

What The Leader Needs To Know: M&A The People Side – Part I Leaders

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The Opportunity

Recognition that the U.S. economy is in recovery is growing both domestically and globally. Following several years of stagnant or declining results many companies are anxious to jumpstart their growth before being outpaced by competitors. Mergers and acquisitions (M&As) are often considered one of the fastest and most visible means to accelerate business results.

Research has shown since at least the 1980's that the majority of M&As fail when failure is defined as not producing the predicted economic results. Depending on the particular time period and industries studied the failure rates for M&As range from 60 – 90%.

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Why so many failures? Often times failure is attributed to an ill-conceived strategy, e.g. the marketplace wasn't ready for the offer of the merged organization. At other times the acquirer is seen to have overpaid and/or over borrowed to do the deal. Such reasons ring hollow when held against the fact that it is the majority of M&As that fail.

Tate and Malemendes¹ studied 497 companies that were acquirers between 1980 and 1994. They put forward a model that suggests "CEO Overconfidence" is the culprit behind the failure rate. However, given the amount of professional advice and analysis surrounding even a modest acquisition this explanation (while contributory) seems inadequate to explain the failure rate.

In fact, a number of studies and experts have identified what is probably the largest factor: failure to specifically understand and address the impact on and of people in an M&A situation. This is the first in a series of articles on how to leverage people to drive the success of an M&A. Future articles will focus on employees and customers.

How To Leverage It

1. Know Your Leadership Talent

Obviously the success of an M&A will depend on the execution of the underlying strategy. Execution depends first and foremost on the quality and focus of leadership. Before exploring M&A opportunities its important to have a solid assessment of your leadership talent. An assessment that reviews not only competence, experience and potential but motivations and aspirations. You need to know the answers to four questions: 1. Does my current team have the capability of executing an M&A strategy? 2. Will my team stay with me during the M&A? 3. What are the objective standards by which I should compare my current talent with that of an M&A target? 4. Where do we need to upgrade talent either from the target or external market?

If you have a solid talent management process, then you are ahead of many businesses. Keep in mind that an M&A is highly disruptive. People make unexpected decisions. Search firms will immediately target your best people. Given this, you should make sure your talent management process extends deep enough into your organization to enable you to respond to unexpected resignations. Remember that good leaders often take key members of their team with them.

Be sure to focus on the other side of the equation: What is the caliber of the talent we are merging or acquiring? Address this issue at the very beginning of the process. Ensure that your advisors provide you with an assessment of the target's talent before you begin conversations with the target. Today this can be practically and quickly done.

In your first discussions with your counterparts test the depth of their knowledge of their own talent pool. Make sure you have a chance to review their talent management documentation before entering serious negotiations. If the target doesn't have a talent management process, insist that one be initiated.

All too often the people issues discussed are limited to the roles of a relatively few very top people. Who will be Chairman? CEO? For how long?

As a result executives who initially feel they have "won" in an M&A situation often are surprised. They are surprised to be in charge of an enterprise that is difficult to control, much less lead, because of a lack of leadership talent and/or conflict amongst leaders.

¹ See "Who Makes Acquisitions: CEO Overconfidence and The Markets Reaction", Knowledge@Wharton, 2/25/04.

2. Pick The New Team Early

If you've got a good solid understanding of the talent on both sides of the deal you are in a position to form your new leadership team at the earliest possible moment. For many deals this literally can be the day the deal is announced. For deals that require regulatory approval announcing your team will be delayed until approval is received. In that case, approach key individuals on both sides and talk to them about specific opportunities when the deal is approved. Engage them confidentially; but engage them early.

Avoid naming "co" leaders of any part of the new organization. This signals indecision on your part. More importantly, at a time when you will need every leader focused on execution, you will triggered competition between leaders. Despite best intentions there are very few examples where "co" leaders have succeeded.

3. Build The New Enterprise Identity

An M&A is best understood not as the combining of two organizations but rather as the creation of a new one. To a greater or lesser degree, this is the reality. It is also the only perspective that will allow people to come together as one team with one purpose.

If the organization is positioned as an enhancement of one or both preceding organizations then too many unanswered questions abound: Which strategy will prevail? What are the performance expectations? Whose values will guide us? Whose customers are most valuable? The answer to each of these questions signals winners and losers. People spend time watching and keeping score. There is a lack of clarity.

Bring leaders together quickly and engage them in creating the identity of the new organization. Allow them to answer the important questions: Who are we? What is our purpose? Our offering? Our brand?

It is critical that the answers to these, and other questions, be specific and meaningful. Stating that we want a "performance based culture" will be received like empty rhetoric. Specific definition in terms of expected performance levels, risk-taking, degree of innovation and team vs. individual contribution are necessary to build commitment to the new organization.

Engaging leaders in the building of the new identity creates an opportunity to form and galvanize one team. It refocuses energy from internal competition to winning in the marketplace.

4. Demand Leadership

In any high change situation, there is a small set of crucial leadership behaviors. Leaders must:

- **Be Visible.** Leaders locked in conference rooms performing due diligence and arguing about the best ways to achieve cost savings

can't focus and motivate people. Leaders must be visible to employees and to customers. A difficult challenge – but a crucial one.

- **Communicate.** Leaders must personally communicate the identity of the new enterprise. As importantly, they must ask and reward questions and constructive feedback. Broadcast emails and newsletters are important but not sufficient communication vehicles. People need to see their leaders and judge their personal commitment before they will buy in and execute the new strategy. Conversations – not announcements – build clarity and commitment.

- **Make fact-based decisions.** An M&A is a highly emotional event. Emotions often cause people to make assertions based on beliefs and unfounded assumptions. Leaders must focus on understanding and evaluating the facts as the basis for decision-making. Fact-based decision making reduces risk and builds trust.

5. Invest In Leadership Development

If you're not already doing so, begin this investment before looking for a deal. Business combinations are challenging and stressful. Despite the best planning and most open communication they always produce unexpected challenges and opportunities. Your leaders need to be able to overcome the former and seize the latter.

JPMorganChase is in the midst of a merger with BancOne. Yet its commitment to development remains strong. The current CEO just finished leading a series of 16 three-day leadership development sessions for the firm's top 1600 executives. Executive coaching is engrained in the culture to develop leaders.

6. Leverage Yourself

Make sure you are the role model of the effective leader practicing the specific behaviors noted above.

Be available to your leaders. Create a dialogue with them. Be candid about your need for their help in leading the new enterprise. Coach them in their efforts. Recognize their successes.

About The Author

Leo F. Flanagan, Jr., Ph.D. is President of Flanagan Consultants, LLC.

The firm helps companies implement their strategy by aligning their organization, marketing, and people with its execution. Flanagan consultants pride themselves on partnering with clients to rapidly achieve breakthrough results. Clients include leaders in consumer products, financial services, hospitality, pharmaceuticals, professional services, technology, and retailing. Leo can be reached directly at 203-321-8423 or Leo@FlanaganConsultants.com.