



Merger or Acquisition Failing? The Solution Lies in Your Strategic Focus

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The evidence is unmistakable. Mergers and acquisitions fail somewhere between 50% and 75% of the time (see Footnote). There are two main reasons: culture clash and leadership clash.

Culture Clash

For understandable reasons, leaders discount the impact of corporate culture when they merge and/or acquire. They have other factors to consider at the time of the merger or acquisition - market opportunities; operational and business process synergies; financial analysis; and potential cost savings. These factors are obviously important. In addition, "culture" is not only an amorphous concept, it is believed to be immeasurable and inherently unmanageable. Most leaders probably just assume that culture will 'iron itself out' over time. However, culture is too important to be left up to hope and natural evolution and here is why.

Culture means how we do things around here in order to succeed. It has everything to do with implementation and identity. Culture is our way and who we are. Every day that an organization succeeds is another day that that organization's culture is reinforced. In 1992, Kotter and Heskett (Corporate Culture and Performance. NY: The Free Press. 1992) researched 207 firms from 22 industries to determine whether culture impacted the bottom line. They measured the economic performance of these firms between the years 1977 and 1988. They discovered that the organizations with strong cultures that fit the organization's strategy improved their net incomes by a factor of 756% versus 1% for the organizations that did not have strong cultures and did not fit the organization's strategy. They concluded that, when it comes to impacting the

bottom line, culture's influence is "more powerful than anything else," including strategy, structure, leadership, financial analysis, and management systems.

The essential reason that culture has such a powerful impact in mergers and acquisitions is that one or both successful organizations are implicitly being asked to change how they do things in order to succeed. It is historical success that creates the tremendous power of culture. So, if our way of accomplishing success has been so effective, why are you trying to change it? Both organizations in a merger or acquisition are, certainly, thinking this.

Given the power of culture, it is almost inevitable that cultures will clash. The key issues are what is the exact nature of the two cultures and how do leaders manage those cultural differences.

Leadership Clash

If culture is our way, leadership is my way. The same issues come into play regarding leadership. Each dominant coalition of leaders in each organization has been centrally responsible for the historical success of their organization. After all, these leaders have set strategic direction, mobilized commitment, and established organizational capability to accomplish strategic objectives. If the two organizations were losers, neither organization would be interested in the other. Successful leaders want to ally with other successful leaders.

Again, nothing succeeds like success! Therefore, leaders get their noses out of joint when other leaders question how they are doing things. Given the nature and inherent accountability of leadership, it is almost inevitable that leaders will clash. The key issues are, again, what is the exact nature of the two leadership approaches and how do we manage leadership differences.

If you leave the resolution of these two critical differences, culture clash and leadership clash, up to the very same people who are in the middle of the clash, we think it is fairly safe to predict that, most of the time, such resolution will not occur. It is very unlikely that the very same cultures and leaders that got into the clash in the first place will know how to resolve those same clashes. If they did, they would not have gotten into the clashes, to start with. So, what is the solution?

With one very big proviso, the solution is **strategic focus**.

By strategic focus, we mean the fundamental focus for action that an organization adopts in order to add value to its customers. Each of the two organizations came into the merger or acquisition with its own historical strategic focus. To some considerable extent, each organization had been successful in

accomplishing its own strategic focus or neither organization would have any interest in the other.

The first question, then, is: what has been the strategic focus for each organization? If both organizations come in with identical strategic foci, the likelihood of a complete integration is high. The more divergent the strategic foci of the two organizations, the more incomplete the integration will be. The key message here is: let strategic focus drive decision making about what should remain and what should be changed. Culture and leadership are all about how. Strategic focus is all about historical and future outcomes. Projected outcomes are the source of resolution of culture and leadership clash. If leaders try to resolve their differences by insisting that their respective hows are better than the other's, the resolution will never occur. The solution is to agree on future strategic focus and then decide on the implications for how to get there.

However, you say: "what how is right for what strategic focus?" This is where the proviso comes in. In order for this to work, you must be able to objectively make the connection between the desired strategic focus and the culture and leadership required to accomplish that strategic focus.

We have made these links and we have developed a way to measure them. There are four fundamental strategic foci: certainty, synergy, superiority and enrichment. There are four fundamental leadership approaches: directive, participative, standard-setter and charismatic. In addition, there are four fundamental cultures: control, collaboration, competence and cultivation.

Once strategic focus is established, the roadmap for integration can be built.

Here is an example. In early 1999, a local newspaper acquired a target marketing company that was operating within the newspaper's circulation base. The basic rationale for the acquisition was 'if you can't beat 'em, join 'em.' The target marketing company was taking advertising dollars away from the paper. Why not join forces, capitalize on one another's unique competencies, and garner even more total advertising dollars in the long run?

Well, the alliance started falling apart, almost from day one. The newspaper had a long-standing, established routine for doing things. The target marketing company was constantly coming up with new ideas and wanting to run with them right away. The newspaper wanted to plan things out, to build slowly and to carefully track every move made and every dollar spent. The target marketing company, on the other hand, was coming up with clever target marketing tactics that no customer was asking for, but had considerable potential for revenue generation if the right customer base(s) were identified. Leadership in the newspaper was systematic, careful, and thorough. Leadership in the target marketing company was fast moving, speculative and challenging.

Our measurement system revealed that the newspaper had a strategic focus of certainty, a core culture of control and a directive leadership approach. The target marketing company, on the other hand, had a strategic focus of superiority, a core culture of competence and a standard-setter leadership approach. Our measurement system revealed that both organizations had a fundamentally similar method for making decisions, a strength to build upon. It also revealed that the two organizations essentially differed around what each was paying attention to. The newspaper was primarily attending to day-to-day realities. The target marketing company was primarily attending to possibilities.

The leaders of both organizations determined that the common strategic focus for both organizations was certainty. They could have determined to keep two strategic foci, but they chose to concentrate on one. Given this decision, the solution quickly fell into place. The leaders of the newspaper relaxed and determined with the leaders of the target marketing organization what was an acceptable risk for the latter to take. Rather than operate entirely as a separate entity, the target marketing company became, in effect, a unique department of the newspaper. All of the routine, regularized business processes of the target marketing company were melded into the appropriate functions of the newspaper. The research and development part of the target marketing organization was carefully preserved and actively enabled by newspaper leadership. The target marketing "department" was immediately provided with an expensive information technology upgrade, an advance that greatly enhanced the "department's" ability to create and generate new, one-of-a-kind initiatives.

One year later, the combined organization was thriving.

The leaders of both organizations could have chosen a combined strategic focus of superiority or they could have chosen to keep two separate strategic foci. In either case, the solution regarding how to put the two organizations together and how to lead the two organizations would have been drastically different than the solution described above.

In the end, the best solution comes from two factors: the agreed-upon strategic focus and the ability to objectively and measurably link the required culture and leadership to it.

Footnote: The Evidence

- Michael Porter analyzed 2,700 mergers and acquisitions by 33 major US companies over a 36-year period (1950 to 1986). Results: Failure rates between 50 and 75 percent. Major cause: culture and leadership clash

- Dutch study in the prestigious journal Economisch-Statistische Berichten found failure rates of up to 60 percent in similar situations. Major cause: culture and leadership clash
- In a 1992 study by Coopers & Lybrand of 100 companies with failed or troubled mergers, 85 percent of the executives polled said that differences in management style and practices (culture) were the major problem
- In 1995, Business Week reviewed studies covering 30 years of mergers and acquisitions and concluded that a negative correlation exists between merger activity and profitability. Business Week's own analysis revealed that stock prices of acquiring companies fell an average of 4 percent.
- In 1996, the British Institute of Management surveyed executives involved in a number of acquisitions and concluded that "the major factor in failure was the underestimation of difficulties of merging two cultures."
- P. T. Bangsberg in the 1998 Journal of Commerce (p 2A) concluded that the key to the success of mergers and acquisitions was full consideration of employee and culture.
- In 1996, the Bureau of Business Research at American International College surveyed the CFOs and other top financial executives of 45 *Forbes* 500 companies. Conclusion: the number one reason that mergers and acquisitions fail is "incompatible corporate cultures." According to Ira Smolowitz, dean of the Bureau of Business Research: "I knew culture was important, but I didn't think it would be most important."
- Hewitt, Inc., 1998. Hewitt Associates conducted a global study of HR implications of mergers and acquisitions. Almost 500 companies responded. When asked to identify the top challenges they encountered while implementing the transaction (i.e., merger or acquisition), HR Directors from every region overwhelmingly cited difficulties integrating the two organizational cultures. 75% of respondents cited culture integration as the most difficult issue they had to deal with.
- Pratap Parameswaran in Business Times, 1999. Cites research that merger integration success rates in the financial services industry is low with only a paltry 17 percent of mergers able to create substantial returns. The main cause of the problem is culture clash.
- Right Management Consultants research report, 1999. According to the Conference Board, the success of a merger "ultimately depends on the effective use of people." Indeed, the Board bluntly states that people issues are "capable of derailing alliances."
- Right Management Consultants research report, 1999. Surveyed 179 organizations. Found that the number one reason that mergers and acquisitions failed was "lack of culture integration." They also found that managing culture "is clearly tied to success in reaching business objectives."
- Mercer Management Consulting research study, 1997. Found that poor culture integration was the major failure responsible for the fact that, in deals worth more than \$500 million, only 43 percent of some three hundred merged companies outperformed their peers in total returns for shareholders.

- A. T. Kearney Consulting research study, 1997. Reviewed 155 M&A deals in multiple industries and determined most failures to be "people-related."
- Research shows that a majority of deals have not created significant shareholder value. In the 1980s, the average shareholder return three years after the merger was - 16 percent (Sirower, 2000)
- In the 1990s, a survey by Andersen Consulting of 150 large deals said only 17 percent created substantial returns, and some 50 percent of the transaction actually eroded value. Quoted in Bloomer and Shafer.
- 1999 J P Morgan study. Over 1/2 of M&As, worldwide, failed to reach their promised strategic and financial goals. Totaling \$1.6 TRILLION in bad investments

Author

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