Trust in M&As: Avoid Four Pitfalls

by Robert Whipple: MBA, CPLP

Would you get onto an airplane if the chance of a crash or major problem was 70%? Of course not! Why, then are CEOs so cheerful and optimistic when they head into a merger, acquisition, or major restructuring? Numerous studies have found the failure rate for M&As to be over 70%, depending on how you define a failure[1]. Loss of trust is at the root of most of these failures.

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[2]. To understand the magnitude of a loss that large, it was almost $10 Million per day for 10 years! The major reason for the breakup was the failure of the two cultures to integrate. Large-scale disasters like Daimler-Chrysler are plastered on the front pages of business periodicals, and the MBA case study books are laden with classic M&A blunders. Countless unsung smaller-scale disasters go on continually within organizations of all sizes and types. Their collective impact is immense.

This article highlights why the M&A problem is so pervasive, and it offers several antidotes. There are literally thousands of reasons major restructurings fail, but four categories stand out.

Relying too much on the mechanical process

MBA classrooms are full of students eager to learn how business works and how to be a successful executive or advisor. When they learn about M&As, the content usually is focused on the financial and legal details of setting up a combined entity from two unique groups. Topics covered include asset valuation, due diligence, negotiation, legal aspects, management structure, and numerous other organizational things that must be considered. Few programs give equal attention to the cultural part of the equation. Students are left to assume that the culture simply "sorts out" by itself over time. That oversight is a huge mistake that carries over to corporations.

To improve the M&A process, it is critical to give the cultural integration equal footing with the legal and financial aspects of the activities from the start. Reason: most of the M&A failures result from the inability of the two groups to work well together, which causes considerable negative impact on the financial and other mechanical aspects of the plan. Some groups struggle for years and never achieve a homogeneous culture where people can even tolerate, let alone embrace, their compatriots. Antidote: as soon

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as the M&A is a twinkle in the eye, spend as much time planning the cultural integration as you do the legal and financial aspects of the deal.

Loss of objectivity leads to inadequate planning

Top leaders who study the impact of a proposed restructuring can readily see the tangible rewards, and the benefits look seductively attractive. Typical examples of the benefits include increased market share due to better coverage, reduced costs by elimination of redundant staff, and new product lines to sell. The costs and hassles seem to be manageable, so little upfront energy is spent on an organized campaign to mitigate potential negative effects on people. Often, the impact of a restructuring on the customers is not well addressed during the initial considerations, where it should be a center focus.

The upside of the deal is championed, while problems are pushed aside. Lack of planning for contingencies comes back to haunt the execution because of lost trust. The CEO driving the deal becomes like a teenager in love. Objectivity gives way to passion for the deal. Anyone who questions the validity of an assumption or brings up a potential problem is labeled as "not a team player," so reasonable dissent is extinguished. This over-enthusiasm typically gets the venture off on the wrong foot, and it gets a lot worse before emotional bankruptcy, if not physical bankruptcy is reached.

There are three antidotes for this situation: 1) have a trusted Devil's Advocate on the senior team who will prevent myopic optimism, 2) explore potential problem areas and design solutions that mitigate risk, and 3) calculate the ROI based on your best guess of the benefits, but inflate estimated costs and problems, because real costs will surface later and be larger than anticipated.

Lack of adequate training

Training is critical in any major restructuring. Most people will have new or modified roles, and the entire premise of the business must be recast in light of the combined entity. It is a common mistake to throw people into a new configuration and let them sort out what actions are best. This strategy is a formula for chaos internally and customer frustration externally.

While there will be a need for training at all levels, I will focus on training top leaders and supervisors, because these two groups hold critical leverage for the success of the activity.

Leadership training is especially crucial during any kind of restructuring. Many organizations back off on training for leaders because there is so much chaos during the integration that most leaders are "too busy to sit in the classroom." Antidote: Bring

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the classroom to the chaos. What better time is there to do leadership development than right there in the middle of the crucible? Skilled L&D professionals can leverage the urgent need for solutions into pragmatic problem solving and motivational skills.

Warren Bennis, often called "The Father of Leadership," wrote, “Leaders learn by leading, and they learn best by leading in the face of obstacles. As weather shapes mountains, so problems make leaders.”[3] The L&D professional helps leaders understand their role at times when they might otherwise be too distracted or frantic to recognize the learning opportunities at hand.

Supervisors are also in urgent need of leadership training during a restructuring. Reason: they form the critical trust link between the management layers and the workers. Changes faced by each supervisor are stressful personally, yet this individual is vital in creating order for the other people. Weak or bully supervisors often come unglued due to the pressures of a merger. They need assistance and some relief in order to perform their function when it matters most.

Often supervisors have been placed in positions of authority with inadequate leadership training. They gain their power to lead based on content knowledge and longevity, but in a restructuring, the content knowledge has less importance because processes must be reinvented. Think of the leadership training as a teambuilding opportunity that allows the supervisors from both organizations get to know each other well in a neutral setting.

It is tempting to prune the training staff early in the process due to apparent redundancy. A best practice is to take advantage of every training resource to help with the integration design and to do the extensive cultural and operational training. Identify the functions carefully and do cross training throughout the merger process.

Losing the essential trust of people

In the anticipation of a merger or acquisition, adrenaline drives expectations of what the merged entity can accomplish. It is easy to assume the individual needs will be resolved and team cohesion will somehow settle in quickly. That is not the case, and often bitter feelings linger on, hurting the integrated organization for years. Classic OD approaches are inadequate to cover the depth of disarray and terror that people in the workforce often attempt to hide for their own survival.

Candid and frequent communication is needed to keep people informed and allow top managers to feel the angst of workers. It is in these interfaces that trust is either maintained or destroyed by the behaviors, words, and body language of senior leaders.

A good idea is to anticipate a bumpy ride, and expect that significant psychological calming is going to be needed at times. Here are 10 ideas that may be helpful:

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1. Be clear and transparent throughout the process.
2. Include the customer in every decision, especially during the chaos phase.
3. Assume the risk of setbacks willingly, and do not let unexpected issues spoil the overall process.
4. Invest in some Emotional Intelligence training for people in the organization, especially management.
5. Bring in a grief counselor to help people cope with the loss and the transition.
6. Create design teams early to help people connect with the future more quickly.
7. Celebrate positive movement in an integrated way to model the spirit of the merged culture.
8. Train leaders to model the integrated behaviors, and do not tolerate silo thinking.
9. Consider cross-locating or co-locating people, where possible.
10. Prune redundant resources delicately with a sharp scalpel rather than a long line of guillotines.

There can be times of joy and accomplishment during any merger or acquisition. It is possible to maintain trust, even amidst the chaos. After all, the vision for the whole activity is a brighter future. The wise leader will recognize that changes of this magnitude require extraordinary effort and patience to achieve the anticipated result. By focusing the same level of effort on establishing the right kind of culture as they do on the financial and legal aspects of restructuring, leaders can ensure they meet or exceed their goals.

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