Falling in Love With a Merger

by Bob Whipple, MBA, CPLP

When executives consider doing a merger, acquisition, or major reorganization, it is a time of great peril for their organizations. Reason: many of these efforts result in eventual loss of value and failure to reach the goals envisioned at the start. There have been many studies that present a variety of statistics on failure rates all the way from 50% to 80%. The precise number depends on the parameters of the study and how performance is measured. I do not want to debate the statistic, just recognize that the failure rate is way too high given that these decisions are choices consciously made, and they often turn out to be disastrous for the organization.

In this article, I want to highlight what I believe is one root cause of the problem. Executives become obsessed with the idea of the merger or acquisition and become blinded like a motorist driving east at 7AM. At the precise moment the sun comes up over the horizon, even if you have your visor down, it becomes extremely difficult to see the dangers around you.

The benefits of the merger are easy to see clearly upfront, but the problems and hassles are foggy. For example, it is easy to quantify how much more market share will result from a merger. By inheriting a whole new product line and sales territory, the benefits of scope can be very tempting. Working with a larger base will allow efficiencies due to staff reductions. Consolidation of equipment and inventory will also benefit the merged entity. All these factors, plus many more, are easy to identify and calculate with reasonable accuracy.

As the executives focus in on the benefits, they begin to act like teenagers in love. Reality about the dangers gets swept aside as the potential benefits become the topic of most conversations. If there is a dissenting voice in the management ranks, it is quickly extinguished as the euphoria builds. "This is going to be wonderful!"

On the negative side, there are going to be costs and negative impacts for sure, and it is going to take time and energy to accomplish the merger. The problem here is that the specific costs and amount of time to resolve problems are extremely hard to quantify. Overzealous executives can easily wave away the hassles with a statement like, " This is no place for the faint at heart; we will just have to tough it out and figure out how to operate as we go along."

One problem often under estimated is the impact of a merger on customers. Before the merger you have two organizations focusing on two sets of customers and set up to serve them rather well. Eventually, you will have one entity serving a larger pool of customers, with perhaps even better service.

The problem occurs in the middle when all the chaos happens. IT systems will be in limbo for some time as the customer service teams integrate. Phone numbers of who to call will be changing. People will have evolving roles and may not even know who is covering a particular customer.

When you consider that the integration of two corporate entities can take years to accomplish, the impact on customers is often devastating. Reason: customers do not care about the merger. They see very little benefit. All they see is a bunch of hassles, confusion, and lower service than they had before. During the integration period, it is easy to lose the valuable customer base that made the merger attractive in the first place.

Another huge issue is the lack of worker engagement in every part of both entities. During the integration, the majority of people lose motivation for a variety of reasons and often act in uncooperative ways as they wrestle with how things are going to sort out. Both quality and productivity take huge hits when this happens, and trust in management is usually a casualty.

In this environment, the most talented people become so disillusioned that they seek employment elsewhere. Thus, during the transition it is common to see the people who are most needed in the organization quit and leave, while the people who are the deadwood quit and stay. The impact of this on costs is devastating.

These are just a few of the consequences of going into a merger or acquisition without some ballast to bring reality into the ROI equation. In my book ***Trust in Transition: Navigating Organizational Change***, I address these symptoms as well as others and offer antidotes to reduce the sun glare and make the trip safer.

Bob Whipple, MBA, CPLP, is a consultant, trainer, speaker, and author in the areas of leadership and trust. He is the author of: *Trust in Transition: Navigating Organizational Change*, *The Trust Factor: Advanced Leadership for Professionals, Understanding E-Body Language: Building Trust Online,* and *Leading with Trust is Like Sailing Downwind*. Bob has many years as a senior executive with a Fortune 500 Company and with non-profit organizations. For more information, or to bring Bob in to speak at your next event, ***contact him at*** www.Leadergrow.com***,*** bwhipple@leadergrow.com ***or*** 585.392.7763

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