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Five Steps to Successful Mergers and Acquisitions

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Most mergers and acquisitions do not live up to their promised potential. Consensus is not reached, shareholder value often decreases and integration becomes difficult. A Watson Wyatt survey of 1,000 companies found that less than 33 percent of companies attained their profit goals after a merger, only 46 percent ever met their expense-reduction goals and 64 percent of the time the mergers failed to produce expected benefits.

There are many reasons for merger failures. Pre- and post-merger activities typically do a good job of having human resources coordinate employee benefits, lawyers draft the legal documents and accountants scrutinize costs and return on investment (ROI). But little thought is ever given to the human factor—the difficult task of marrying two different corporate cultures.

The upcoming formation of the Department of Homeland Security could be the largest and most difficult merger of all time. This new office will merge almost two dozen government agencies, including the U.S. Customs Service, Transportation Security Administration, Office of Domestic Preparedness, National Communications Systems, Drug Enforcement Agency, Federal Bureau of Investigations (FBI), Coast Guard and the Secret Service, among others.

Until now, each of these independent organizations had separate, dedicated functions. Those specialty functions will now exist under the umbrella of the Department of Homeland Security. They will communicate with each other as part of a team and as part of a new culture. There can be no turf battles: "That's the way we did it at the FBI, so that's the way it's going to be in Homeland Security."

Should that attitude surface, then the merger likely will result in a poor organizational culture where there is little teamwork, low motivation and inconsistent performance. Thus, instead of resulting in a unified department that is prepared to take on the challenges of the day, there will be 22 agencies all fighting for control. However, several steps can be taken to help ensure a successful merger.

Step One: A New Entity

This step requires everyone to understand that a merger will transform two or more organizations into a new, single entity. This new entity will have an organizational culture that is different from either company—whether it is a joining of equals or an acquiring company and an acquired company. It will be a unique culture shaped from the previously independent organizations.

Hewlett-Packard's (HP) acquisition of Compaq illustrates this point. The name Hewlett-Packard is still on signage outside the headquarters, the letterhead still has the familiar logo, and employees wear polo shirts sporting the recognizable HP brand. But HP has changed since the Compaq acquisition three years ago into a merger of the two entirely different entities.

Executives from engineering, accounting, manufacturing, purchasing, human resources, research and development from each company now work side-by-side. Respective business approaches, the way they work with people and how they solve problems are rubbing off on one another, thereby changing each other and creating a new entity.

Most mergers simply do not take advantage of this "new entity" with a "new culture" as an opportunity to move forward and create a productive, effective organization for long-term success.

Step Two: A New Vision

A new entity needs a new vision, or a statement of what the new organization intends to become. It is a broad, forward-thinking image that the company must have before it sets out to reach its goals. It is a concept of what it intends to deliver over time to customers, shareholders and employees.

Within this new vision, each "department" will not only have its own role, but also must determine how it fits into this new vision and how it will work with other departments to fulfill this vision. Sometimes this results in a "war room" or "us vs. them" attitude—the acquiring company vs. the acquired company or the big company vs. the little company. Leadership must work hard to ensure this situation does not materialize.

Step Three: Determine that Vision

The vision of the new entity might be to become the best newspaper in the United States, the fastest package delivery service or the most reliable electricity provider. These seem like vague statements, but they are a good way to start. Now the company must establish a culture that can deliver that vision. Discovering the optimal culture can be accomplished by having employees from the acquired company complete a questionnaire or survey.

One such survey, the *Organizational Culture Inventory*® (OCI) *Ideal*, creates a vision of the culture that the new organization should strive toward to maximize long-term effectiveness.

In the case of Homeland Security, the ideal culture described by those presently in the Coast Guard undoubtedly would be very similar to those described by those presently in the Immigration and Naturalization Service, Border Patrol, FBI, Customs Service and other organizations. People generally want to get along and cooperate to achieve not only their own goals, but the organization's goals, as well. They want to be able to learn from others, help each other and feel pride in their company.

Surveys such as the OCI *Ideal* ask employees to describe those behaviors that should be expected to maximize their company's long-term effectiveness. An ideal culture typically results in one rich in constructive styles, such as an achievement culture that is characterized by organizations that do things well and value members who set and accomplish goals. Or employees might describe a culture of affiliation that is characterized by a high priority on constructive interpersonal relationships. If the new leadership strives to have a constructive culture and puts steps in motion to ensure success, then the result will be increased motivation, and high cooperation and quality.

Unfortunately, without this effort, employees in a new organization formed by a merger can enter into a passive/defensive style, typified by an avoidance or dependent culture. Workers are afraid of losing their authority, being moved to a less prestigious position or being fired. In the avoidance culture, fear and apprehension constrict the ability to make decisions,

> *Surveys can bring to light the organization's strong points, as well as its developmental needs.*

take actions or accept risks. In the dependent culture, the organization suffers from lack of initiative, flexibility and timely decision-making. If the new leadership underestimates the new employees' abilities, becomes unclear and micromanages, the outcome will be a passive/defensive culture, resulting in decreased motivation, work avoidance and inferior quality.

Alternatively, employees may enter the new company forcefully, thinking that they have to protect their status and security. This aggressive/defensive style is typified by a competitive or perfectionist culture. When workers feel management is putting its own interests before those of its staff or other key constituents, they see an "every man for himself" situation and begin to do what's best for themselves rather than considering the long-term interests of the company. In a competitive culture, people feel as if their job is in jeopardy and the best way to take control is to become "tough" and prove they are superior. In a perfectionist culture, people also are afraid they may lose their jobs, so they feel they must never make a mistake, they must do things perfectly and appear competent—even when they are not. If the new leadership believes success is based on finding errors, weeding out mistakes and promoting internal competition, then the outcome is an aggressive/defensive culture resulting in increased stress, poor cooperation and inconsistent quality.

4 Step Four: Leadership Characteristics

Appropriate leadership that embraces the vision must be in place at all levels and working toward creating the ideal culture. These leaders need to communicate ideals to the organization before, during and after the merger. They must be specific in describing the direction they want to take the new organization. This must continue into the merger as well, or the organization will slip into a defensive cultural style. Properly selected leadership, from line managers to executive management, will set in motion the structures, systems, technology and training to achieve the vision and ideal culture.

What about the current managers at the various agencies in the Homeland Security situation? Those passive/defensive managers who are afraid of change and unwilling to give up their existing power base or cooperate with other agencies may find themselves in different roles. The aggressive/defensive managers, in order to continue "playing politics," will stay on the offensive or openly criticize others and may find themselves struggling to find a role. However, with serious personal and team training, these managers can be revitalized. Indeed, some may choose to separate from the company because of the changes. But this is part of leadership's challenge in forming the new entity and leading it toward its new vision.

5 Step Five: Measure Success

Measuring success helps employees feel confident that leadership is on board to make the new company everything it can be. Using a survey to measure the climate in an organization will reveal if its culture is producing the desired outcomes for employees, management and the organization. Surveys can bring to light the organization's strong points, as well as its developmental needs. These strong points promote a constructive culture, while the developmental needs hinder a constructive culture by promoting either a passive/defensive or aggressive/defensive culture.

One Step at a Time

No merger is easy. Each one takes into account a different set of variables: employees, products, culture, history, etc. Advance planning, including the five steps outlined here, will not only make mergers and acquisitions go more smoothly, it will help ensure a successful merger with a promising future and make employees proud to be part of the new organization.

About the Author

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Author's Note

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