

Mergers & acquisitions

May 2007

Making M&As really work

M&As are complex but if handled well can be beneficial to both parties, say **Andrew Loveless** and **Andrew Smith**

There seems to be a popular view that Mergers & Acquisitions (M&A) are a short-cut to growth and success. Why spend years building organically when you can accelerate the process? Why not increase revenue and customer base, broaden product offering, multiply distribution channels, lower costs and increase margins, all at a (relative) stroke?

The formula is very simple:

- Rationalise the products
- Combine back office and support functions
- Cherry-pick the best branches and offices (and people)
- Reduce overheads
- Achieve economies of scale
- Increase product holdings across a much bigger customer base.

If it was that straightforward how come we are not awash with success stories?

Unfortunately there are plenty of horror stories of non-integrated mergers: benefits slow to be realised; separate HR and IT systems three years in; variable, entrenched cultures and conflicting management styles; customers receiving inconsistent messages; and service falling well short of branding and expectations.

In fact, a recent study by the Hay Group found that 91 per cent of tie ups fail to meet their objectives due to the culture shock of merging two organisations.

So what lies at the crux of this challenge and opportunity?

The first and most important thing to recognise is that M&A is the epitome of a change process – a company is unlikely to do anything in its lifetime that involves as much intensive change. As such, the critical success factors lie predominantly in the human spheres of change, culture, management and leadership.

The lack of understanding, expertise and investment in these areas is one of the key reasons M&A remains a daunting challenge rather an exciting opportunity.

While expertise has grown dramatically in many of the 'material' areas of M&A such as IT integration, financial and scenario modelling, product rationalisation, customer data mining and so on, the management of the people and cultural aspects of M&A remains a relatively new science.

If addressed with the kind of rigour and energy normally attributed to, say, the IT elements of a merger, then a completely different picture can emerge.

One in which merging with or acquiring another business can be a mutually rewarding experience and a superb route to growth, on both a personal and organisational level.

As most commentators predict the M&A boom to continue, it seems wise to develop our understanding on how to achieve these benefits.

It's good to start with a few fundamentals:

- M&A is and should be considered an accelerated change programme
- Change programmes are (or should be) about people
- Change is unsettling
- People, generally, do not give of their best when unsettled
- Expecting to achieve business as usual (BAU) and embrace rapid change requires more than 100 per cent of human potential, which doesn't add up!
- M&A by its very nature reduces people's performance by introducing the debilitating elements of doubt, and distraction (at best)
- At worst, it will fuel suspicion, disloyalty and self-interest
- Only the core architects of the M&A are informed enough to consistently rise above these concerns
- Everyone else, to varying degrees, finds their level of participation diminished until such time as the change is realised
- It is rare for a merger or takeover programme to be completed in less than 18 months
- We are therefore faced with a protracted period of time during which people are not at their best

- Change management expertise and leadership commitment are therefore paramount
- There is no short-cut to this, no way of avoiding it and no way of delegating responsibility for it.

Building blocks

So, what is required? There are seven critical building blocks:

1. Get full acceptance that the organisation is going to embark on a two year change programme.
2. Commit the investment, authority and focus commensurate with such a programme. This requires a dedicated team of relevant expertise.
3. Assemble and empower this team before the M&A is finalised and announced. They should have a huge say in what is communicated, especially internally.
4. Have this team devise a detailed change and integration strategy and plan.
5. Give full authority to this team to direct the change on behalf of the company. This will usually mean the inclusion of board members to this group.
6. Commit, top-down, to personal change. Change is not something that happens to other people, it starts with you. It is something to be embodied, not talked about.
7. Most important - communicate and engage with the people. Constantly. Authentically. Top to bottom. No exceptions.

Why is this the most important element? It's because M&A is about change and change is about people.

They need leadership, from the very top, in the form of personal commitment, authentic communication, listening and empathy, crystal-clear descriptions of the way ahead, embodied optimism and energy.

What they need like a hole in the head is silence, misinformation, false reassurances, vague ideas about the future, political behaviour, inauthentic communication or evident self-interest. Remember, these are exceptional times and people require exceptional leadership at such times.

Every manager needs to embody the change, first personally, and then with their people. And to do this, they need absolute clarity and support from the top.

Giving the seven building blocks appropriate focus and investment reduces the risk in all of the above areas, resulting in:

- Maintenance or improvement of BAU
- Reaching or bringing forward pay-back dates
- Improved confidence and loyalty amongst all staff
- Costs radically reduced
- 'Best of both' organisations made real and put into practice
- Teams integrated and rejuvenated
- Improved customer experience

All in all, it seems worth the investment.

Culture

For a really outstanding outcome, there is one additional factor that needs consideration.

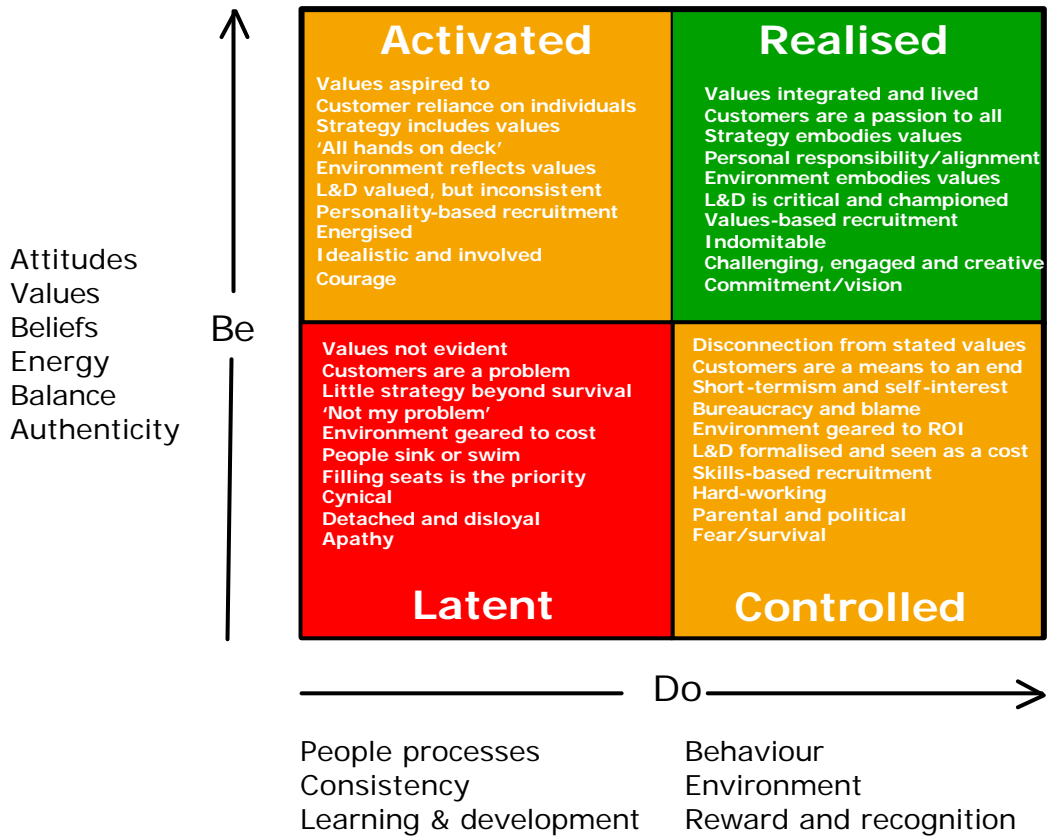
Bringing two or more organisations together involves a cultural dimension that could determine the success or failure of the integration. This is even true of organisations who appear to be very similar in appearance, operation and tradition.

The starting point should be to consider whether culture A or culture B is to prevail, whether it is genuinely 'best of both' (and if so, what is 'best of both'?) or is it something entirely new and aspirational?

Whichever it is, the question needs asking, and it needs answering. The answers should inevitably inform the change programme and direct the decision-making in many of the change areas.

The Cultural Matrix is a useful tool for posing these questions.

Be Do Cultural Matrix

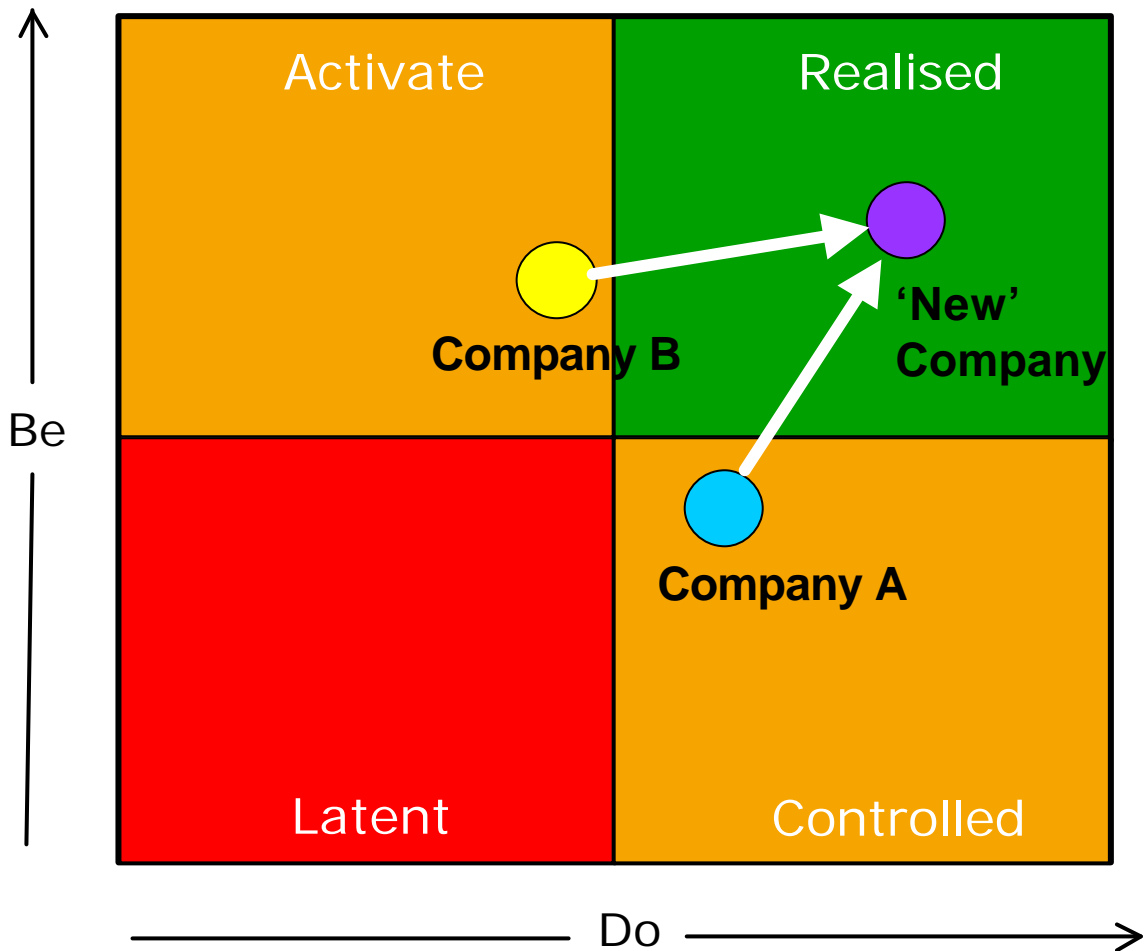


This model is used by Minerva to assess the relative positions of organisational cultures. The characteristics highlighted in each quadrant are illustrative - the 'position' of a culture will be determined by up to a hundred different factors.

The ideal 'north-east' development path reflects a conscious balance of 'Be' and 'Do' elements and is driven by:

- Values
- Self-awareness/authentic engagement
- Consistency

The Development Route To The 'New'



In considering and defining the 'new' and the route to it the following should be assessed:

- Values - clarity and relevance, support for and the degree of living them in practice
- Levels of teamwork
- Leadership and management styles
- Cultural traditions and influences
- Levels of coaching
- People development attitudes and infrastructure
- Performance management attitudes and infrastructure
- Change management capability
- Recruitment practice and degree of meeting ideal profiles
- Company enablers and obstacles
- Clarity of strategy and degree of alignment, especially between people practices, the operational model and the culture

This should be one of the prime objectives of the early stages of any M&A – the three-dimensional definition of the 'new', not just operationally but culturally and essentially (values, attitudes, beliefs etc).

The end result should be a vivid understanding of the cultures of both parties, an inspiring description of the new organisation, and a detailed plan of exactly how everyone is going to get there.

Armed with this, an empowered and capable change team and a bit of good luck, who knows, M&A might become a brilliant idea after all.

***Andrew Loveless and Andrew Smith work for Minerva,
www.minerva-int.com***

Executive summary

- M&A involves intensive change and the critical success factors lie predominantly in the human spheres of change, culture, management and leadership.
- 91 per cent of tie ups fail to meet their objectives due to the culture shock of merging two organisations
- It is rare for a merger or takeover programme to be completed in less than 18 months
- Assemble a dedicated team before the M&A is finalised which can devise a detailed change and integration strategy and plan and communicate with the staff.
- The end result of an M&A should be an understanding of the cultures of both parties, a description of the new organisation and a detailed plan of how everyone is going to get there.