

Making Mergers a Growth Strategy

Go beyond resource-based thinking to create real value

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Application: Companies that do not pay attention to the key human factors often find that a merger or acquisition is an expensive failure.

The recent decline in the US economy has slowed the pace of mergers and acquisitions as a practical growth strategy for most companies. However, as the economy heats back up and businesses regain their footing in the market, M&A growth strategies will once again be hotly pursued right along with organic growth strategies. The Hewlett-Packard-Compaq battle may be the most widely-reported of these actions, but it is certainly not the only game in town.

However, traditional M&A activity rarely brings about the desired synergy that was anticipated. Even with the flurry of confidentiality agreements, letters of intent, and due diligence processes, potential snags are still to be expected. The fact is, most failed mergers that otherwise have a sound strategic and financial fit are the result of losing irretrievable talent after the deal is done. This loss is caused by one of three common missteps made by senior managers and the experts that put these unions together. By looking at three real life merger scenarios, we can identify those missteps and the three Root Strategic Assets that are key in preventing them.

Talent Retention

The leading indicator of success for corporate unions is whether there is immediate action taken to retain and attract the very best people -- the people with the knowledge, expertise, initiative, imagination, and collaborative skills within the organization. Most integration plans miss or downplay this critical piece. Typically they focus on spreadsheet shifting and downsizing without regard to the role specific individuals play within the organization. Golden handshakes and pink slips are given out without regard to the power, knowledge and stakeholder base that person may have within the organization. This "amputation without diagnosis," according to Peter Drucker, inevitably impacts the success or failure of acquisition strategy and ultimately the bottom line of the company.

Professional consulting in this field, as well as following the literature, has demonstrated to me that Identifying and retaining those employees who are not only key stake holders within the organization, but who also may hold keys to effective cultural integration, is critical to the survival of any merger or acquisition.

Merger Integration Strategic Needs: Three Scenarios

Scenario I: FMI₁

Strategic Need -- Collaborative Leadership: FMI was one of the darlings of Silicon Valley two years ago before the bubble began to burst in late 2000. A creation of publicly-traded e-Marketplace, Inc., FMI was created by the rollup of six companies with remarkably synergistic products, strategies, cultures, and market niches. Everything seemed bright for the newly-hatched spin-off, and it immediately experienced significant growth, began to turn a healthy profit, and started catching the attention of venture capitalists looking to invest more money.

Yet this merger finally ended in bankruptcy for FMI. It wasn't due to the overall pall in the market; it was because of some very human frailties. The Chairman of e-Marketplace, Inc. wanted a CEO with an entrepreneurial outlook in keeping with company values for FMI, so he chose a founder of one of the original six companies. In fact, however, the two of them did not get along.

As is true of most bad relationships, they seemed to have lost the ability to accurately communicate with each other and quickly became enmeshed in defensive posturing. The result was the loss of the overall vision of the company within the leadership ranks. When people finally just got tired of the infighting, they simply left, taking with them the very competencies that were core to making the original smaller companies great in the first place: routines, knowledge, best practices, and skills. Both executives went down with the ship, still at each other's throats, blaming each other for the impending disaster.

The Problem: While the answer to this scenario may seem obvious, people failing to communicate or to adhere to the common vision by pursuing their own agendas is a major contributing cause of merger and acquisition failure and is one that is repeated in organizations time and time again. The integration strategy did not include ways to ensure that interpersonal conflicts like this one could be managed and processed through to a more desirable conclusion.

Scenario II: American Home Products and Monsanto

Strategic Need -- Cultural Cohesion: Though widely publicized as one of the most natural of corporate marriages, the failed merger of these two giants in the latter part of the 1990's can be traced to a single overlooked flaw in the planning of the big event.²

Monsanto had successfully positioned itself as a sustainability leader in the world market. They had reorganized their work routines to facilitate excellent communication across all levels of the corporation and had created a culture that attracted and kept a talented and diverse work force. They created a state-of-the art day care center for children of employees and were one of the first large corporations to encourage casual dress within their corporate offices and telecommuting as an alternative for many employees. In short, Monsanto had worked hard to recreate itself as a working model of the way successful companies would do business and treat employees in the future. AHP, on the other hand, had a very traditional bureaucratic structure and approach to management.

When Monsanto agreed to a \$35 billion buy-out by New Jersey based American Home Products, the business synergies seemed ideal: The companies even recognized some cultural differences and hired consultants to help them navigate those differences and anticipate potential bumps along the way. Yet, it became clear as they moved toward consolidation that this was not a merger of equals and AHP's culture would predominate. One of several last straws came when AHP refused to support telecommuting in the way Monsanto had encouraged it and demanded that some key employees move to the New Jersey office. Many of them simply said, "No thanks," and found other work near their homes. This quickly became a problem because a portion of the creative talent that was key to Monsanto's continued success had telecommuted to work. The end result was a drastic talent drain and the subsequent break up of the deal costing both Monsanto and AHP millions of dollars in fines and lost revenues and forcing them to further cut thousands of jobs within both companies.

The Problem: For all the acknowledged cultural differences, it appears that they were viewed as trivial, if not just trendy, aspects of the integration puzzle when in fact they were ultimately what killed the deal.

Scenario III: ITA and OnCourse Networks

Strategic Need -- Commitment from Senior Management: ITA was a small start up company working in the Internet Distance Education space. Their founders had started the company in a garage and had grown it to the point where it employed more than 50 people and had revenues in excess of \$4.5 million. Every employee was a committed member of the ITA family.

When OnCourse Networks approached ITA's founders with an acquisition proposal, it included a significant exit strategy for them personally. A deal was struck in which the founders were given significant cash and an equity stake in Oncourse Networks, setting them up for financial independence. While the owners had mixed feelings about giving up the business they had worked so hard to build, they believed that in order for it to grow further it should be passed along to the more experienced and sophisticated management team at OnCourse. What the founders didn't know was that OnCourse had already determined that the mom and pop feel of ITA's leadership team was not only unnecessary, but harmful to future funding prospects and business expansion. What OnCourse wanted was the talent and knowledge base of technology skills owned by the employee pool.

The Problem: When the founders left, the employees with all the knowledge and skill were not motivated to stay around, and they followed their beloved leaders out the door. The acquirers were left with a few lower-skilled employees, some very nervous customers, and a small office building.

Traditional M&A Integration Strategies

Limited examples of success notwithstanding, mergers and acquisitions strategies are not likely to go away. They are typically built around consolidating key resources, financial and physical assets, brand names, and human resources, although more thorough integration strategies also pay attention to core competencies, including best practices, skills, knowledge bases, and routines.

But a resource-based view of an organization simplistically excludes the Root Strategic Assets that are less tangible, messy to measure and difficult to implement.³ Explicit or implied, these assets exist as naturally-occurring parts of any organization or group. They include: Collaborative Leadership, Cultural Cohesion, and Committed Management.

Fig. 1: **Root Strategic Assets in a Resource Based View of Organizations**



Root Strategic Assets

Collaborative Leadership ----- Cultural Cohesion ----- Talent Retention

Leveraging Root Strategic Assets

Collaborative Leadership: The first Root Strategic Asset critical to M&A success is the ability of all senior managers to work collaboratively to insure the merger is a success. This asset optimizes integration success by keeping leaders visible and involved while encouraging employees with the knowledge base and skill to being as productive as possible during the transition. Here are ways to leverage Collaborative Leadership:

- Make collaboration a stated value of the transition and state what it means.
- Provide a framework and procedures for managing conflicts as they arise during the integration process.
- Appoint an ombudsperson to the senior integration team to facilitate and coach management through difficult conversations and potential personality conflicts.
- Identify underlying assumptions brought by the key players early on.
- Educate leaders in basic relationship skills that provide strategic advantage.
- Identify and get buy-in to a single, clear vision

Genuine collaboration is only possible when every leader is fully engaged, when everyone is committed to maximizing the strengths of the relationships; and when people share a common language about key issues, strategic direction, and underlying assumptions.

Cultural Cohesion: The second RSA is the active development of Cultural Cohesion between the organizations. Culture has been defined as the set of shared assumptions, both stated and unstated, that guide actions, behaviors and expectations. Every group of people, including corporate communities, has a unique culture that is shaped by its members' shared history and experiences and affects the way people interact with each other. Here are ways to facilitate Cultural Cohesion:

- Survey and inventory the culture of each organization as a part of the due diligence phase.
- Identify core cultural characteristics common to each organization prior to the close of the deal.
- Identify explicit and implicit culture traits that drive each organization prior to the close of the deal.
- Create and communicate a common, clear, and concise vision and mission.
- Involve key talent to identify, retain and communicate core values.
- Begin a process of modifying culture traits that are in direct conflict with each other.
- Evaluate communication and process flows.
- Identify gate and grapevine keepers to help facilitate cultural norms.
- Establish and communicate clear timelines for cultural integration

If after the cultural due diligence is completed it becomes obvious that one of the organizations involved in the merger will lose most of its cultural identity, leadership must plan for the talent drain that will naturally occur or not continue the deal at all.

Committed Management: Collaborative Leadership and Cultural Cohesion build on each other to provide a more seamless integration process. But without an integration strategy that simultaneously focuses on all three Root Strategic Assets, companies tend to experience lower

commitment and cooperation from the acquired company's employees, increased turnover among acquired executives, and lower financial success. Identifying key managers and leaders who are the glue that hold the organization together and then creatively engaging them in the integration process is critical to M&A success.

- Here are ways to gain continued commitment from key managers:
- Tie management compensation to benchmarks.
- Link founders' and senior executives' buy-out packages to continued leadership within the company and subsequent successes.
- Involve key leadership stakeholders in all aspects of integration strategy planning.
- Avoid lame-duck leadership; keep them current and in power.
- Engage senior leaders in the process of vision and mission creation and implementation.

Conclusion

While most integration initiatives focus on maximizing resource synergies across the organization, research and practice consistently show that the key to success is in maximizing human synergies. By paying closer attention to these RSA's, executives and managers can increase their odds of success and achieve a greater degree of synergy with their M&A growth strategies.

¹ Information on this case comes from personal knowledge.

² Much of the information about this merger is from Burton and Tanouye, 1998. (See list of references for bibliographic details.) Additional information came from personal communication with Monsanto employees.

³ Major contributors to the the concept of a "resource-based view of the firm" include Selznick, 1957; Penrose, 1959; DeNoble, Gustafson, and Herget, 1988; Conner, 1991; Grant, 1991; Amit and Schoemaker, 1993; and Peteraf, 1993. (See list of references in for bibliographic details.)

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