Merger Miseries One

by Robert Whipple: MBA, CPLP

This is the first in a series of articles related to building trust and transparency in merger situations of organizations. This particular article focuses on how the complexity of doing a merger is often downplayed in organizations and gives one possible antidote that CEOs should heed before jumping head first into a merger.

Why are the hassles underestimated?

Mergers are usually considered in an attempt to pool strengths and eventually drive costs down to improve competitive positioning. It is normally envisioned as a way to survive, but frequently turns into a way to commit suicide. Top managers who study the impact of a merger can readily see the tangible rewards, and the benefits look seductively attractive. The costs and hassles seem to be manageable, so not a lot of energy is spent on an organized campaign to mitigate potential negative aspects. The upfront cultural work is often neglected as managers just announce the merger and tell everyone to "work together and get along as new processes are invented." This typically gets the venture off on the wrong foot, and it gets a lot worse before emotional bankruptcy, if not physical bankruptcy, is reached.

Consultants hired to smooth the process focus on the benefits and the quick shot of cash from doing the merger. Their remuneration is tied to an efficient and speedy process, so they spend little energy on the blending of two cultures until the fan becomes very soiled. This pattern is so stubbornly consistent that one wonders why more caution is not exercised. Some groups have found ways to do mergers right, and I hope to add some value with tools and ideas that can contribute to the art.

One bit of advice is to be more conservative during the initial planning phase. First, assume your calculations of the benefits are order-of-magnitude correct, but quadruple the estimated time it will take to accomplish them. Next, take the projected investments required to achieve the benefits, as best you can estimate them in advance, and multiply that number by ten. Finally, take the best intelligence on how this merger is going to negatively impact customers and suppliers, and bump that up by a factor of 5X. That might be a reasonable approximation of a business case for the venture. If the merger still looks viable under those circumstances, then going on to the next steps is probably worthwhile. If the figures based on this more realistic scenario cause you to gulp, better read up on some of the horror stories of merger disasters in other organizations and check your medicine cabinet for antacids and tranquilizers.

Acquisitions gone bad are not hard to find. For example the Daimler-Chrysler merger in 1998 was a classic debacle that cost Daimler nearly $36 Billion over a decade. Just as a reality check, my calculation reveals this to be about $10 Million a day for ten years. Large-scale disasters like this are plastered on the front pages of business periodicals. Unfortunately, the more pervasive problem is the thousands of unsung smaller-scale disasters that go on continually within organizations of all sizes and types.

I am not saying all mergers are failures compared to intentions. I am sure there are some positive surprises as well. My thesis is that the track record does not indicate a positive result is most likely. In the coming weeks, I will be sharing many different aspects of the merger and acquisition business. We will look at the issue in both large scale mergers and in the tiny restructure efforts that go on daily in most organizations. I would appreciate any comments, suggestions, or ideas you have along the way.

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