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Nine Steps to Prevent Merger Failure

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There are nine "deadly sins" that can mess up any merger, according to Harvard Business School and MIT graduates now working for Booz Allen Hamilton. Most mergers fail at the execution stage—and execution can be fixed.

by Gerald Adolph, Karla Elrod, and J. Neely

It's a nightmare lived out all too frequently. Despite months of work, millions of dollars in fees, and a firm conviction that the transaction makes all the sense in the world, your merger is going down in flames. It is clear you're going to miss your Year 1 targets. The two cultures are not meshing. Key talent is heading for the door. And everyone knows it.

There are some transactions, such as the marriage of HP and Compaq, that are troubled from the start. There's little anyone can do. Fortunately, this is far from the norm. More than two-thirds of transactions that fail do so at the execution stage. DaimlerChrysler, for example, neglected early on to establish a proper set of guiding principles based on the merger's strategic intent, and then continued to misfire by failing to align leadership and integrate the cultures of the two organizations. Is there a lesson in this? Absolutely.

Execution-related failures can be avoided. To do so, you need to establish a program integration team early in the process that can respond to the execution risks inherent in all transactions. We call these risks the "nine deadly sins." Understanding them is a critical first step toward a successful merger.

Sin number one: no guiding principles
As rudimentary as this sounds, we often see merging companies fail to develop a set of guiding principles linked to the merger's strategic intent. These principles should get at the very logic of the transaction—is the merger an absorption of one company into another or a combination designed to take the best of both? Perfection may not be possible, but these principles will assure that all decisions drive the combined entity in the same direction. In a best-of-both-companies transaction, for example, one principle might be: "Combine IT organizations by selecting the most up-to-date systems and deploying them across the combined entity."

Sin number two: no ground rules
While this sounds similar to sin number one, ground rules for planning provide nuts-and-bolts guidance for how the planning teams should act as they begin to put the face of the merged entity on paper. These rules should include processes for how decisions are to be made and how conflicts should be resolved.

Sin number three: not sweating the details
It's hard to believe, but detailed post-close transition plans can be lacking even when two companies are working hard and have top-level leadership closely engaged. Why? To some extent, this reflects the daunting complexity of any integration. It can also, however, reflect the culture of the companies and a resistance to detail and top-down accountability. The acquirer may be suffering from acquisition fatigue, management distraction, a reluctance to share information, or a simple unwillingness to follow a methodical decision timeline.

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Sin number four: poor stakeholder outreach
All relevant stakeholder groups—both internal and external—must receive communication about the transaction, early and often. While employees (see sin number eight), customers, and regulators get the bulk of the attention, there is a long list of additional stakeholders such as communities, suppliers, and the like who also need care and feeding. Management must strive to understand how these groups view the deal and how they might react to changes such as new pricing, the elimination of vendors, and adjustments in service and personnel.

Sin number five: overly conservative targets
Management must set aggressive targets from the start. This helps reinforce and clarify the transaction's guiding principles and strategic intent, specifically, how hard the integration teams need to push for cost savings *and* revenue

growth. Most companies tend to focus on one or the other—but neglect to place adequate emphasis on both. Experience demonstrates that management never gets more in synergies than it requests. So, build your targets with some stretch and expect that your people will find a way to get there.

Sin number six: integration plan not explicitly in the financials
We have seen merging companies build detailed integration plans only to stop short of driving them into the combined entity's operating financials in a clearly identifiable manner. Institutional memory is short and the plans are often redone on the fly (see sin number nine). While the integration plan will evolve, you need to create financial benchmarks that can be tracked.

Sin number seven: cultural disconnect
Bringing disparate groups of people together as one company takes real work and represents an effort that is often largely overlooked. Culture change management is not indulgent; it is a critical aspect of any transaction. However, simply acknowledging the issue or handing it off to specialists is not enough. Management must set a vision, align leadership around it, and hold substantive events to give employees a chance to participate. Detailed actions and well articulated expectations of behavior connect the culture plan to the business goals.

Sin number eight: keeping information too close
There is a natural hesitancy to share information, and current regulations put pressure on what management can tell the organization without going to public disclosure. However, absent real facts, the rumor mill will fill the void. Tell employees what you can. Also, tell them what you can't tell them at the moment, why, and when you will be able to do so.

Sin number nine: allowing the wrong changes to the plan
After all the hard work and despite meticulously avoiding sins one through eight, some companies still miss the mark. The popular trend toward empowered line managers and decentralization carries the risk of handing off carefully designed plans to new decision makers who are not steeped in the balances and considerations that made the plan viable in the first place. Following handoff, every company needs clear decision rights about who can change the agreed-upon plans, under what circumstances, and with what approvals.

In working to avoid the nine deadly sins listed above, one key step is selecting the right person or people to lead the program integration team and track the plan's execution. The mergers that do best tend to have such leadership. Clearly, with proper planning and attention to detail throughout the merger process—from determining strategic direction, transaction design, and post merger integration—it is possible to avoid these sins and close a successful transaction. WK

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