

A Tale of Two Mergers: Seven Key Takeaways from Successful (and Unsuccessful) Mergers



Mergers always get the adrenaline pumping among an executive team. There's lots of excitement about the value of the deal — the prospect of cost savings or new revenue from sales and distribution synergies, the addition of new geographic markets or the combination of complementary products. All these expectations are usually grounded in careful due diligence, so the fanfare seems justified. Why then, do so many mergers fail to deliver the value promised?

One major factor is that the CEO and executive team are under tremendous pressure to deliver results quickly to justify the deal to board members, shareholders and their own organizations. For this reason, they often focus too much on the “hard” (or intentional) elements of the deal such as the strategy, synergies, tax and legal issues. And they focus too little on the more challenging “people” (or interactive) elements of the deal — how people are selected for key roles, what sort of culture and structure the strategy requires, the differences between the two organizations, and how people are feeling about the integration.

We know of one medical device merger in which the CEO picked most of the post-merger senior team based on his own “gut” feeling — which, not surprisingly, resulted in most of the team coming from his acquiring company. Meanwhile, he failed to articulate a strong value proposition for the combined company's A-list talent or align the top team on a common path forward and, as a result, many of them retired. Nor did the team articulate an ideal culture for the company or the leadership team's role in modeling the culture, resulting in low engagement from employees across the organization.

Within 18 months of the merger's close, the transaction had proved to be a massive failure. The combined company lost market value. Shareholders revolted and board members ousted the CEO. Given the attention the merger demanded pre and post close, the company wasted more than two years.

Alternatively, with a more structured, strategic approach to the people side of a merger, the outcome can be much different.

Take the example of the merger of two food retailers. Before the merger even closed, the cultures of the two organizations were assessed, helping leaders of each to better understand their own culture — using neutral language to articulate who they are and how

they operate. Having a shared culture vocabulary to work from, the integration team, which represented both organizations, was able to come together to explore similarities and differences in their distinct cultures, and set a shared aspirational target culture based on the value creation thesis of the deal. The target culture became a key part of the strategic framework, organizational design and selection practices as part of the merger integration.

After the integration, the strategic framework and culture work informed the creation of a leadership capability and behavior model, which helped bring the cultural priorities to life by defining great leadership at the combined company. The model, in turn, became the basis for a comprehensive leadership development institute and was built into key leadership processes, including selection, development and succession planning.

This approach accelerated the company's leadership in coming together to be effective and productive in a volatile retail landscape. Two years later, when the stresses on many integrations are usually becoming apparent, the company was posting strong revenue and profit increases and was pursuing important strategic initiatives, such as revamping its brick-and-mortar offering and pursuing an omnichannel strategy with digital as a key focus area.



Getting the people side of M&A right: seven takeaways

Achieving cost savings is an aim of many mergers, but the real value of most deals stems from sharing best practices, innovation, the development of new products and solutions, and maximizing the combined customer bases, technology, products, etc., so that they're better together. All of this depends on having a clear purpose, vision and strategy, a leadership team that is aligned on the strategic vision and operational imperatives, and a culture, systems and processes that support the business envisioned by the deal. When the integration doesn't plan for these factors, companies may gain some of the cost synergies, but won't capture the true value of the merger.

Here are seven takeaways for merging companies.

1

Tackle the tough leadership decisions early. Some organizations seem to take a Darwinian approach to leadership selection: assigning co-heads to certain roles and seeing who survives. Either people get fed up and leave — with potentially the wrong person staying in the role — or two separate teams continue on, reinforcing the divide.

Ideally, leadership selection starts with taking a fresh look at the organizational structure based on the strategy for the combined business, rather than working from existing job titles. Many roles will be similar, but others may change in scale, scope or complexity. Reviewing the organizational structure in light of the strategy also may reveal important gaps. For example, if innovation is critical to the strategy, is there a need for a role that is specifically responsible for managing that?

Once the roles are defined, fact-based, objective assessments are critical. An independent management assessment process provides a consistent view of executives across companies, minimizes fears of favoritism by applying objective standards and speeds up decision-making.

A frequent observation in mergers is that leaders who are known to be high-performing executives fail to deliver in a more complex merger environment. Why does a senior leader who has mastered the execution of a strategy in their prior organization struggle in the context of the merger?

Most organizations use a very narrow definition of leadership when selecting top leaders for the merger. They often focus on individuals' depth of knowledge or experience in a subject area and typically evaluate executives on their track record in their current or most recent positions. They may weight an attractive personality trait such as charisma or energy heavily. But the knowledge and skills that propel executives in a previous role (usually in a more stable environment) are not good predictors of their ability to excel in a merger context. As a result, when organizations focus on these strengths rather than the leadership attributes that are essential to success in a merger, they can make the mistake of placing a strong performer in a position beyond their capabilities.

In our work supporting client merger integrations, which has included thousands of executive assessments, we have seen that some leadership traits and skills matter more than others. These include:

- > High-stakes decision-making
- > Ability to recognize interpersonal dynamics and navigate politics and social complexities
- > Team building and developing of people
- > Influencing and collaboration
- > Humility and substance

M&A is complicated, and successful integration requires the most sophisticated, diverse and ambidextrous leadership of all.

2

Plan for the team you need now AND 18 months from now.

Business is ever changing, but in an M&A situation, change is even more imminent. Some people will inevitably leave the organization. Meanwhile, the priorities of the business will evolve over time. So begin thinking about succession early, using assessments to identify and develop up-and-coming leaders with the capabilities and leadership traits for key roles.

3

Articulate a value proposition for top performers. In the wake of the announcement, competitors will try to woo A-players away. And while compensation is always part of the equation for people, it is rarely the only deciding factor — not to mention that a company's retention bonus can usually be matched or exceeded by a competitor's signing bonus. The very best talent care deeply about the strategy of the company and whether they're going to be part of something great. They want to understand what their place will be within the new organization. The value proposition should explain to the top talent why they should stay. One client we worked with, for example, touted the entrepreneurial culture that leaders intended to build, and encouraged individuals to take a similar approach to building the career they want.

4

Build trust and reduce fear through clarity.

Often, the new senior team is expected to “just get on with it,” with little clarity about individuals’ specific roles or responsibilities. But when bringing together people from two distinct cultures, opportunities abound for misunderstandings, mistrust and confusion. Lack of trust at the senior level can cascade down the organization, paralyzing the integration.

The leadership team should also bear in mind that, for much of the organization, it’s business as usual. They may be hearing very little about the status of the merger or what it means for the business. In the information vacuum, they may be more fearful than excited about what comes next.

The leadership team should create clarity early and be as transparent as possible, especially about what is changing and not changing. They should over-communicate, and acknowledge that this is an emotional event for people.

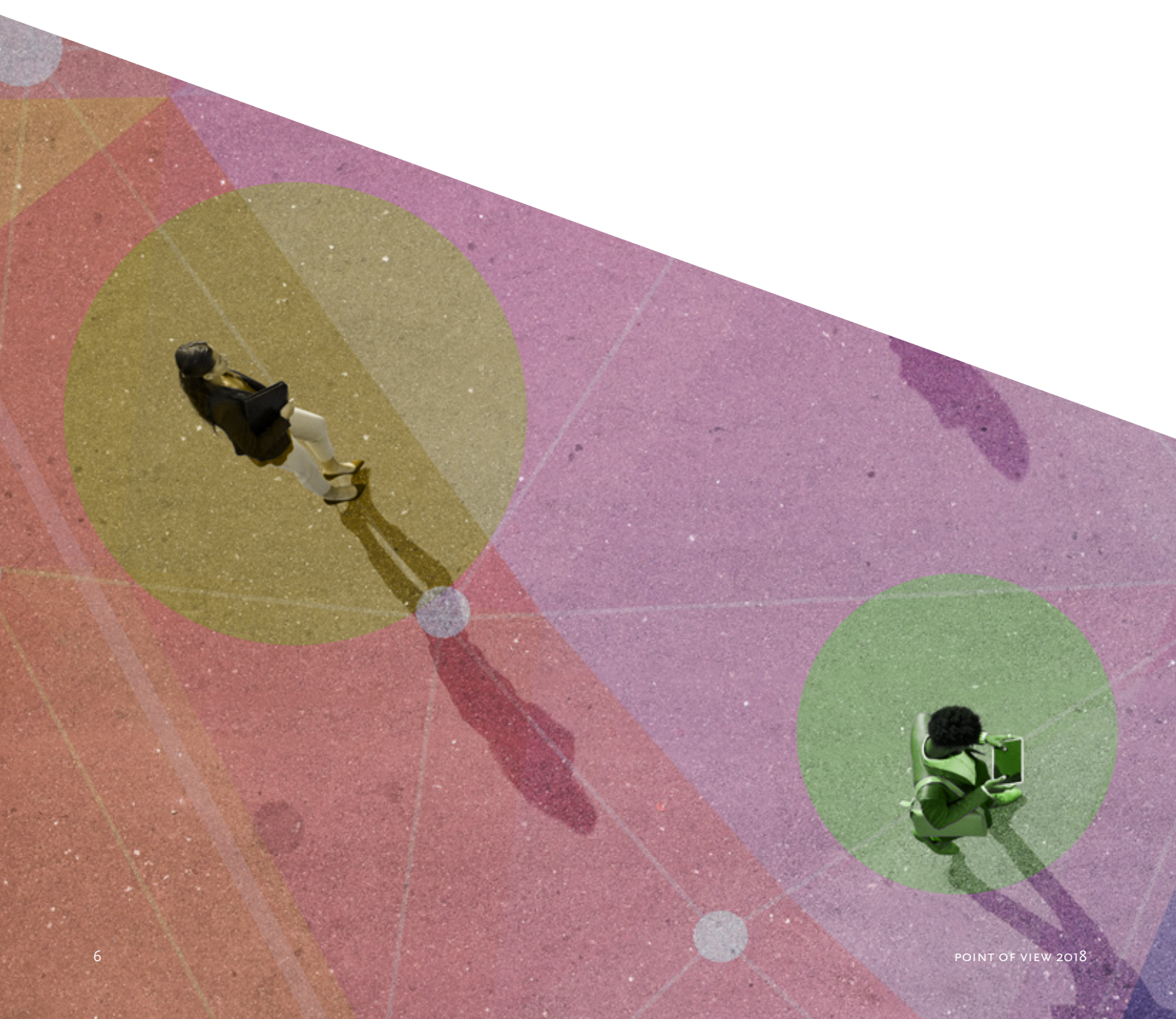
For the new leadership team, clarity goes a long way toward building trust. Being open and transparent about goals, challenges and responsibilities sets the tone. Clarity means defining the rules of engagement for the new top team — including the mission, mandate, individual and team roles, decision-making responsibilities, meeting logistics and purpose, information sharing and conflict resolution. What are the rules of the road, how are we going to work as a team and how are we going to have difficult conversations?



5

Define how the organizations are alike — and different. In the initial excitement, leaders often focus on what each organization uniquely brings to the table — the complementary strengths and resources that they hope will enable the combined business to be better than the sum of its parts. These include customers, markets, technologies, information, tools and infrastructure. Different cultural characteristics may also be perceived as assets; for example, a learning-oriented culture to a company whose strategy requires it to improve its ability to innovate.

The merger integration process should identify the values and culture preferences the organizations share, because they can help serve as a foundation for building trust between people from the different organizations. But it also should articulate the differences that could get in the way of people working together effectively: the differences in leadership styles, operating models, technology systems and cultural elements that will cause conflict, especially when people are under stress.



6

Don't delegate your responsibility to model the new company culture.

Culture is a big part of making a merger work, and it is your responsibility as a leader to own and role model the future organization's values and culture. Often, though, oversight of people and culture decisions are delegated to a communications or human resources team, running parallel — rather than across — the integration work. Real culture change can't happen unless it's aligned with the strategy for the business and is integrated across the merger planning and execution activities, including leadership selection. Leaders also should consciously model the language and behaviors they are trying to build in the new organization. Replacing phrases like, "What we used to do" with "What we will do," and spending time with people from the other organization will help signal the shift.

7

Manage your energy. Integration takes longer than you think. After what can be months of negotiations and due diligence, the real work begins: delivering on the aggressive targets and ambitious goals. Fatigue can set in among senior leaders, especially those coming from the acquired company who may not feel like they got exactly what they wanted from the deal.

The most successful companies don't treat the deal and the integration as a transaction. They view it as another building block in a legacy of company. They pace out the changes, rather than trying to do everything at once, which can create more confusion within the organization. Leaving some things to be done once the integration is complete allows the best ideas and expertise from across the combined organization to be brought to bear on finding the solutions.

Authors

Nicolas Albizzatti (Atlanta), Cassandra Frangos (Boston), Alexander Hiller (London), Jeremiah Lee (Boston) and Jesse Price (New York)



About Spencer Stuart

At Spencer Stuart, we know how much leadership matters. We are trusted by organizations around the world to help them make the senior-level leadership decisions that have a lasting impact on their enterprises. Through our executive search, board and leadership advisory services, we help build and enhance high-performing teams for select clients ranging from major multinationals to emerging companies to nonprofit institutions.

Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning 58 offices, 31 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment and many other facets of organizational effectiveness. For more information on Spencer Stuart, please visit www.spencerstuart.com.

Social Media @ Spencer Stuart

Stay up to date on the trends and topics that are relevant to your business and career.

    @Spencer Stuart

© 2019 Spencer Stuart. All rights reserved.

For information about copying, distributing and displaying this work, contact: permissions@spencerstuart.com.

Amsterdam
Atlanta
Bangalore
Barcelona
Beijing
Bogotá
Boston
Brussels
Buenos Aires
Calgary
Chicago
Copenhagen
Dallas
Dubai
Düsseldorf
Frankfurt
Geneva
Hong Kong
Houston
Istanbul
Johannesburg
Lima
London
Los Angeles
Madrid
Melbourne
Mexico City
Miami
Milan
Minneapolis/St. Paul
Montreal
Moscow
Mumbai
Munich
New Delhi
New York
Orange County
Oslo
Paris
Philadelphia
Prague
Rome
San Francisco
Santiago
São Paulo
Seattle
Shanghai
Silicon Valley
Singapore
Stamford
Stockholm
Sydney
Tokyo
Toronto
Vienna
Warsaw
Washington, D.C.
Zürich