The Executive Perspective on
Mergers & Acquisitions

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Since 1981

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Mergers and acquisitions (M&As) have been referred to as the ultimate change management challenge because of the complex and often stressful dynamics involved in integrating one company with another. To be successful, companies need to find suitable candidates for merger or acquisition that meet specific strategic, financial, legal, and operational criteria. In addition, most companies recognize the need to pay attention to the softer side of M&A activities, including determining whether HR and management practices are compatible, how employees can be retained and motivated, and whether there is a "fit" between the cultures of the merging firms. Even in situations where there is a good business rationale for the integration of two firms, cultural differences and poor people practices can be significant factors leading to merger failure.

M&A activity is rebounding after a significant decrease in 2001-2002. In 2003, M&A activity increased by 29% from 2002 levels. This trend continued in 2004,
which saw an increase of more than $250 billion in M&A activity from the previous year (Association for Corporate Growth, 2005). 2005 is expected to continue to see high levels of M&A activity. US deal volume increased 11% in the first quarter over the same period in 2004, while the volume of global mergers rose 12% (The Investment Dealer's Digest, 2005).

Although M&A activity is on the increase, evidence on M&A success provides little reason to be optimistic. The conventional wisdom is ripe with "best practices" for making mergers successful: focus on synergies, move quickly, conduct thorough due diligence and detailed planning, don't lose sight of your customers, communicate, and pay attention to cultural issues. (DeCamara and Renjen, 2004). However, most studies of M&A integration report that up to 60–75% of M&A efforts fail— usually measured by changes in stock price post-merger, return to shareholders, or profitability metrics (for example, see Mergers & Acquisitions, 2005; Business

Week, October 14, 2002; or The McKinsey Quarterly, 2001).

Other research confirms what managers, HR professionals, and OD consultants have recognized for some time: declining productivity is generally associated with employee stress and anxiety during a merger or acquisition; and, that cultural and human resource issues are of critical importance to merger success—and are at least equal to financial factors in making a deal work (The Conference Board, 2001). This trend is alarmingly clear in the results of a recent national study of employee opinion and satisfaction (Gantz-Wiley Research, 2004). That is, employees in organizations that are acquired or merged with other organizations reported lower overall satisfaction, lower trust in management, and a diminished sense of job security compared to employees in acquiring firms or employees in organizations not involved in M&A activities.

In stressful change situations when clarity, courage, and engagement are most needed, managers and employees tend to become less flexible, less adaptable, less autonomous, less self-managing, more rigid, and more defensive.

Organizational leaders understand the implications: higher employee morale and stronger employee commitment lead to increased levels of quality and productivity which, in turn, lead to increased customer satisfaction and retention and, as a result, stronger organizational performance (Heskett, et al, 1994). The opposite trend predicts nothing but trouble. In fact, in stressful change situations when clarity, courage, and engagement are most needed, managers and employees tend to become less flexible, less adaptable, less autonomous, less self-managing, more rigid, and more defensive (Cameron and Whetten, 1987).

This magnifies the need to find and practice the most effective ways to address employee concerns, reduce anxiety, and increase employee commitment and morale in complicated change situations. To address these challenges, consultants, psychologists, and OD practitioners recommend a number of change management practices that are particularly relevant to M&A activities. These include the necessity for strong leadership, clear communication, employee involvement, and team approaches to planning and implementing change. But most of the evidence for the success of these practices in M&A efforts is anecdotal—and more is understood about what makes mergers fail than what makes them successful.

MDA Leadership Consulting wanted to study this problem by collecting the opinions of key organization leaders about what they believed lead to success in complicated (i.e., merger and acquisition) situations.

Our Approach

Our approach was straightforward. Based on a review of the literature, we identified a number of commonly recommended change practices that were particularly relevant to M&A situations. A questionnaire was designed that asked organizational leaders to rate how important any of these practices were in helping gain the cooperation and commitment of employees in a *successful* merger or acquisition in which they had been involved. "Success" referred to cultural or integration success—helping employees overcome concerns and apprehensions about the change process and make a full commitment to the new organization.

Our intention was to collect as many opinions from senior organizational leaders as possible. We identified approximately 125 executives experienced in M&A activities and invited them to complete the question-

naire in the Spring of 2004. 62 (57%) returned completed questionnaires. Those who responded represent M&A experience in approximately 30 organizations across a variety of businesses and industries. Given the number of responses we received, and the variety of organizations in which these executives were involved, we were confident the results would be meaningful and relevant for other change leaders. (A list of the companies represented in the study is provided at the end of this paper.)

We did, however, want to make sure that our respondents' opinions were valid—that is, that they reflected the experiences of change leaders who had been *highly involved* in M&A integration processes that were *successful,* and that had been implemented over a *period of time*. In fact, 87% reported that their opinions were based on an M&A experience they judged to be successful, largely successful, or extremely successful. Only one respondent categorized his M&A experience as *"minimally"* successful. Similarly, 9 of 10 indicated that they were involved, highly involved, or extremely involved in leading the M&A integration process. The average amount of time they reported for achieving integration was slightly over three years.

The Results—An Overview

The results are clear. According to our respondents, some practices have a much greater impact than others on the success of a merger or acquisition. We found that six categories of change practices were critical, and that four others were rated significantly lower in terms of their perceived impact on employee morale, commitment, and cooperation.

The most important change practices that respondents believed to be important to the success of a merger or acquisition effort included (in rank order based on the analysis of respondent ratings):

1. **Clarifying Strategy & Direction.** Ensuring the business rationale is clear and widely understood, developing and communicating the vision for the new organization, and helping employees see and understand the benefits of the merger or acquisition for themselves and for the business as a whole.

2. **Involvement Strategies.** Meaningfully involving employees in decisions and plans that affect them in the change efforts and initiatives beginning to end, including involving key organizational leaders, and making appropriate use of transition teams and cross-company task forces to make and execute plans and decisions about the integration of the two firms.

3. **Communication Strategies.** Extensive, candid communication about the status and progress of change, including repeated opportunities for employees to hear directly from change leaders and decision-makers.

4. **Staffing Practices.** Making special efforts to retain key employees, staffing the new organization intelligently, and treating those whose jobs may be eliminated in a fair and equitable manner.

5. **Structure/Process Decisions.** Ensuring alignment among key structural elements, systems, and processes through decision-making groups empowered with authority to act with speed and urgency.

6. **Culture Interventions.** Analyzing and re-analyzing culture "fit," and establishing and reinforcing (new) organizational values that reflect the behaviors that are desired in the new organization.

The practices found to be statistically less important and impactful to integration success included:

7. **Management Training.** Preparing managers to understand, communicate about, and lead change.

8. **Feedback & Accountability.** Collecting employee feedback to ensure that management "walks the talk," including use of employee opinion surveys, focus groups, and 360 feedback processes to keep the integration effort on track.

9. **Employee Training.** Preparing employees to deal with change, "culture clash" or other anticipated difficulties.

10. **Special Employee Support.** Special efforts to assist employees who may be especially vulnerable to stress or other symptoms or "merger uncertainty," such as financial counseling, career counseling, or stress management, etc.

A closer look suggests that the most important types of change practices are those that meaningfully involve employees most directly in the business of changing the organization. The lower-rated practices are "one-offs." That is, they generally represent efforts to prepare people for things that *might* happen or provide information that management may or may not use, rather than ways that most directly involve people in the change or integration process itself.

Digging Deeper—Which Change Practices Matter When?

Successfully implementing the integration of a merger or acquisition takes time. 80% of our survey respondents indicated that integration activities spanned two years or longer. One particular aspect unique to M&A activity is that the change and integration process typically involves three distinct phases (Marks and Mirvis, 1998).

• **Planning Phase**—Searching for and selecting a suitable merger or acquisition candidate. Activities include clarifying

strategy, performing financial analyses, establishing a business case, conducting due diligence processes, and developing preliminary integration plans.

• **Legal Combination Phase**—Completing financial and other negotiations, formally closing the transaction, announcing the combination publicly, and planning for implementing the integration process.

• **Execution Phase**—Implementing the merger plan, and addressing unforeseen problems related to combining two firms. Activities include clarifying roles and responsibilities, retaining staff, maintaining employee morale, and developing employee commitment to the new organization.

By analyzing responses that reflected specific change practices within a change category, we were able to see not only *what* our change leaders were endorsing as important and useful, but also *when* they felt it was important to implement that particular practice. Intuitively, there are certain things change leaders need to do throughout a complicated change process. For example, few would argue that "communication" should be limited to one phase or another of integration activities. But knowing what to communicate when is a different question.

The table on the following page was developed to help change leaders with this challenge. Within each of the critical change categories, specific change practices that are particularly relevant to merger and acquisition integration success are shown, along with when (i.e., in what phase of the process) it is most important to implement that practice.

The specific change practices included received clear support from the change leaders who participated in the study. They represent the top 34 (of 54 total) items in the

Table 1: Change Practices that Lead to Successful M&A Integration			
	Planning Phase	**Legal Combination Phase**	**Execution Phase**
Clarifying Strategy & Direction	• Clarifying the strategic intent and investment criteria. • Conducting a thorough due diligence process.	• Developing a vision for the new company. • Restating the business case for the combination. • Establishing critical success factors for the new organization's performance. • Helping employees see the benefits—or answer the question "What's In It for Me?"	
Involvement Strategies	• Involving key people in planning the transition. • Planning for transition teams that will identify synergies and design change efforts.	• Assembling cross-company task forces to study integration problems. • Using cross-company task forces to make recommendations about the design of the combined organization. • Appointing key leaders as transition managers or task force members. • Appointing the transition team to provide oversight and coordination throughout the integration phase.	• Providing teambuilding activities for developing effective post-combination teams.
Communication Strategies	• Developing a communications strategy that manages the "rumor mill" effectively.	• Implementing a comprehensive communications program for all employees to keep them informed of integration progress. • Conducting communications sessions by senior leadership to deepen understanding and build commitment to the new organization. • Developing and communicating a powerful message to employees to generate enthusiasm for the combination.	• Implementing a communications program to keep employees informed of implementation progress and successes. • Conducting communications sessions or "town meetings" by senior leadership to build acceptance of the new organization.
Staffing Practices	• Designing a plan or making special efforts to retain desired talent (e.g. bonuses).	• Developing a comprehensive staffing plan for the combined organization.	• Designing a lay-off policy (if necessary) that is fair. • Administering a lay-off policy consistently. • Providing outplacement services, severance packages, job-location assistance, or other services to support displaced workers.
Structure/ Process Decisions		• Clarifying and implementing an effective transition structure.	• Implementing a resource allocation process to fund priorities to move the combined business forward. • Developing good decision mechanisms for aligning policies and practices. • Developing good decision mechanisms for aligning or re-structuring teams or departments. • Developing a structure or a way by which plans and decisions can move forward with appropriate speed and urgency.
Culture Interventions	• Formally analyzing the culture of the candidate firm to assess culture "fit."	• Establishing organizational values and principles to guide behavior and decision-making.	• Continuously analyzing the cultural differences of the two organizations to improve culture "fit." • Mapping out and implementing culture integration activities. • Identifying "shared values" that characterize the desired culture of the new organization.

questionnaire. Not one specific change practice from the 4 lower-rated change catgories was included in these top-rated items.

The table can be used as both a blueprint for planning integration activities, as well as a diagnostic tool for understanding stalled integration. As the table and its specific change practices suggest, clarifying direction, involving people, and focusing on communication are particularly important in the planning and legal combination phases. Change practices that relate to staffing and retaining employees, developing an effective organization structure and aligned systems and processes, and shaping the culture of the new organization are more important in the execution phase. For those who have already initiated a merger or acquisition process, using the list of practices as a checklist to evaluate progress and plans can help pinpoint why problems might have emerged, or help change leaders pay attention to important activities they may not yet planned for.

How OD Can Help?

Traditionally, executives look to legal and financial experts for help in M&A efforts. However, OD practitioners are particularly well suited to help change leaders design and implement the change practices endorsed by the executives in our study. They are trained in evaluating opportunities for designing and implementing interventions that improve organizational health and the well-being of the organization's employees. They are attuned to the organization's culture, and the organizational dynamics that reflect the interplay among the elements of the organization's strategy, structure, processes, and systems. Cummings and Worley (2001) have proposed a number of ways OD practitioners can or should be involved in M&A efforts.

The table on page 7 borrows some of their suggestions and illustrates the skill and expertise that good OD practitioners can offer change leaders in light of the change practices for successful M&A integration emerging from this study.

Peoples' Concerns Make a Difference

In their book, *Joining Forces,* Marks and Mirvis make a compelling point: people matter! They argue that people have legitimate questions and concerns at each stage of a merger or acquisition. Paying attention to their concerns is a change leader's responsibility, and is one of, if not the key ingredient, for achieving integration success. They describe people's concerns as they relate to feelings of insecurity (e.g., *What will happen to me?*), uncertainty (e.g., *Who's in control?*), and finally to the process of adapting to the new organization (e.g., *How do I succeed here?*). Change leaders that address these questions—by implementing the practices described—are those who will likely have the greatest success.

To test this notion, we included a final question in our study. We wanted to understand how change leaders viewed the importance and impact of good management and people practices relative to other factors such as financial or competitive issues in achieving success in integrating a merger or acquisition. Our results clearly support Marks and Mirvis' position. Over 90% of the respondents indicated that effective change management and good "people practices" were as impactful or, in some cases, more important in determining integration success as financial, economic, or other competitive issues.

Table 2: How OD Can Help M&A Integration	
Change Practices for Successful M&A Integration	**The Skills and Expertise that OD Practitioners Offer**
Clarifying Strategy & Direction. Ensuring the business rationale is clear and widely understood.	• Help the M&A team form and develop its plans. • Facilitate discussion and decision-making about the rationale or business case for the merger or acquisition. • Participate in due diligence efforts, especially those involved in the initial assessment of culture "fit." • Monitor and advise executive leaders about how to communicate most effectively with employees.
Involvement Strategies. Meaningfully involving employees in decisions and plans that affect them.	• Advise change leaders on how to specify and optimize opportunities for employee involvement in the organizational change process. • Provide facilitation, teambuilding, coaching, and conflict resolution services to the transition team and other employee task forces or transition leaders.
Communication Strategies. Extensive, candid communication about the status and progress of change.	• Advise executives on how to integrate a communications strategy into overall change planning and change management activities. • Coach change leaders about how to manage their message and make their communication powerful and effective. • Design and facilitate employee communication sessions to achieve maximum exchange and understanding.
Staffing Practices. Making special efforts to retain key employees.	• Advise executives about retention and staffing plans and decisions. • Design and implement staffing or selection systems for key positions in the new organization.
Structure/Process Decisions. Ensuring alignment among key structural elements, systems, and processes.	• Contribute expertise on alignment between the new organization's structure, processes, and systems to top management and/or the transition team. • Help design reporting structures, human resource policies, work design, or decision processes. • Provide team development, teambuilding, or role clarification services for new or combined teams or departments.
Culture Interventions. Analyzing and re-analyzing culture "fit."	• Advise and/or conduct organization or culture assessments, and provide recommendations about how to enhance culture fit. • Facilitate clarification and communication of (new) organization values. • Advise executives about how and where to best modify practices, policies, and processes to reflect the organization's values and reinforce the desired culture.

As one telecommunications industry executive stated:

> *"During integration, it's important to remember why you made the acquisition to start with—and to treat people in a manner that retains value for you—since in all cases they involve a significant human component. In a few cases there are acquisitions of technology or a patent. All others involve key relationships and know-how."*

This executive's point is clear: people matter, their concerns are important, and the full value of a merger or acquisition can only be realized by paying attention to them.

Conclusions

Our study is not representative of all M&A activity. It focuses specifically on the change practices that work in *successful* mergers and acquisitions. Moreover, we surveyed change leaders—not the "recipients" of change. From their perspective, perhaps employees would rank or value many of the change practices differently.

Nonetheless, we think the data in our study support several obvious but useful conclusions:

- Compelling business reasons need to drive merger and acquisition efforts.

- People's concerns matter—addressing them is as important as other factors in M&A activity.

- Meaningful involvement in the execution of the change has the most impact on gaining employee cooperation and commitment to the change.

- Continually clarifying the direction; and extensive, candid, and ongoing communication is critical.

- Treating people fairly, and designing systems and processes that can flex with the needs of the organization during the integration are important.

- OD practitioners have a clear role in guiding and supporting change processes and change leaders in M&A activities. They are particularly capable and expert in supporting the change practices that enhance employee involvement, morale, and commitment.

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Appendix
Companies Represented in the Study

Adayana	Ecolab	Polaris
ADC Telecommunications	GMAC	Pentair
Allianz Life	Great River Energy	Polo Ralph Lauren
Assurant	Highland Banks	Sunoco
Blue Cross Blue Shield	Honeywell	Tennant
Bremer Banks	ING	Thrivent Financial
Cargill	International Multifoods	Upsher Smith
CenterPoint Energy	Lifetouch	US Bank
Community First Banks	Medtronic	Verizon Wireless
Deutschebank	Novartis Pharma	Xcel Energy

Author Bio

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About MDA Leadership Consulting

Since 1981, MDA Leadership Consulting has helped organizations evaluate talent and make informed hiring decisions, diagnose alignment problems and manage change, and grow the leadership skills needed for sustained excellence. From our headquarters in Minneapolis, Minnesota, our client teams and executive coaches work with CEOs and senior leaders at some of the most successful public and private companies in the Midwest. Without great leadership, nothing works!™

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