Mergers and acquisitions: change, culture and the “leaderful” organisation

Leadership is the single most powerful and misunderstood variable in the success of a merger or acquisition.

Why is it so difficult to merge two cultures into a cohesive and coherent whole? Why is it so important for leaders of a merger or acquisition to focus on leading cultural change proactively and carefully?

There are numerous research studies to indicate that the most common reason why organisational mergers so often fail is lack of attention by the top leaders to the cultural dynamics involved in this change such as relationships, identity, role of the senior team of future structures. Culture, learned, shared and tacit assumptions so easy to refer to but so difficult to measure cannot be painted on after the event. Once the operational plans are put into place and rolled out, it is thereafter so often assumed that the people and the culture will follow, and the old cultures will blend together with little effort or attention. This is rarely the case.

People not politics

Our work at The Leadership Trust within a number of organisations has shown that this is not the case, and that culture needs to be managed and led with as much attention as leaders give to finance, strategy and the operation itself. People do not all react to change in the same way. How they feel and what they think is not necessarily the way they behave. This is not surprising, of course, but what is surprising is how few of the prescriptions for change take this issue seriously. Without an understanding of how people respond - what triggers them, why they change over time, and the social dynamics of their responses to change – how can leaders hope to lead them effectively? Most organisations put all of their investment into the front end of their change programme, and put little effort into attending to the complex dynamics of supporting people in adjusting to cultural change. When a change programme has been launched and is underway, many leaders breathe a sigh of relief and take their eyes off the ball. But this is exactly the time when they need to be most alert to what is happening on the ground. How are people really responding? What level of buy-in do they have? What could now threaten the programme’s success?

As cultural change progresses a range of different behaviour patterns are likely to emerge. Many of these, however, will not be visible on the surface. It is important for leaders to understand what these responses are, why these differences occur, and how these are distributed across the organisation if they are going to be able to respond appropriately. Employee engagement questionnaires may be useful as a gauge, but they do not always give a true picture to help leaders to act. How then do you get to find out the ‘real’ feelings out there?

So what normally happens?

So what do most organisations think they should do? - rationalise the products, combine back office and support functions, cherry-pick the best branches and offices (and people), reduce overheads, achieve economies of scale, increase product holdings across a much bigger customer base, eliminate the competition and then sit back, reap the rewards and let HR sort out the inevitable people issues. After all, it’s the numbers that count and therefore any sensible Merger & Acquisition (M&A) should look at the bottom line – the cash flows, revenue streams, cost savings, valuation, price and terms and so on. However, recent research suggests that, in the short term, acquisitions have at best an insignificant affect on shareholder wealth – more worryingly, long term performance analysis reveals overwhelmingly negative returns.

- So why do stocks only rise in 30% of cases on the announcement of an M&A deal
- Why are the projected synergies not achieved in 70-80% of cases,
- Why do 65% result in negative shareholder value?
- Why do nearly 95% of all new products fail?

Put simply – people issues. The thinking that M&A are just about costs is as outdated and outmoded as thinking that people are motivated by pay alone and that customers
should be grateful to be able to buy your product. It is becoming increasingly clear that M&A are little more than a major change programme (albeit often sudden and fast moving), and that having a formulated and communicated people strategy that takes into account the cultures involved from the outset will dramatically improve the chance of success.

The importance of a deep understanding of change

So exactly what constitutes an M&A? When you break it down to its constituent parts it is nothing other than a change programme and thus, if it is to be successful, a deep understanding of how change works is essential. The impact of an intensive change programme is directly proportional to the effect that it has on individuals, teams, divisions and the organisations involved. It is, in varying degrees, unsettling, creates doubt, suspicion, distraction, self-interest and pre-occupation which combine to create widespread anxiety. Given that anxious people do not perform well and that few mergers begin to bed down for at least 18 months, organisations are faced with a protracted period of time during which people are not at their best.

Recent research at the London School of Economics revealed 8 overarching themes that impacted on organisations going through M&A:

1. Structure
2. Human behaviours
3. Relationships
4. Cultures
5. Communication
6. Matrix interfaces
7. Leadership/role of central team/management
8. Identity.

When you look at these issues, few, if any, fall into the legal and financial areas normally associated with M&A, but firmly into the Human Resource area. A recent study found that organisations that were strongly HR led, anticipated and overcame many of the integration stumbling blocks that beset other mergers and outlined the areas in the table below as those that needed addressing.

A gap inevitably remains between HR and strategy albeit this could be set to change. A global survey on people and business challenges found that while 63% of organisations rarely or never consult their senior HR team on mergers or acquisitions (before or after the deal), within the next 3-5 years 82% of the senior leaders surveyed expect HR to be perceived as a strategic, value added function and not just the personnel cost-centre. Additionally, of the 531 senior business executives consulted, leadership development was close to top of their agenda of people concerns (75%), with only the creation of a high performance culture (79%) above it.

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The case for leadership
Research suggests that the predictors for satisfaction often differ in the acquiring organisation or department compared to that being acquired, with transformational leadership, leadership that seeks to satisfy higher needs and built on hearts and minds, critical in the latter and that gaining and retaining trust early on is imperative. The qualities of the management team are also crucial and studies of entrepreneurial ventures have suggested that leadership has the largest impact on their success. Indeed, leadership is quoted as ‘the single most powerful and misunderstood variable in the success of a merger or acquisition’

So why is leadership so important and exactly what sort of leadership are we talking about? Change brings with it ambiguity throughout the whole organisation. Accordingly, it is suggested that the senior leadership in any organisation should be thinking about leadership and the individual, leadership within teams or divisions and leadership and organisational culture. Each of the foregoing has their own identity, boundaries, values and limitations, and unless these are understood and addressed in order to create alignment, fractures will soon appear. Weak leadership combined with a controlling attitude, lack of clear vision and direction is a recipe for failure.

Leadership, change and the individual
This single biggest factor for executive failure in Europe is due to poor interpersonal relationships (64%), followed closely by the inability to adapt (62%). The premise is simple – if you are unable to understand yourself in terms of inner calm, control and confidence, what chance is there for you to be able to lead others and earn their respect? Far too often organisations focus on developing the skills and knowledge in individuals at the expense of attitudes and habits. In any M&A situation, it is the latter that has to be addressed and that involves taking more of an emotional learning journey than the intellectual route. Often the ‘top team’ are only focussed on how the top team may look in the future or where the corporate HQ is going to be, rather than addressing the hearts and minds of the very individuals who may well have the knowledge and experience that the top team are searching for.

Leadership, change and the team
Teams have identities just like individuals, and there are a myriad of things that can affect the culture and identity of those teams, not least the behaviour of the team leader and their approach to empowerment and trust. The American author John Kotter highlights the impact that the team has on the change process. He refers to the team as ‘the guiding coalition’ that must take into account position power, expertise, credibility and leadership in the change programme and cites the latter as the most important.

‘A guiding coalition made up of only managers – even superb managers who are wonderful people- will cause major change efforts to fail’.

Indeed his overall change model – establish a sense of urgency, create a guiding coalition, develop a vision and strategy, communicate the change vision, empower broad based action, generate short-term wins, consolidate gains and produce more change and anchoring new approaches in the culture – is a model that is equally powerful for leaders of M&A.

In most M&A trust is the key. Trust is fragile when people are suspicious. It can take years to build and minutes to break. When trust is present you will be able to create teamwork. When it is missing you won’t. People who have spent most of their time in a single department/division are often taught loyalty to their immediate group but instinctively distrust the motives of others, even if they are in the same firm – what chances for M&A with another organisation? Team building can overcome this. It starts with understanding yourself, seeing things from another individual’s perspective and building meaningful relationships. Team performance is based upon understanding strengths and weaknesses, mutual trust, respect and support and, above all, leadership within and not just at the top of the team.

Leadership, change and the organisation
Just as a team is made up of individuals, often with different roles within the team, an organisation is made up of teams, again with different roles. The size of team can vary, perhaps from a small R&D department to a
large Sales and Marketing division, but more often than not they have their own unique identity and culture. Just as teamwork cannot flourish if individuals are misaligned, organisations cannot function effectively unless the teams within it are aligned. Not surprisingly, an M&A can only exacerbate matters unless the organisations clearly understand where they are now and where they want to be in the future - at the heart of this is culture. Its sounds so simple in cultural terms– know where you are, know where you want to be, identify and analyse the gap, and then close it - job done. How we get from here to there is the key – hearts and minds and engaging the emotions of the individual and teams is key. But there are ways of going about it. Work commissioned by the Centre for Excellence in Management and Leadership placed culture at the heart of major change programmes and offered a number of different ways of identifying culture. Edgar Schein offers the notion that culture – learned, shared, tacit assumptions on which people base their daily behaviour – lies on 3 levels. First there are artefacts, visible organisational structures that are hard to decipher. Next are espoused values, strategies, goals and philosophies. Finally, there are basic underlying assumptions, the unconscious, taken for granted beliefs, perceptions thoughts and feelings that are the ultimate source of values and actions. This is taken a step further in the Cultural Web which can be used not just to identify the culture of the organisation, but also teams or divisions within it and thus contribute to the alignment within it. The web looks beyond just power, structure and control mechanisms to include rituals and myths, routines and symbols and thus gives a much richer picture of ‘the way we do things around here’. So what of the culture of the organisation that is the result of the M&A? Again the answer is as complicated as it is simple – you either continue to have separate cultures, have a dominant culture or create a new or blended culture. The ideal post-merger integration according to complexity would resemble the creation of a child. It has some characteristics inherited from both parents but has its own unique personality and identity. What is clear is that it needs careful thought and addressing and that leadership development is fundamental to the success of a successful M&A. Resolving the inevitable conflict, achieving consensus and resisting premature resolutions are key at the individual, team and organisational level. Leaders cannot assume that you can paint on culture after the event.

The Leadership Trust programmes
At The Leadership Trust we are often asked to design a leadership programme that helps to address the leadership issues outlined above, particularly addressing the ‘feelings and emotions’ in order to win the ‘hearts and minds’. The programmes range from focussing on leadership and the individual exploring the fundamentals of good leadership through self awareness, leadership and the team where team dynamics in a change situation are addressed and leadership and the organisation. The latter can include working with the senior change team and at board level by combining the Trust’s Leadership Audit© with tailored Directors and Executive Leadership Programmes which in turn can be complemented by Executive Coaching through the period of the Merger and Acquisition. We would be delighted to discuss how we might work with you to lead change and blend cultures brought together through a Merger or Acquisition.

COMMON CULTURAL CHALLENGES FACED BY LEADERS DURING A MERGER OR ACQUISITION:

1. Impatience
Most leaders dramatically underestimate the time it takes to shift organisational culture, particularly where two very different cultures are suddenly asked to merge. Organisational cultures are resistant to change for numerous reasons. The legacy of their history and technologies, not to mention the stories, heroes and symbols of the past mean that programmes premised upon the notion that the past can be erased inevitably fail. An organisation’s history cannot be erased. A good change programme will acknowledge this, and build upon it. Kotter and Heskett’s research found that for cultural transition to occur at a deep level, a leader should accept that it could take as long as

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10-15 years. But how many leaders have the luxury of thinking that far ahead in our fast moving, turbulent, digitised, global world? Very few. The result is that leaders embarking on a cultural change process often start with structural re-organisation to symbolise their intent, but as soon as cultural resistance looms, they lose heart and give up before the cultural change has gathered its own momentum.

2. The effects of conflict within the senior leadership group
One of the most common causes of disillusionment amongst subordinates is conflict within the senior leadership team, not least because it is rarely possible to hide this from others. Subordinates’ antennae are specially tuned in to detecting inauthentic and inconsistent behaviours in their leaders. These contradictions can spark off a range of confused and counter-productive feelings and behaviours. Torn between loyalty for the whole and loyalty for their direct boss, they are no longer certain of the messages they are supposed to follow. Professor Peter Anthony, a well-known British scholar of organisational culture, referred to this syndrome as ‘organisational schizophrenia’, and warned leaders not to ignore these symptoms.

3. Rivalries, fiefdoms and silos
Existing tensions between units and departments can often be aggravated by an acquisition. Ignoring these or hoping that they will be addressed by an assertive top-down approach rarely works. Indeed the introduction of new ideas and behaviours tends to magnify, not reduce, entrenched behaviours. Insufficient reinforcement and integration of the messages of the change programme within other organisational forums, e.g. strategy and business planning meetings, and systems and processes which are inconsistent with the values of your cultural change, will send out contradictory messages.

4. Preaching the new but rewarding the old
Another significant danger for leaders is allowing a cultural change to be perceived as separate and unconnected from the organisation’s main focus. If this happens, people will assume that they need not take it seriously, and so continue with ‘business as usual’. We have frequently seen organisations continuing to promote people who display ‘old’ cultural values long after investing significant time and effort in conveying a new cultural message. Senior leaders are often the most culpable of this – since their own rise to seniority is invariably connected to successful displays of ‘old’ behaviours and values, and they themselves may only just be coming to terms with the new social order.

5. Organisational disillusionment
Our research has shown that organisational changes start by raising hope. Most subordinates are willing to trust their leaders until disappointed. However, the inevitable outcome of not being able to live up to the expectations created by this hope is disillusionment. At The Leadership Trust we have witnessed many disillusioned employees who have trusted their leaders to deliver a promised vision, but instead have seen inconsistency, lack of tenacity, and contradiction. The stronger the hope generated at the start, the stronger the disillusionment if leaders let them down.

6. Plans for change are too static and inflexible
We live in turbulent times. This means that strategies inevitably need to constantly evolve to meet the demands of the external context. However, it is often the case that plans for change programmes are static, designed to meet immediate needs, and unable to respond quickly enough to the changing strategic and political context. Consequently they are deemed to be obsolete before they have achieved their aims or objectives, and instead of evolving to meet new needs, they are abandoned mid-roll out.

7. Blind faith in a formula
Formulaic approaches to leading cultural change are inevitably too simplistic. Any prescription that advocates a step-by-step approach without recognising the complexity of organisational behaviour and the uniqueness of each organisation is destined to failure. Even in this increasingly complex world, leaders who seek to understand deeply and act on the complexity of organisational change are still in a minority. It is this deep understanding, however, that will facilitate successful change.

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