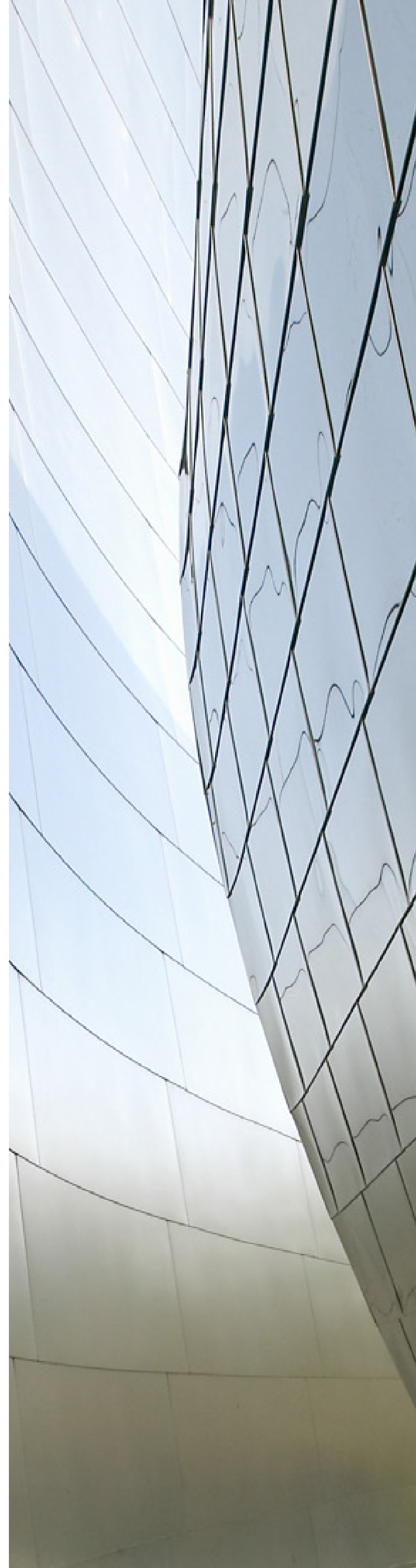
SpencerStuart

Leadership Advisory Services

Unlocking Merger Value

Getting the People Strategy Right



Mergers are announced with much fanfare and attention to the value of the deal — in the form of cost savings or new revenue from sales and distribution synergies, the addition of new geographic markets or the combination of complementary products. Regardless of the deal strategy or type, many of these mergers never truly deliver the anticipated value and, two or three years later, the combined company quietly makes changes to the management team or writes off the goodwill generated from the deal.

Why don't these deals reach their potential? In short, talent and culture issues are the major causes of most failed mergers today. Politics, poor communication, cultural tensions and a lack of insight into the roles and individuals who will be needed in the new organization hobble companies' ability to quickly focus on the value-producing decisions and activities. The integration stalls, deadlines for key initiatives slip and the anticipated synergies never materialize. Specifically, many companies fall short in three critical areas:

> Placing the wrong people in the most critical roles

> Underestimating the cultural and organizational hurdles to integration

> Failing to align the new top team

UNDERSTANDING WHAT'S AT RISK

When merging two businesses, the biggest risks lie in the emotional reactions, irrational behaviors and cultural tensions that keep the merging teams from working together on the objectives of the transition. In the confusion and uncertainty following a merger announcement, anxiety and insecurity reign among employees of both organizations, with all sorts of consequences for the business, including missed transition milestones, undesirable turnover, lost customers, service failures, low employee engagement, conflict or lack of trust among senior leadership. The risks often are overlooked until it's too late. Weak talent management practices, inattention to culture and organizational issues, and conflict among senior team members exacerbate the challenges, and threaten the combined company's ability to deliver on the value of the merger in three critical ways.

In an uncertain environment, the most valuable talent is most at risk.

New strategic, organizational, cultural and management challenges confront merging companies, and they can ill-afford to lose the highest-performing people just as the need for strong leadership is at its greatest. It is not unusual for the most talented executives and other professionals to receive inquiries within days of a merger announcement — precisely when uncertainty is at its highest. With more options before them, top talent is most at risk unless they quickly receive a signal about their future in the new organization.

Unfortunately, many companies lack the processes and reliable data for identifying the executives who are critical to the success of the merged company and who are vulnerable to leaving during the transition. And rarely do they apply the same cost-benefit analysis to people as they do to other business decisions; e.g., how much will it cost us to lose our critical chief sales officer? Without a retention strategy, the very people who the company will need to carry out the merger integration could be lured away.

The wrong people end up in the roles that are vital to the merger's success.

Research has found that, in a merger, roughly one-third of the new top team will create value, one-third will have a neutral impact and one-third will struggle to adapt, lacking the knowledge, skills or the commitment to be effective in their roles. The problem is magnified in a merger, which may double the size of the business, add new geographic markets and expand product or service lines. Companies frequently underestimate or fail to anticipate the new capabilities that will be needed in senior roles; even when job titles don't change, executives may be stretched to manage businesses or functions that can be markedly different in scale, scope and complexity. Furthermore, most companies lack an objective method for evaluating, comparing and selecting top talent, particularly in assessing certain soft skills that are important in planning and executing an integration. Without strong leadership in these critical roles, the combined company will never achieve the anticipated value.

Valuable time is lost for building the new company.

With senior management focused on the specifics of the deal and external communication, leadership decisions and cultural tensions can fall low on the list of priorities. The longer it takes to make key leadership decisions — and the less transparency there is around those decisions — the more uncertainty grows in the post-merger announcement period. Not only does this exacerbate cultural tensions and increase the likelihood that the combined company will lose top leadership talent, it also breeds inaction, paralyzing some and encouraging others to view the integration process as a battleground to see who emerges victorious. In such an environment, no real progress can be made on the integration plan, or a makeshift plan is created, only to be revisited once the deal is complete.

A BETTER APPROACH

Recommendations for overcoming the leadership and culture challenges

In a merger, companies have little time to make important leadership and organizational decisions, which often have to be made with limited information. We offer the following recommendations that serve as the foundation of a thorough and expedited talent management process:

1. Ensure that the right people are in the right roles.

A key step in selecting the right people for each top job is to define the scope and responsibilities of key roles in the combined company. It is not uncommon when filling senior roles for the combined business to rely on little more than job titles or dated job descriptions that do not take into account the requirements of the new role. It is very rare when two companies merge that their businesses match one to one; one may be organized by functions, another by region, for example. The responsibilities of many roles in the new organization, then, may be significantly different than before the companies merged. So, for example, in the combined company, the country manager, who used to be more administrative, will now have to drive sales. Or, the chief marketing officer in the new company will oversee a team that is twice the size, more globally dispersed and includes new functional responsibilities. When companies don't acknowledge how roles will evolve in their planning, they can place people in important positions who are ill-equipped for their new responsibilities and expectations.

Once the roles are carefully defined, a fact-based, objective assessment is a critical tool for deciding among candidates for top roles. The selection of leaders for key roles in a merged company is typically constrained by a lack of data. Not only do companies overestimate the value of their own assessment tools for understanding the capabilities of their people, they lack shared objective standards to compare executives from different organizations. And very few talent organizations have the capability to accurately assess the change management skills that are critical to the success of the integration. An independent management assessment can evaluate individuals' strengths in those important areas, provide

Building a strong foundation

Two fiercely competitive healthcare companies in a niche market were acquired by a private equity firm as part of a plan to consolidate the market. The challenge of merging the two organizations was exacerbated by the history of competition between the two companies — their sales organizations had been poaching each other's customers for years — and past history between the two CEOs. The two organizations also had very different cultural orientations; one focused on its people, treating them well and fostering loyalty, the other focused on results, improving efficiency and driving down costs. Further complicating the integration, neither CEO had experience running a business as large as the combined company.

Spencer Stuart assessed both CEOs and management teams as well as the cultures of the two organizations. The assessments found that neither CEO was ready to lead a company the size that was being built through acquisitions, but that one of the CEOs had the potential to in time with the appropriate development plan. Assessments also informed the selection and development plans for other top team members, and the team was in place when the deal closed. The cultural assessment not only identified the differences between the organizations, but also the similarities that could serve as common ground for aligning the new executive team and building the culture of the combined company.

a consistent view of executives across companies, minimize fears of favoritism by applying objective standards, speed up decision-making and serve as a conduit for feedback from management to the very top of the organization. Such assessments also can identify gaps that may need to be filled by external hiring and potential assignments for internal candidates who did not get the roles they expected.

2. Identify potential cultural barriers and begin to build bridges between the two teams.

For a merger to achieve its target value, people from the two companies have to be willing to share ideas, work together on customer business and treat new colleagues as if they're all on one team. But when bringing together people from two distinct cultures, opportunities abound for misunderstandings, mistrust and confusion. Begin to build bridges between the two companies by mapping the cultures of each organization, identifying the similarities and recognizing the differences that may create friction between people. During the integration process, focus on celebrating and reaffirming the complementary cultural traits and bring together cross-organizational teams of people who exemplify those traits. Opportunities to collaborate together on key initiatives or client projects can build trust between influential people from the two organizations and have a positive viral effect.

The CEO plays a critical role in forging the new culture. He or she should embody the new culture and hold the management team accountable for decisions and actions that work against the desired culture. It's also important to make sure that the organizational structure supports the new culture. If the goal is to establish a culture that is defined by innovation and entrepreneurship, an organizational chart that is incredibly complicated and layered will work against that cultural ideal.

3. Forge a unified top team.

Top teams are more important than ever to business performance, even more so in times of great change and organizational strain. It's easy to underestimate the challenges of bringing together two groups of leaders — especially when they were successful in their respective organizations. Amid the stress and uncertainty inherent in a merger, even the most senior executives are susceptible to emotional reactions, which can lead to turf wars, territorialism, petty politics and hurt feelings.

Off-site meetings and traditional trust-building exercises only go so far in cementing the necessary connections between executives in a merger. Recognizing the personal challenges inherent in the transition and working together to define the rules of engagement for the new top team — including the team mission, mandate, individual and team roles, decision-making responsibilities, meeting logistics and purpose, information sharing and conflict resolution — can begin to build understanding and trust among executives.

CONCLUSION

As valuation models and strategic analysis related to the legal, financial and operational elements of mergers and acquisitions have become more sophisticated, fewer deals fail because they are a poor fit strategically or because the buyer paid too much. More often, mergers and acquisitions fail to deliver the anticipated value because companies focus too much on the "hard" elements of the merger and too little on cultural issues, top team integration and talent selection, placing the wrong people in the critical, value-producing executive roles — the positions that are vital for achieving the aspirations for the merger. With so much at stake, traditional approaches to selecting executive talent must be augmented by a thoughtful process for selecting the right people for each position, building cultural bridges across the organization and unifying the new top team so that they work together on the objectives of the new company.

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ABOUT SPENCER STUART

At Spencer Stuart, we know how much leadership matters. We are trusted by organizations around the world to help them make the senior-level leadership decisions that have a lasting impact on their enterprises. Through our executive search, board and leadership advisory services, we help build and enhance high-performing teams for select clients ranging from major multinationals to emerging companies to nonprofit institutions.

Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning 56 offices, 30 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment and many other facets of organizational effectiveness.

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