How to Execute a Merger

By Geoffrey James
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When AOL co-founder Steve Case and Time Warner CEO Gerald M. Levin announced the $182 billion merger of their two companies in January 2000, the deal was touted as the most important media merger of our time. Yet by July 2006, Case was telling talk-show host Charlie Rose, "It has been a disappointment I'm sorry I did it." What went wrong? As Case told Rose, "One of the lessons I learned is that an idea is important, but leadership and execution is really what matters."

In other words, planning and brokering an M&A deal is, relatively speaking, the easy part. (For articles on those two stages, see "Evaluating Potential Mergers" and "Be a Master M&A Negotiator.") It's after the ink is dry that the real work begins. If you can't integrate the disparate businesses, cultures, and logistical interests of the two entities, all the fancy deal-making, expert legal advice, and high-minded strategic thinking is for naught. We'll show you how to navigate this critical period in five key steps, and our video interview with M&A expert Steven Ramirez will explain how to avoid common merger mistakes.

Things you will need:

- Integration of computing infrastructure can cost up to $1,000 per employee, depending upon the level of system incompatibility. For layoffs and relocations, figure on approximately one week's salary for every year that the employee has worked at the company.
- Public announcements and staff orientation should happen right away; expect the big chores, restructuring and computer integration, to take several months.
- **Orientation Program:** Plan a half-day management/employee meet-up within two weeks of the signing of the deal. A party/celebration can be included.
- **New/Updated Business Plan:** Any merger starts with a business plan, but a surprising number of companies don't update their plans to reflect how the deal was actually struck. Describe specifically how you'll integrate the two entities into the new enterprise.
- **HR SWAT Team:** Even mergers that don't involve layoffs tend to generate a hoard of personnel problems. Move quickly — with an HR team preordained to do the task — to smooth any rough spots.
- **PR Professional:** You've got to manage how new employees, the press, and investors perceive the merger. A PR pro should handle inquiries, work public-relations issues, and craft messages that set the appropriate expectations.
- **Systems Integrators:** Computers in the newly acquired firm need to communicate with yours, and quickly. Hire or assign technical staff to work back-end connectivity issues. Independent system integrators are also plentiful; the granddaddies of the business are IBM and Accenture.

step 1

Set Expectations

GOAL: Ensure that employees, the press, and investors perceive the merger as successful.

If you don't set appropriate expectations of what constitutes success — and how it will be measured — employees, investors, and the business press will make up their own metrics and then hold you accountable for them. "It's entirely possible for a merger to actually be successful and yet not be perceived as successful, simply because the marketplace set an unrealistic expectation," says Dave Mack, CEO of Technology Business Research, a high-tech analyst firm. "HP's acquisition of Compaq was originally viewed as a failure because top management failed to adequately explain that it would take half a decade to build true synergy."

Once the merger is public, immediately be clear, through public announcements and briefings, about what the merger is to accomplish and how success will be measured. This creates a sense of momentum and gives a company enough time to absorb new employees and products, according to high-tech analyst Rob Enderle of the Enderle Group. He contrasts HP's initial bungles with the relatively seamless way Oracle managed its recent acquisitions of PeopleSoft and Siebel Systems. "[Oracle CEO Larry] Ellison made it perfectly clear that these were long-term plays that would gradually strengthen Oracle's market position," Enderle says. "As a result, the analysts have been generally forgiving of the fact that the company's product strategy isn't as coherent as it was prior to the acquisitions."

Essential Ingredients

Where to Set Expectations

If Your Strategic Reasoning Was:	Then Your Metric Should Be:
Improve revenue and profitability	Percentage of improvement in revenue and profit
Obtain new products or services	Time to market for the delivery of those new offerings
Get hard-to-find trained personnel	Percentage of key personnel retained for at least one year
Expand into a new market	Market share and size compared to other firms in the target market

step 2

Resolve Differences in Management Style

GOAL: Understand the business culture of the acquired company and allow it to coexist with your company culture.

If you've done your due diligence prior to the merger, you should be reasonably assured that the acquired firm will blend with your existing organization. Even so, there are likely to be some lingering differences of management style inside the acquiring firm that may seem confusing or hostile to the new employees. If such differences fester, it can cause an exodus of talent. According to Brad Finn, former president of the Mootsies Tootsies division of women's and girls' shoes at Maxwell Shoe and currently president of Marlboro Corporation, when Jones Apparel acquired Maxwell, "there was a complete lack of respect for how we operated. Our culture was individualistic and goal-oriented, but the head of Jones' shoe business told us right off, 'We don't need any mavericks around here,'" he says. "That was a pretty strong clue that this wasn't the right place for me to be working."

To nip such problems in the bud, resist the urge to immediately cram two organizations together simply because they're in the same general market, says Rob Salvagno, a senior director in the corporate development group at Cisco Systems, which has acquired 126 different firms since 1993. "Acquiring a small company demands tighter and faster integration than a major acquisition of an entire suite of products and infrastructure," he explains. He cites the example of Cisco's recent acquisition of consumer networking giant Linksys. "As a consumer-focused firm, they naturally had a somewhat different culture than the parts of Cisco that are business-focused," he says. "We therefore allowed them more latitude and independence than if they were a simple technology buy."

It doesn't hurt that Cisco treats acquisition as an innovation strategy equal to internal R&D. "Approximately a third of all VP-level positions are held by executives who came into the company through an acquisition," Salvagno says. "They're more willing to embrace ideas and welcome personnel that come into the company in the same way."

Nitty Gritty

Assessing Cultural Compatibility

Most businesses today follow one of two cultural models: the traditional top-down organization or the more flexible, collaborative model pioneered in the tech industry. While neither way is more "correct," conflict is inevitable if there's a major disparity between two merged organizations. Assess your company and your new acquisition on the following four aspects:

Competitive Worldview. A traditional company views markets as battlefields and business as warfare, while a collaborative firm uses metaphors like sports or ecosystems. Traditional firms are slower to adapt to opportunities; highly collaborative firms are first to invent or adopt new practices.

Management Style. Managers in a traditional firm think of their basic job as "command and control"; collaborative firms see management as a service function that helps employees (and the company) be more successful. At a traditional firm, managers are often MBAs, while collaborative firms can tend to embrace more nontraditional leaders.

Organizational Vision. Traditional managers view the company as a well-run machine, whereas collaborators see it as a community of individuals working together. The most traditional executives dine separately from lower-level employees; collaborative execs know employees on a first-name basis.

Motivational Tone. Traditional management uses fear to motivate people, threatening to fire underperformers or referring to the competition as "the enemy." Collaborative managers develop a shared sense of vision and talk about how the firm will change the world.

What to do if you suspect potential culture clash? If the merging firms are at least somewhat compatible, you may want to keep the acquisition organizationally separate for a while until the new group can acclimate. If the firms look to be highly incompatible, a mass departure of talent may be inevitable. Consider sectioning off the acquired firm as an independent business and limiting contact between the two firms.

step 3

Orient New Employees

GOAL: Quell rumors, forestall an exodus, and build enthusiasm for the new organization.

Every day into a merger that you leave newly acquired employees in a state of limbo leeches value from the deal. Work grinds to a halt while everyone, predictably, updates their resume. "People are irrational when it comes to their perceived value to the company and the implications of change on their career," says Kerry Gumas, CEO of Questex Media Group, a B2B media services company that's grown through a series of acquisitions from a startup to a $130 million a year business.

"There are three dimensions to every change: emotional, political, and rational," adds Robert Gray, who previously headed up the strategic transactions practice for consulting firm BearingPoint. Gray recommends a management-sponsored orientation for all employees within two weeks of the deal close. The orientation should provide a thorough introduction to the new corporate entity. "The political dimension will play out over time through internal meetings, but getting started on the right foot can answer most of the rational questions that people have and help them cope with the inevitable emotional challenges," he says.

Gumas suggests setting a tone at the orientation that reflects "the flavor and essence of what the company is all about," as well as using the event to set expectations about the corporate relationship. For example, if the new company is less formal than the old, the orientation might

include opportunities for employees to talk directly to top management, either one-on-one or in small groups. In general, it's a good idea to keep the obligatory speeches short and end with some kind of celebration that mirrors the culture of the acquiring company. When one division of Honeywell absorbed another division some years ago, they celebrated by handing out bottles of "bulldog beer" in honor of the new division's corporate logo, a bulldog sculpted from electronic components. Since the acquired group consisted mostly of young programmers, the gesture was quickly consumed and much appreciated.

Checklist

Post-Merger Employee Orientation

[ ] Strategic reasoning behind the merger

[ ] Company history, goals, and culture

[ ] Corporate challenges and goals

[ ] Expectations and measurements of success

[ ] Organizational challenges and goals

[ ] Current organizational structure

[ ] Direct reports and lines of authority

[ ] Current "unknowns" and what remains to be done

[ ] Likely opportunities to assist the organization

[ ] Likely opportunities for career improvement

[ ] Corporate policies and procedures

[ ] Where to go to get questions answered

[ ] Location of the "welcome to the company" party

step 4

Realign and Restructure

GOAL: Quickly shed duplicate overhead and position for future growth.

Except in rare cases, a merger always results in redundancies, which mean (at best) reassigning people, and (at worst) laying off employees. Even if the acquired firm will be operating as a separate entity and staffing is to remain at pre-merger levels, there will be changes in reporting structure, internal operations, job roles, and probably job titles.

It's generally impossible to make such decisions without getting to know and understand the details of what's working (and what's not) inside the existing organizations. The new management should quickly analyze the new organization, and any other organization that is affected by the merger, and devise a restructuring plan that at least looks likely to deliver on the promise of the merger, says Mack of Technology Business Research.

What's important here is speed rather than perfection, according to Willy C. Shih, senior lecturer at the Harvard Business School and former vice president at IBM, Digital Equipment, Silicon Graphics, Kodak, and Thomson. "Any time there's a layoff, you need to put some structure around that very quickly and get it stabilized," he says. The best way to do this is to publish an organization chart, with roles and responsibilities framed as clearly as possible — even though that structure is likely to change over time. "The worst thing you can do is to restructure a little at a time," Shih says. "You really need to make your cuts, get them behind you, and then get some stability in the organization so that it can function again."

Big Idea

Key Questions for Merger Execution

Robert Gray, formerly a global leader of strategic transactions for BearingPoint, suggests three areas to cover when shaping the mission and structure of a newly merged organization:

Business Structure. What business are we in? How will we make money? How will we generate growth? Where are we headed as a company?

Business Systems. What's our supply chain? What's our sales process? What's our manufacturing process? How will we bring products to market?

Organizational Structure. How will we make those systems work? What kind of people do we need? What are their goals? How will they work together?

step 5 Integrate the Computing Infrastructure

GOAL: Make certain the entire organization can communicate and collaborate.

Every organization comes with technical baggage that must be adapted to fit the new corporation. This means spending money to get the computing infrastructures working together, according to former Bristol-Myers CIO Jack Cooper, who was involved in nearly a dozen major acquisitions at the company. "Integration can be a major hidden expense that's seldom included in the cost-analysis for the merger," he says. "Even when fully funded, such projects can take time, especially if they involve significant back-end programming and the retraining of an entire staff."

The trick to merging infrastructures is to move the project forward in logical steps, according to Cooper. “Start with the email system and office automation because that’s relatively simple and standards-based,” he says. Then move to either the sales or manufacturing automation systems, depending upon which function is the most mission-critical.

Warn employees that technical glitches may occur. “It’s going to take time and there’s going to be some frustration,” says Gray, formerly of BearingPoint. “Don’t let your IT workers become the whipping boys for the merger by failing to fund and schedule the necessary technical work.”

Other Resources

“**Inside Cisco: The Real Story of Sustained M&A Growth**,” by Ed Paulson

“**Barbarians at the Gate: The Fall of RJR Nabisco**,” by Bryan Burrough and John Helyar

“**Backfire: Carly Fiorina’s High-Stakes Battle for the Soul of Hewlett-Packard**,” by Peter Burrows

“**Perfect Enough: Carly Fiorina and the Reinvention of Hewlett-Packard**,” by George Anders

“**Five Frogs on a Log: a CEO’s Field Guide to Accelerating the Transition in Mergers, Acquisitions, and Gut Wrenching Change**,” by Mark L. Feldman and Michael F. Spratt

“**Mergers: Leadership, Performance and Corporate Health**,” by David Fubini, Colin Price and Maurizio Zollo

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