As part of our Tomorrow's Executive series of articles we bring you: an executive's guide to successful mergers and acquisitions

By Jussi Pokkinen,
Mercuri Urval Global Client Services

The first step to M&A success is you

Mergers and acquisitions can be risky business. Most are considered unsuccessful and many are outright failures that threaten company value and destroy shareholder wealth.

Critical to success is a focus on "people issues", which are often overlooked in the challenging process of uniting two separate entities.

Jussi Pokkinen of Mercuri Urval argues that the first person a CEO needs to scrutinise closely in order to avoid M&A failure is him- or herself.

In a global market, M&As are seen as a quick route to growth, especially when home markets are saturated and organic growth is slow. In a post-recession economy, they are an especially hot topic.

But expectations are often shattered when the realities of the M&A process hit home. Only about 20% of all M&As really succeed[1], according to Professor Robert F. Burner, a business administration expert. Recent research by international consultancy McKinsey[2] shows that 66-75% of M&As fail or turn out to be disappointing – realising less value than was originally anticipated. In fact, it has been estimated that almost 50% of key people in the target company leave within the first 12 months. Disturbingly, "61% of (M&A) buyers destroyed shareholder wealth" and the value of the companies they were intended to strengthen, according to data in one Business Week article[3].

Having witnessed the process of many mergers and acquisitions, we at Mercuri Urval believe that **the single most important factor in the failure of such deals relates to people leadership issues,** or the human factor. These issues are seldom given enough attention. Because they are intangible, it does not mean they are not defining to outcomes.

How can a CEO or leader secure M&A success, while keeping risks to a minimum? Here are some pointers for success:

1) Evaluate **yourself** first.
2) Ensure that **communication** is clear, transparent and frequent.
3) Manage **stakeholders** with consideration and insight.
4) Create a capable **integration team**.
5) Unfold **change-management steps** in the right order.

1. Evaluate yourself first – perform a self-analysis while there is still time

Leading an M&A process requires clear vision. It may be the most challenging role a leader faces in his or her career.

The pressure is severe. Chief executive officers have to play multiple leadership roles throughout the merger process. Leaders are often lone riders and must be able to handle difficult issues themselves without support from their colleagues. If they get it wrong, it affects everyone in the company.

Why is the leader so central to the success or failure of an M&A deal?

The centre of attention

One of the key roles a CEO plays is that of an actor. He or she is the main public spokesperson for the company and for the M&A process. Stakeholders will look to the CEO to determine whether the integration will be a success or not.

M&A integration incorporates several interrelated functions and processes, so diffusing responsibility and authority can lead to bad decisions and delay. While success depends on establishing a capable management team, that team's success is a reflection of the CEO's decisions, since it is the CEO who has the power to build or fire management groups.

The CEO's five essential M&A roles

Industry experts Gadiesh, Buchanan, Daniell and Ormiston[4] say M&A leadership requires the CEO to take on these five essential roles:

- **Visionary:** describing why we are doing this and what we plan to achieve.
- **Cheerleader:** cheering on the troops to generate enthusiasm and minimise fear.
- **Closer:** focusing on resolving outstanding disagreements and regulatory issues in order to close the deal and thus avoid any last-minute failure.
- **Captain:** being decisive and in command of the change process by managing the integration of the two entities, defining milestones and rules.
- **Crusader:** crusading for the new entity by giving guidance on how to behave and by setting performance targets.

They further argue that the strategic rationale behind the deal, with its inherent risks and opportunities, determines which roles a leader needs to play and when.

And we would add another capability based on our experience:

- **Builder** – the leader who builds shared agendas, effective leadership teams and develops his people capability.

M&A processes do not usually fail due to a flawed pre-analysis of the potential benefits of bringing two companies together. More often than not, the failure comes as a direct result of the CEO's actions, experience, personality and cultural baggage.

The benefits of a personal SWOT-analysis

Every CEO or leader should ask:

Who am I really?

Self-management is essential in the achievement of the M&A's objectives.

You don't have to be the best at everything. Awareness of your strengths and weaknesses helps you to manage them.

The business world is rife with examples of CEOs that are good in one sector, say consumer business, but disastrous when moving into a radically different segment, such as industrial business.

It is essential to analyse your own strengths and weaknesses, opportunities and threats. Ask yourself questions such as:

What is my experience and where do I need to develop? Am I a motivational cheerleader? Am I able to give bad news? Can I retain sensitive information? And do I know what to say when? How can my strengths increase the opportunities ahead while preventing setbacks?

And how can I make sure my weaknesses don't sabotage the M&A integration process?

As this can be difficult for CEOs, many seek the assistance of a coach or mentor to help them undertake more objective self-analysis.

2. Make sure that communication is clear, transparent and frequent

Communication is crucial in the M&A process.

A CEO must communicate continually – weekly if possible – relating the most important messages to key stakeholders and delivering both good news and bad throughout the process.

If uncertainty is poisonous venom, then communication is its antidote.

The CEO must be transparent with information. If the company needs to close one production facility as the result of a merger, failure to explain the rationale for the closure, or what's in store for other factories, could be detrimental. The uncertainty created provides a breeding ground for rumours – and that could pave the way for workers to start leaving the company.

Don't exaggerate or play to your audience – you might get caught out!

What the CEO says needs to be credible when compared to common sense. When Daimler-Benz and Chrysler announced their intention to merge it was described by Daimler-Benz chairman as a "merger of equals" – that statement later turned out to be perceived as untrue. A later reversal of view on a vision can damage credibility, both as cheerleader and crusader.

Upfront communication, whether the message is good or bad, is always the best way to get your organisation's attention and to produce effective action. When Nokia's new head, Stephen Elop, wrote a memo to his staff describing the company as standing on a "burning platform" surrounded by innovative competitors grabbing its market share, it is sure to have grabbed the attention of his employees and spurred them to action.

Articulate the tangible benefits of the deal

Gadiesh, Buchanan, Daniell and Ormiston emphasise that when a company announces a merger to grow in scale, investors look for a clear message about where and when savings will come, as well as what savings initiatives will cost in restructuring charges. They point out that to gain the confidence of external audiences, a leader needs a strong track record, clarity, certainty of purpose, and a credible plan.

Customer retention during the merger process is also important, so it is important to ensure that customers receive clear, consistent messages throughout.

What's in it for me?

The successful leader needs to be able to communicate 'what is in it' for all key players – the employee, the shareholders the other leaders. Just as Irish emigrants were clear on their goals when they moved to the US in the 19^{th} century – securing enough food and new opportunities – the leader in a modern day merger should make the end result of the M&A process personal to all of the actors.

Spelling out what successful completion of the integration process will mean for each individual employee will inject high levels of motivation into the process, propelling it in the right direction.

3. Manage stakeholders with consideration and insight

It is usual to have multiple parties with either direct or indirect interest in the acquisition. Each has different concerns and interests. Your key audiences should therefore be thoughtfully assessed. Stakeholders include employees, shareholders, lenders, customers and suppliers of both parties to the deal, and may also include wider society, including politicians, citizens' interest groups and NGOs. Some might argue this is not a task, but it is **the** task.

Never underestimate stakeholder power

Don't underestimate the number of stakeholders with an interest in the actions of your company. Some companies are intimately intertwined with the societies in which they do business and have countless stakeholders. When Norwegian energy giant Statoil merged with Hydro, for example, every level of Norwegian society, from hairdressers to labour unions, had an interest in what happened, given that the petroleum industry is the lifeblood of the Norwegian economy.

Some leaders wrongly think that stakeholders should bow to his or her authority. CEOs should remember that they cannot really 'manage' stakeholders. Instead they need to be humble, meet the stakeholders at their level and learn how to behave towards each group. To treat them as a customer – you should lead a customer but you must do it with care.

Arrogant CEOs turn people against them. Those who come across as leaders who are approachable and who show humility, such as Steve Jobs of Apple, increase their credibility and gain popular support.

4. Create a capable integration team

The integration team should be a tight one, able to act swiftly and to help the CEO through the rough seas of an M&A.

Analyse what capabilities you already have within your company, and then assess those you will need. Decide if you should develop your own staff or recruit externally. And get them the right external expertise.

A great integration team can make change happen and anticipate challenges. Its members need to show humility and co-operate with others, but must remain assertive and forceful. Communication skills and an ability to overcome cultural issues are essential.

Creating a capable integration team should be a CEO's top priority early on in the M&A process – early enough for the team to participate in the due diligence review. Establishing the integration team then will help members to become thoroughly familiar with the target business, while helping to shape and implement the integration plan in an informed way.

Act purposefully and swiftly

According to McKinsey[5], the role of the integration team has usually been to minimise risks and realise the cost savings. This used to mean eliminating redundant operations and reducing the amount of staff, but the new way of thinking and acting is different. The focus now is on finding new sources of synergies and people. This is now considered to be an essential task for integration teams.

An integration team should have the following characteristics[6]:

- The team should address every major element of the business.
- The team should be jointly staffed by members from both the acquirer and the acquired organisations.
- Accountability for each team member should be clearly defined in terms of tasks, due dates and what each member needs to deliver.

Motivating the integration team to act speedily should be a priority as a CEO directs the team. In his book "Deals from Hell – M&A Lessons that Rise Above the Ashes" Robert F. Burner argues that "the goal is not to act rashly, but purposefully and decisively, leading to greater predictability of results".

The shorter the time span between closing the deal and the implementation of a fully operational integration structure, the faster the business results will become tangible.

5. Unfold change-management steps in the right order

John Kotter clearly described the change-management steps a CEO should follow in the M&A process:

1. **1.** Create urgency – make people feel they have to do something.
2. **2.** Form a powerful coalition – your integration team should become a tool to reaching your goals.
3. **3.** Create a vision for change – make the goal clear.
4. **4.** Communicate the vision.

5. Remove obstacles – open up dialogue and face negative issues.
6. Create short-term wins.
7. Build on the change.
8. Anchor changes in corporate culture by returning to business as usual – but a revitalised and improved version of it.

Whilst his recommendation is both well evidenced and proven, the failed executive will still enter the process at step 3 or 4 – missing the all important initial activities, or not doing them effectively. Miss 6, 7 and 8 at your peril, or what seems to be working can soon dissipate or collapse entirely.

Conclusion: How to execute

So the success of M&As depend very much on so-called "people issues" – harnessing the value of your intangible assets. It is a question of skilfully balancing people activities, management and leadership capabilities and change management.

Before closing the deal, people issues are focused on **analysing** capabilities needed for the integration phase (through Capability Model Building).

After closing the deal, the big issue is **assessing** what capabilities you have in the new merged or acquired company (for example through a Management Audit). In a takeover and integration phase the main focus is on **recruiting** missing resources, **deploying people effectively** and **developing** them in an accelerated fashion (through Coaching).

All of these actions – combined with change management skills and leadership – ensure the best result. If you leave any of them out, then the risk of failure increases!

M&A is a complicated process. A CEO needs to seek out all the help he or she can get. Don't fail to invest in the intangible asset. Tomorrow's M&As will continue to thrive, survive or fail depending on the roles and performance of their leaders.

M&A Strategy & Due Diligence	Closing	Takeover organisation	Integration	Performance
ANALYSE: What capabilities do you need?	**ASSESS:** What capabilities do you have?	**RECRUIT:** What capabilities do you need to recruit?	**DEPLOY:** How can you best use the capabilities you have?	**DEVELOP:** What capabilities can you develop?

[1] Robert F. Burner; Deals from Hell - M&A Lessons That Rise Above the Ashes, John Wiley & Sons 2005.
[2] Clay Deutsch and Andy West; "A new generation of M&A: A McKinsey perspective on the opportunities and challenges", 2010.
[3] "Why most Big Deals Don't Pay Off", Business Week, October 14th, 2002.
[4] Orit Gadiesh, Robin Buchanan, Mark Daniell, Charles Ormiston; "A CEO's guide to the new challenges of M&A leadership", Strategy & Leadership Volume: 30 Issue: 3, 2002.
[5] Clay Deutsch and Andy West; "A new generation of M&A: A McKinsey perspective on the opportunities and challenges", 2010.
[6] William J. Gole & Paul J. Hilger; "Due Diligence – An M&A Value Creation Approach", 2009.