Solving the M&A integration puzzle

"By the time the problems show on the bottom line, on the inside, the organisation's already gone to Hell in a hand basket." - James Renier, Vice Chairman, Honeywell Information Systems

According to some recent research, between 70% and 90% of mergers and acquisitions fail to produce shareholder value, and over half destroy company value. A majority of acquisitions result in either complete or partial divestitures within 3 years. There is an interesting question about why, faced with that failure rate, M&A is still such a popular way to go. Our concern here, however, is more on how to reduce the failure rate.

There are many different research results pointing to the common causes of M&A failures, and here is one short list:

Inadequate Due Diligence: It's all too easy to get sucked into a rushed process. When you're supposed to be discovering the reality of an organisation, warts and all, it is imperative to provide enough time for someone with the right approach who can get under the surface, down among the weeds and establish the 'truth'.

False Sense of Security: Negotiations around mergers and acquisitions are generally awash with promises. After a merger, however, the real power struggle emerges and unity collapses.

Lack of Involvement from Operational Management: Normally, the people most involved with a company's operations are not involved in M&A decisions. This results in decisions being made in a reality vacuum, and they are generally bad for the business.

Failure to recognize culture differences and incompatibilities within them: Many managers think of culture as the soft and squidgy stuff of shrinks and academics. In fact, the opposite is true. Culture is a hard driver of employee behaviour, and it is only what people **DO** that produces business success. Differences in organisational culture can lead to misunderstandings, conflicts and the breakdown of working relationships across functional boundaries.

Perhaps not surprisingly, it is the integration stage of the whole merger and acquisition process that is often the most problematic area leading to failure. This has more to do with human factors than the hoped-for synergies, strategic fit, and other aspects of the business case for the merger – all the 'hard bits' that consume so much executive time.

This leads to the conclusion that the key to success is often more about what happens <u>after</u> the fact of the merger, and less to do with what happens <u>before</u> it. So change and integration management become fundamental.

The 'reorganisation route'

If the underlying tactic of the acquirer is to 'reorganise' the business, or 'restructure' the organisation (perhaps to realise cost savings or achieve economies of scale), the problems will multiply almost immediately. 'Restructuring' has limitless pitfalls when applied within the organisation, because of the unknowns, at the top, about how the organisation actually functions (lack of involvement from operational management again?).

When the same approach is applied to a merged business, where one ‘half’ is even more unknown than the bit belonging to the acquirer, the number of bear traps for the unwary is higher by an order of magnitude.

Culture as a barrier

One view of organisational culture is that its main purpose is the preservation of the status quo. This makes it a source of resistance to change. In the context of mergers and acquisitions, there are likely to be two different organisational cultures, and they may conflict with one another – with both being hidden from management’s view. This raises the question of how to identify what are the current organisation cultures as well as what drives them. The identification process is more challenging than the “two different organisational cultures” implies. All organisations have many cultures and sub-cultures, plus micro-cultures, all characterised by high levels of variety.

Another way of thinking about organisations is they are a complex web of networks, all with multiple relationships and inter-connections. One reality of many mergers is that these relationships and networks often survive the change. Most people will continue to do what has worked for them in the past, and if that means Joanna working with Joe so that both solve their problems, then that is what they are going to continue to do, reorganisation or no reorganisation. There is, of course, the risk that the change breaks up those old relationships, and that generally leads to some sort of performance hit being taken. Another unintended consequence of well-meaning management action?

The Confucius Approach

And even when (if?) the different organisational cultures have been identified, the question still left on the table is about what to do about them, in pursuit of the desired integration. And then there is the question of all those informal networks, which are also mainly hidden from management’s view. We know that loads of formal communications and briefings - the ‘exhortation route’ - seldom achieve anything, so there has to be another way.

Why the Confucius route? Because he said “First find people you can trust, and then trust them”. In the case of business organisations, that happens to be most people – providing only that they are given the opportunity to return the trust given them by management.

The tactic is first to identify the informal networks that are actually operating under the surface, which are enabling problem-solving and innovation. MBSL does this using a custom-built set of topics defining the relationships, linked to the business objectives driving the merger, together with attributes of the people in them, to enable effective analysis of the data. Next, the data describing those networks is provided to the people operating in them (operational managers), in a highly graphical form, using Magus Networker©. A variety of ways of examining the relationships, for example, using attributes to show from which company the individuals came, makes it possible to determine the degree to which integration has happened, or not as the case may be. A number of clustering algorithms make it possible to see if the real ‘centres of influence’, topic by topic, are actually what is expected or something else.

The final key is that the data are fed back to those providing them in a ‘safe environment’, in which people can freely talk about effect, cause and necessary action - and make the decisions that need making. Trust offered will be trust returned, in full measure – or even more! They will do your integration for you! Change will happen, and it will focus on achieving the desired integration and business objectives.

