



“Why Do Mergers Fail? The Consequences of Culture Clashes”

INTRODUCTION

The high-flying corporate mergers and takeovers that were so common ten years ago may have eased up a bit but research still shows an astounding 60% failure rate. While some have suggested that the problem is primarily financial, the failures are rarely traced to a lack of capital.

Identifying the Problem

The problem seems clear enough: not enough time is spent investigating the differences between the merging companies. Management styles, company cultures and employee expectations almost always differ between companies. Surveys of chief executives and other senior executives in the late 1990's whose corporations ranked among the nation's largest and who merged with or were acquired by another company points to this oversight. Over 90% of the CEO's surveyed thought a thorough investigation of management is a necessary part of the merger evaluation process. Additionally, 81% agreed that "people problems" are more likely to affect long-term merger success than financial ones and 85% of the CEOs indicated, "If they had to do it over again they would spend much more time evaluating the people issues". I suspect that these opinions have not changed much some ten years later.

As one CEO recently said, "You have to remember, you're not acquiring a business as much as you're acquiring a culture of people."

What then are the people problems? When companies merge, their identities clash. Disbelief, uncertainty, and a feeling of pending disaster pervade executives whom have built careers within one organization only to see them upset by a merger. The same feeling pervades the whole company for the acquiring and acquired company. Employees in the acquiring company may have a concern that the company is changing its focus and their job will be eliminated. Office workers in the acquired company learn that their jobs may depend on how they fit into the new company rather than on past performance. Rumors of pay freezes and benefit losses weigh heavily upon hourly workers. In general, employees may become frozen in the path that they are pursuing.

This happens in both hostile and friendly mergers. With individuals preoccupied by the merger and personal fate, performance levels drop, productivity may be reduced, employees are less engaged with their work and profits can suffer. Right after a merger is the time to watch for symptoms of impending difficulty. The table below lists what may arise during and after a merger. While these are a common occurrence, experience shows they need not be the only ones.

Signs of Trouble

- **Preoccupation**
Has the merger obsessed employees? Is this reducing job performance?
- **"We vs. They"**
Are employees focusing on the difference rather than similarities of the merging companies?
- **Illusion of Control:**
Does top management produce a master plan promising that merger changes will be as painless as possible and does such a plan fail to reassure employees?
- **Constricted Communication**
Are most employees ignorant of what is happening? Has top management retreated to the Board Room to form strategies but lost touch with the rest of the company?

Employee Communication Solution

What does it take to reverse this trend and make the merger work? First, top management needs to become more sensitive to human relations issues. They should prepare mid-level managers, supervisors, clerical and hourly personnel for the transition and give a chance to air fears and hopes.

It is very important for management to quickly send the message to employees that they have not been forgotten and that their concerns are the concerns of top management. It is also important that an assessment using a custom designed survey tool take place pre-merger or as soon after the merger as possible to determine the cultural attributes of the acquired company as well as a documentation of their management style. The cultural attributes that drive performance like employee engagement and productivity as well outcomes like profit should be identified to evaluate whether or not they are different from the acquiring company. Very often the cultural attributes that drive success in one company differ from those that drive success in other companies. If you do not document these drivers then you take the chance that they may be lost in the merger and the result will be lower of engagement and productivity among workers and eventually a drop in profit.

Some months after a merger it is helpful to survey employees about their views and feelings. This conveys the message that what they think continues to matter as the new company begins to grow. It also gives strategic planners additional data to guide further integration and to identify areas for particular attention.

It is very important during the integration process to regulate and frequently assess the progress against the proposed plan. It is inevitable that new problems will arise and a quick resolution of these issues will benefit the final outcome significantly.

Another helpful idea is to inform employees about the progress of the merger. What is the progress against the time line for integration? What new employee programs have been initiated and what changes have been made to already existing ones? Informed employees are better able to understand why decisions are made and exactly what impact they will have on them personally. It's easier for them to take a more favorable view than those kept uninformed. They are also much more likely to help make the merger work.

The absolute key to the success of these communications from management is sincerity. Employees must believe that management is telling them the truth and is not trying to pull the wool over their eyes. What appears to be a successful merger can turn sour very quickly if employees believe that they have been lied to, manipulated and used. Employees can very quickly determine if a communication from management is "all form and no substance."

Adversarial relationships between management and employees develop quickly after a merger and while a certain amount of stress and crisis is inevitable, it can be managed. Reaching out to employees in both companies, sharing and understanding corporate cultures that drive outcomes, developing common or complimentary goals and devising a transition structure can reduce the ill effects of expected anxiety.

The product of these efforts will be a new company with a new hybrid culture supported by all employees. This approach is the surest way for both companies in a merger to achieve the operating and financial performance they hope to attain from the merger.

Contact Information

TNS Employee Insights
65 Oakwood Road
Lake Zurich, IL 60047
(847) 726-4040
(888)726-8686

www.tnsemployeeinsights.com