people who have lived through mergers have negative opinions of the process. Mergers are times of ambiguity for acquired companies, so those managers who can take advantage of such instability thrive after a merger. In particular, managers on both sides of the merger should remember that this is a time for communication, leadership and aggressive decision making.

"Available statistics generally indicate that, on the whole, acquirers have less than a 50-50 chance of being successful in merger/acquisition ventures."

Why Mergers Fail

In more than half of all mergers, the deal turns out to be unsuccessful for the acquirer. In some cases, the failure happens because of changing economic conditions or because the two companies were simply a bad match. In most cases, however, the culprit is poor management.

Many acquirers lack well-laid plans to integrate their target companies. One study found that fewer than 20% of acquirers considered the long process of integrating a company before buying it. Deals that take the acquirer into a new line of business are particularly risky. A foray into a different industry necessitates integration planning. The acquirer must take steps to keep the target's top executives, because they possess expertise in the new industry.

"The white-knight rescue is a little too much like a weekend Reno marriage."

Culture shock also can derail mergers. Corporate culture includes a company's values, traditions, beliefs and priorities. When two companies with divergent corporate cultures combine, the result can be disconcerting. Culture shock sets in when there are inconsistencies between the old way of doing things and the new way. Employees become confused and frustrated, and their morale plummets. For instance, Pan American World Airways collapsed in part because its acquisition of National Airlines combined incompatible corporate cultures. When Sony – a consensus-building Japanese firm – bought Columbia/Tristar, it couldn't deal with the ego-driven, aggressive environment in Hollywood. Sony wrote down $3 billion of its $6 billion investment. The result of culture shock is post-merger drift, which is a sag in productivity, morale and effectiveness.

"Instead of spending energy on a fruitless pursuit of normalcy, management should use the transition period as an opportunity to make needed changes that may be entirely unrelated to the merger. People are expecting change."

"Some acquisitions are inherently much more risky than others. The more difficult ones ordinarily represent a move in new directions by the acquirer."

"The number of failures seems to have no negative effect on the urge to merge. Deal traffic zoomed to an all-time high in 1996, and the size of today's deals makes those of the 1980s look like small change."

"Top management should understand that speedy integration helps people adapt to the required changes."

To avoid such problems, an acquirer's integration planning should acknowledge that:

- Employees will feel threatened and frustrated. The longer the uncertainty lasts, the more productivity suffers.
- Training is necessary when business practices change.
- Employees accept change more easily if they understand the reason for change.

Types of Mergers

The four distinct types of merger deals are: the rescue, the collaboration, the contested situation and the raid.

1. The rescue – The acquirer is a welcome suitor. In one type of rescue, the acquirer is a "Daddy Warbucks" taking over a company on the brink of financial disaster. The target firm's top management has done everything it can, so many executives likely will lose their jobs. In a second type of rescue, the acquirer is a "white knight," rescuing the target from a hostile takeover. This is a risky deal, because it involves elements of impulse buying and panic selling. Neither side has the time to evaluate the deal thoroughly. In the 1980s, Seagram and Mobil both tried to buy Conoco, and Conoco turned to DuPont as its white knight. However, DuPont ran into numerous problems after the deal. The moral is that companies need a courtship to determine whether a deal will work; white-knight marriages don't allow for that sort of courtship.
2. The collaboration – This is the most successful type of business combination, suffering from the least post-merger drift because it features a willing buyer and a willing seller and a long courtship. Instead of surprise tactics or heavy-handedness, both parties negotiate with goodwill and diplomacy. However, pitfalls still exist. After the marriage, the acquired company's employees are sensitive to how they're being handled, and poor follow-up management can prove jarring. Good management earns renown: Johnson & Johnson, for example, has earned a reputation as a good collaborative merger partner.
3. The contested situation – In this scenario, only one of the two parties has a strong commitment to the deal, or the two firms want very different terms. Sometimes multiple bidders vie for the same firm. Negotiations can become contentious, but the jockeying tends to be based on logic rather than emotion. Both parties usually end up pleased with the deal. Still, stress and upheaval are part of the package. For instance, the *Chicago Sun-Times* drew several bidders. Rupert Murdoch beat a local investment group's bid, although the owners had initially said they wouldn't accept a bid from Murdoch. Later, a third bidder emerged. Employees were distracted, then fearful of losing their jobs and finally upset that Murdoch won. Such uncertainty can lead to a brain drain at the target firm.
4. The raid – This is the most adversarial merger environment, in which one firm seeks to buy a company that is not willing to sell. Negotiations tend to be emotional, illogical and personality-based. In this charged atmosphere, both companies launch propaganda efforts. Employees often band together to fight the hostile bidder. For instance, when Wells Fargo attempted to take over First Interstate Bank in California, the smaller bank's management said the deal would hurt employees, who protested on the steps of Los Angeles City Hall. Wells Fargo ultimately won, but the victory was questionable, in that the acquired firm's employees weren't happy to be with the new organization. The outcome of a raid is that one firm feels like the victor, while the other is the vanquished. In fact, a raid can hurt a company's future prospects.

"There is a 'Catch-22' to the corporate raid, and it goes like this: Acquiring a company to sustain growth and nurture the corporate base, when undertaken through hostile action, creates negative management conditions that actually hamper expansion."

"When merger rumblings are heard in the organizational jungle, the natives get restless. The work climate changes."

"In many merger situations, particularly the more adversarial takeovers, significant people in the acquired firm refuse to embrace the new order. They are either unwilling or unable to adapt to the new scheme of things."

"In both the parent company and the acquired firm, the greatest sins of post-merger management are sins of omission."

Effects on Employees

In spite of management's best intentions, mergers invariably have negative effects on employee productivity and morale. It's human nature to be fearful of change. Many employees feel a lot of stress in the face of a merger's unavoidable ambiguity. A merger also weakens employee trust. Because most employees don't learn about a merger until an official announcement, they tend to feel that management hasn't been sufficiently forthcoming. Employees who were mistrustful to begin with become even more antagonistic. Merger activity sparks employees' self-preservation instincts. Some will actively defend their positions, others are more cautious and some do nothing. Regardless, energy is diverted from the company's primary business.

Once emotions take hold, a number of detrimental patterns emerge. Communication breaks down. Productivity sags. Teamwork becomes less pervasive. Power struggles emerge and employee commitment lags. Finally, employees leave for other opportunities.

After the merger, companies must determine which managers to keep. Many executives will leave, because they don't like the new company, because they don't like merger-related politics, or because golden parachutes make it more lucrative for them to bail out. An employee who doesn't enthusiastically join the new organization should be terminated. Keeping an employee who is trying to undermine the new organization's goals is counterproductive and sends the wrong message to other employees. Management should act quickly to lay off unnecessary employees. Staff reductions are part of any merger, and the quicker the cuts are made, the more successful the merger will be. The ambiguity that accompanies a long layoff process frustrates many valuable employees so much that they leave. A merger also is a perfect time to fire low-performing employees. This communicates a positive message to other employees.

Merger Guidelines

To be prepared for a merger, take the following steps.

<u>For Managers in the Acquiring Firm</u>

1. Don't vow that there will be no changes. Employees won't believe you, and such a promise is unlikely to be true.
2. <u>Limit promises</u>. A merger leads to uncertainty, so you don't know if you can keep them.
3. Keep your promises to raise the level of trust, which naturally dips after a merger.
4. Be as specific as possible. When you talk to employees, be clear and straightforward.
5. You're under a microscope. Remember that employees over-interpret everything you say.
6. Don't spread rumors. A casual remark can feed the rumor mill.
7. Communicate as much as possible. Stay in closer-than-usual contact with key people.
8. Be helpful. If someone in the acquired company asks a question, help find the answer.
9. Listen carefully for hidden messages. Acquired employees may not say what they mean.
10. Show respect. Acquired employees will be very sensitive; be humble and accommodating.
11. <u>Respond quickly</u>. Acquired employees are likely to feel that things are slow. Be prompt.
12. Offer a clear sense of direction. Straightforwardly communicate a sense of purpose to overcome the reluctance the acquired company's employees naturally will feel.

13. Set concrete goals. Keep acquired staff focused and productive by making targets specific.
14. Embrace new employees or fire them. The longer the cuts, the longer the healing takes.
15. Communicate your expectations. The acquired company won't follow new rules and procedures without being told. In fact, this message must be repeated.
16. Spend time on managing change. The time this task will take is often underestimated.
17. Establish a clear chain of command and line of authority.
18. Expect hostility. Employees in the acquired firm will resent you; don't fight back.
19. Don't relax after the merger is done. The hard work is just beginning.
20. Don't overwhelm the acquired firm with paperwork or interference from corporate staff.
21. Set realistic goals for the acquired company.

"Practically everyone who has lived through the experience of being merged or acquired has negative feelings about it."

For Managers in the Acquired Firm

1. Change is coming. Don't fight it; instead, prepare for it and accept it.
2. Do more. A merger is the time to contribute and be resourceful; your employees need more from you now than in routine times.
3. Keep goals in sight. Work with a sense of purpose.
4. Give clear direction. Employees need structure to avoid post-merger drift.
5. Be a positive role model for employees. Negative attitudes follow a merger, and employees will look to you for cues.
6. Talk more and listen more. Hold more frequent meetings to improve communication.
7. Be open and honest, or at least as open and honest as you can. Don't contribute to rumors by speculating about the future of the company.
8. Make few promises. Employees will push, but don't make promises you can't keep.
9. Motivate. A merger turns a company on its ear, creating the perfect environment to energize a stale atmosphere and push for better performance.
10. Expect work to be delayed. Mergers lengthen channels of communication, so problems take longer to be solved and decisions require more time to be made.
11. Be a team player. Learn about the acquiring firm and understand its culture.
12. Use your authority. A merger is no time to slink to the sidelines. Manage more, not less.
13. Accept blame. Rather than pointing the finger for organizational problems, take responsibility and become part of the solution.
14. Reduce surprises. Unanticipated decisions make life stressful for employees.

"Mergers and acquisitions generally cause people to reassess their careers, examine their alternatives, and check out promising options."

About The Author

Price Pritchett runs a Dallas-based consulting firm, Pritchett & Associates. He holds a doctorate and has written more than 20 books. Donald Robinson is a manager in Pritchett & Associates' consulting group and has helped firms in the U.S. and Europe handle mergers. Russell Clarkson is consulting principal at Pritchett & Associates and has served as a director to New York University's Management Decision Laboratory.

Buzz-Words

Collaboration / **C**ontested situation / **C**orporate culture / **C**ulture shock / **I**ntegration