Mergers and Acquisitions
Why 40%-60% of Them Fail
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When mergers and acquisitions fail, the event is often marked by surprise and shock. "The numbers worked, the market seemed ready, and the products were compatible, so what could possibly have gone wrong?"

The literature shows (and common sense supports) that most often the problems can be traced to the lack of attention paid to the integration of cultures, staff, processes, best practices, and philosophies. As a result

- Retention of key employees, at all levels, is compromised,
- Resentment and fear increases among staff and other stakeholders,
- Communication becomes dysfunctional,
- Internal conflict is elevated,
- Morale, and thus productivity, decreases, and
- Business continuity is jeopardized.

Why M&A's Fail

The explanations given for failed mergers and acquisitions are often directly related to the impact on employees and other stakeholders:

1. Two major reasons for conflict within organizations are role confusion and lack of clear processes. At best, M&A's strain both.
2. The difficulty of merging two cultures is usually underestimated. When working with departments who were trying to assimilate after a merger, one woman said, "This is like IBM merging with Ben & Jerry's." She was right. Though their products were compatible, the work environments were total opposites.
3. Skill and technology transfer is not a given. Employees can be very competent but begin to lose confidence when confronted with a myriad of new protocols, equipment, and expectations.
4. Though the message given may be "We are equals in this endeavor," it is a stretch to believe it when the names, titles, and location are skewed toward one of the entities.

5. Key people at all levels may leave prematurely to ensure their security. Not only is the new company then left with major competency gaps, it has also lost valuable institutional history, contacts, and information.
6. Customer loyalty is tested because the customers may feel neglected since so much attention is necessarily devoted to making the merger or acquisition work.

With every gain, there is a loss

When two or more organizations come together, dramatic changes occur in the work environment. To address people's concerns and anxieties, the tendency is to focus on all the anticipated positive results. What is often ignored, however, is that positive change can be every bit as stressful as negative change, because with every gain, there is a loss.

Sometimes it's as benign as giving up the familiar, i.e. changing computer systems or answering the phone differently, but often the tradeoffs are much more difficult and people begin pushing back.

It's important to remember that there is good information in resistance, so it's essential to determine the cause of the resistance and to then allow time for processing it. Finding out why people are concerned will produce useful information and show employees that management wants to know what they think.

Focusing on people is essential at each of the three developmental stages

1. **Once the M or A is announced and negotiations begin, anxiety levels increase**. Anxiety is not usually about the present. It's about the past and the future. Employees may remember the last company they worked for laying off a large percentage of the workforce after a merger or acquisition. Or they look to the future and worry that they won't have a job, or that their jobs will change so much that they'll no longer feel competent.
2. **The first 6-12 months are predictably chaotic and confusing.** When structures and formal processes are put into place, some of those early, "not-so-nice" fantasies come true. Stress increases, not from having too much to do, but from working hard and not accomplishing

what you want to accomplish – a very common scenario during transitions. Additionally, there are new colleagues, bosses, vocabulary, procedures, customers, and maybe even locations to adjust to and accommodate, and all the while people are trying to be productive. There is pressure due to accommodating increased and/or newly acquired workloads, learning and identifying role responsibilities, and being preoccupied about working through differences in cultural values.

3. **People finally become assimilated.** Assimilation is the time that the organizations have truly joined, people are no longer focused on the merger or acquisition, and it becomes "business as usual." But keep in mind that "business as usual" does not reflect either of the original companies, because it's not possible to combine entities and remain the same.

It is important to share the above developmental stages with all employees so they know their concerns and anxieties fall within the norm and they don't view themselves as inadequate and abnormal for feeling the way they do. Normalizing the difficulties eliminates the self-judgment and lasting, negative effects.

Why is the human impact of M&As usually neglected?

Professionals answer this in a variety of ways.

- People are a less measurable asset than balance sheets.
- Leaders are so preoccupied with strategies, tactics, and techniques in acquiring, merging, and selling that frequently the really crucial, human factor becomes, at best, an afterthought.
- If addressed at all, there is the erroneous belief that there is plenty of time after the event to take care of any problems. In fact, because the transition process begins with "the idea" and doesn't end until several months to two years after the "deal is struck," there is serious risk in doing too little too late.

Suggestions for a smoother transition

1. Involve HR at the earliest possible juncture and commit to addressing all issues and processes from a "people perspective."
2. Develop a cultural assessment that helps the two groups identify their differences and appreciate all that they have in common.

3. Develop forums – in all areas and at all levels - for sharing institutional history, vocabulary and acronyms, formal and informal networks, management and work styles, and the sources of institutional pride. It's nearly impossible to develop a new allegiance without mourning the loss of former loyalties.
4. Identify expectations and problems and design a realistic process for addressing them. Remember, *the people who do the job every day know how to solve the problems, so include employees from all departments and all levels in transition planning*.
5. Develop a new strategic plan and unified goals, objectives, and overriding messages that reflect the newly formed organization.
6. Communicate even when there is nothing much to say. Silence erodes trust, and rumors start when there is a lack of information. If legal considerations prevent early communication, then promise that you will share as much as possible as soon as you can. Many companies have lost their key, skilled people because they could no longer wait for "the shoe to drop." Sadly, in many cases it never does, but how are people to know what's ahead if they're kept in the dark?
7. Continually discuss the reasons for the merger or acquisition and the rationale for decisions made along the way.
8. Be sure that transitional teams are developed very early on for all pivotal areas and layers of the organization, and that team members are fully representative of the employee base. Facilitated sessions are the most successful because it's easier for someone who does not have a stake in the outcome to be completely focused on the process.
9. Based on cultural assessment and mapping, use appropriate work teams to merge departments and make decisions regarding small issues (such as what forms to use) and larger strategies (such as how to handle customer service). While deciding upon best practices and new policies, cultural assimilation will be a by-product.
10. Provide leadership and supervisory training as though it were a completely new, start-up company -- because it is!
11. Label the transition activities as a learning process for all. It is a reminder that new territory is being experienced and goes a long way to explain the confusion and occasional chaos that will inevitably be present.
12. Set up periodic re-evaluations over the first two or three years that ensure problems will be addressed long after the new organization is formed.

Employee satisfaction

Too little time and too few resources are devoted to agreeing on a common vision and on a smooth integration process that ensures both business continuity and enthusiastic support for the new structure.

Keep in mind that employee satisfaction can be responsible for the success or failure of M&As because in every area there are bound to be incompatibilities when two or more companies come together. But when the impact on humans is recognized and addressed, even diverse organizations can emerge as productive and satisfying work environments.

Four Final Considerations To Keep In Mind.

1. Just because it looks good financially doesn't mean the deal will work. If employees and other stakeholders are not a priority, even impressive financial benefits are not enough.
2. The merger or acquisition is not the end, but the beginning.
3. When you think you don't have time to devote to the human impact, ask yourselves how much time it takes to deal with dissatisfied employees, inefficient processes, and new hires to replace those that choose to leave. One way or the other, it's not a matter of taking the time, it's how you prioritize the time it's going to take.
4. And, if you truly view your employees as your greatest asset, it's important to act accordingly. As the old adage says, "What you say and think is important. What you do really reflects what you believe."

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