Making mergers and acquisitions work: Strategic and psychological preparation

Mitchell Lee Marks and Philip H. Mirvis

Executive Overview

Three out of four mergers and acquisitions fail to achieve their financial and strategic objectives. Because the nature of the combination process—such as the secrecy that shrouds negotiations—runs counter to the requirements of rigorous research, efforts to learn why so many combinations fail, and to understand the management actions that put combinations on a successful course, have yielded limited insights. As a result, mergers and acquisitions continue to be mismanaged and to produce disappointing results. This article draws from the authors’ experience in over 70 mergers and acquisitions to understand the managerial actions that distinguish successful from disappointing combinations. It focuses on early efforts in the precombination phase that steer a combination toward the successful path. Precombination preparation covers strategic and psychological matters. The strategic challenges concern key analyses that clarify and bring into focus the sources of synergy in a combination. This involves reality testing of potential synergies in light of the two sides’ structures and cultures and establishing the desired relationship between the two companies. And the psychological challenges cover actions required to understand the mindsets that people bring with them and develop over the course of a combination. This means raising people’s awareness of and capacities to respond to the normal and to-be-expected stresses and strains of living through a combination.

Fewer than one quarter of mergers and acquisitions achieve their financial objectives, as measured in ways including share value, return on investment, and postcombination profitability. Many factors account for this dismal track record: buying the wrong company, paying the wrong price, making the deal at the wrong time. Another factor, however, seems to be at the core of many failed combinations—the process through which the deal is conceived and executed.1

Corporate combinations—the merger of separate entities into a new firm or the acquisition of one firm by another—have become a regular component of the managerial repertoire. Many motives prompt executives to acquire or merge with another organization. Perhaps a combination can help a company pursue a strategy that would otherwise be too costly, risky, or technologically advanced to achieve independently. Other deals are opportunistic, as when a troubled competitor seeks a savior or when a bidding war ensues after a firm is put into play. Still other acquisitions or mergers can be defensive moves to protect market share in a declining or consolidating industry.

The overarching reason for combining with another organization is that the union will provide for the attainment of strategic goals more quickly and inexpensively than if the company acted on its own.2 In this era of intense and turbulent change, involving rapid technological advances and ever increasing globalization, combinations also enable organizations to gain flexibility, leverage competencies, share resources, and create opportunities that otherwise would be inconceivable.

Despite their frequency, corporate combinations have proven difficult events for organizational researchers to assess. The nature of doing a deal runs counter to the requirements of sound research. For both legal and competitive reasons, merger negotiations are shrouded in secrecy. This
hinders data collection, but also means that researchers cannot anticipate and identify research sites before the combination occurs. Even after the announcement of a deal, more questions than answers remain. Executives are harried and employees anxious; no one has the time or the inclination to cooperate with a research program. And combinations pose some substantial methodological dilemmas. For example, when does a merger begin—as it is conceived, when it is announced, or when it receives legal approval? Similarly, there is no discrete ending to a merger.

As a result, most research investigations of the process through which combinations have been managed tend to be retrospective. A typical research design asks senior executives to assess the relative influence of various factors on the outcomes of their past combination activities. With 20/20 hindsight, executives acknowledge the human, organizational, and cultural aspects of the combination-management process. However, the lessons learned from past combinations are not being applied in a systematic manner to the management of current combinations.

Combination Phases

For more than 20 years, we have been involved in an action research program investigating and addressing human, cultural, and organizational aspects of corporate combinations. During this time, we have participated as researchers or consultants in over 70 mergers and acquisitions. These combinations have involved large, medium, and small companies, have been friendly and unfriendly, and have spanned a broad range of industry sectors—including financial services, telecom, high tech, health care, pharmaceuticals, manufacturing, professional services, consumer products, entertainment, and government.

Early in our research program, we collaborated with Management Analysis Center of Cambridge, MA, in a study of combinations in banking and finance. This research showed that significant differences could be identified between typical and successful cases by separating the distinct phases organizations go through in the transition from independent to integrated entities:

- precombination phase, as the deal is conceived and negotiated by executives and then legally approved by shareholders and regulators;
- combination phase, as integration planning ensues and implementation decisions are made;
- postcombination phase, as the combined entity and its people regroup from initial implementation and the new organization settles in.

To be sure, these are not clear-cut phases. Integration planning increasingly occurs in the precombination phase, before the deal receives legal approval. Pfizer and Warner-Lambert launched integration planning teams before their deal closed in June 2000 and AOL's President Robert Pittman moved into an office at Time-Warner's New York City headquarters even as federal regulators were reviewing that corporate marriage. Still, some distinct emphases emerged during the earliest months as a deal was being conceived and negotiated that distinguished the combinations that did and did not meet their strategic and financial objectives.

In the precombination phase, a financial tunnel vision predominated in the typical disappointing cases. Buyers concentrated on the numbers: what the target was worth; what price premium, if any, to pay; what the tax implications were; and how to structure the transaction. The decision to do a deal was typically framed in terms of the combined balance sheet of the companies, projected cash flows, and hoped-for return on investment.

In the precombination phase, a financial tunnel vision predominated in the typical disappointing cases.

Two interrelated human factors added to this financial bias. First, members of the buy team in most instances came from financial positions or backgrounds. They brought a financial mindset to their study of a partner and their judgments about synergies were mostly informed by financial models and ratios. They often did not know very much about, say, manufacturing or marketing; nor did they bring an experienced eye to assessments of a partner's capabilities in these regards. There was also a tendency for hard criteria to drive out soft matters in these cases. If the numbers looked good, any doubts about organizational or cultural differences tended to be scoffed at and dismissed.

In the successful cases, by contrast, buyers brought a strategic mindset to the deal. They positioned financial analyses in a context of an overarching aim and intent. Successful buyers also had a clear definition of specific synergies they sought in a combination and concentrated on testing them well before momentum built and any negotiations commenced. Here, too, human factors played a part. Members of the buy team in successful cases came from technical and operational, as well as financial, positions. And during the scouting phase, they dug deep into the operations and markets of a candidate when
gauging its fit. Sensible buyers considered carefully the risks and problems that might turn a strategically sound deal sour. This does not mean that the financial analyses were neglected or that they were any less important to success. To the contrary, what put combinations on the road toward success was both an in-depth financial understanding of a proposed combination, and a serious examination of what it would take to produce desired financial results.

Putting a Combination on the Path Toward Success

Steering a combination toward the successful path begins in the precombination phase. Many observers liken organizational combinations to organ transplants. The surgery must be well thought out and planned, and the surgical team and patient prepped, prior to the operation, to allow for rapid execution and minimize the likelihood of rejection. We urge clients to be proactive in the precombination phase: planning and preparation are integral to success when companies join forces.

Preparation in a combination covers strategic and psychological matters. The strategic challenges concern key analyses that clarify and bring into focus the sources of synergy in a combination. This involves reality testing potential synergies in light of the two sides’ structures and cultures and establishing the desired relationship between the two companies. The psychological challenges cover the actions required to understand the mindsets that people bring with them and develop over the course of a combination. This means raising people’s awareness of and capacities to respond to the normal and to-be-expected stresses and strains of living through a combination.

Purpose, Partner, Parameters, and People

The journey toward a successful combination begins well before dealings commence. As strategic intent and selection criteria are set, as a deal is being conceived, and as potential partners are screened, assessed, and negotiated with, executives, staff specialists, and advisors need to continuously address at least four different aspects of their potential combination: purpose, partner, parameters, and people.

Purpose: Putting strategy to work

The strategic synergies in a combination should lead to a set of decisions in the precombination phase on the intentions, rationale, and criteria for the deal. They guide eventual action for excavating sources of productive combination.

Strategic intent

Strategy setting begins with scrutiny of an organization’s own competitive and market status, its strengths and weaknesses, its top management’s aspirations and goals. The results define a direction for increased growth, profitability, or market penetration in existing businesses, for diversification into new areas, or simply for cash investment—which may or may not involve combination activity.

In successful acquisition programs, the CEO, relevant corporate and division management, and various advisors translate these objectives into specific strategic and investment criteria. Most buying companies have standard metrics for evaluating a candidate that include its earnings, discounted cash flow, and annual return on investment. They also have objectives about the impact of a combination on profitability, the combined organization’s earnings per share, and future funding requirements.

Here the typical and successful combination roads part ways. In so many cases, financial fit receives a disproportionate amount of attention and priority in the search for a partner. In successful cases, financial criteria are respected and adhered to, but are balanced by careful consideration of each of the synergies sought in a combination and what it will take to realize them. Knowledge gained from this careful look at synergies not only sharpens the parties’ assessment of their potential acquisitions, it also enables leadership to put forward a clear and convincing rationale for the combination that goes beyond the numbers. Most combinations involve expense-reduction. Executives who seek to create value have to be able to demonstrate to staff on both sides that there is more to the deal than cost-cutting—and that involves a crisp statement of how synergies will be realized and what that means for the people involved. Two recent oil industry mergers illustrate how early intentions influence subsequent integrations. BP selected Amoco and ARCO as integration partners because both provided good fits with BP’s retail operations and oil reserves. Exxon Mobil was a copy-cat merger. Rather than highlight strategic intent, these firms were motivated by a need to catch up with the scale of the new market leader and relied purely on financial analyses. With no strategic intent guiding integration, the result was a political free-for-all in which integration
decisions were based on empire building and turf protection rather than strategy.

If the true motives underlying a combination have less to do with strategy and more to do with nonrational forces—for example, the desire to run the largest company in an industry or the fear of being swallowed up by competitors—then a successful combination is unlikely because there are no true benefits to reap by joining forces. Yet combinations based on such motives are not infrequent. A blue-ribbon panel of financial experts concluded 20 years ago that CEO ego was the primary force driving mergers and acquisitions in the United States. More recently, a Columbia University business school study found that the bigger the ego of the acquiring company’s CEO, the higher the premium the company is likely to pay for a target.

When they have a voice in and can agree on the merits of a strategy, top executives, corporate planners, and line managers operate from a common interest and perspective. To enforce this consensus, corporate leaders assert strategic criteria and make sure the acquisition team searches for candidates that fit them.

A firm first needs to know what it is looking for in an acquisition candidate or merger partner. Having a full and open review of these criteria allows for debate and consensus building between staff and line executives. If conflicts or confusion about these criteria are not fully addressed up front, they will persist down the road. Applying these criteria religiously greatly increases the likelihood of selecting a partner that will bring true productive value to the combination, rather than one that will just be an acquisition for the sake of doing a deal. Understanding precisely what synergies are sought sets the stage for subsequently mining opportunities through the combination planning and implementation phases. The more unified both sides are—within and between themselves—about what is being sought, the more focused they can be in realizing their objectives.

Two sets of criteria help here. One is a generic set of criteria that guide a firm’s overall combination program and strategy. These are characteristics of organizations that must be present in any combination partner. At Emerson Electronic, a few factors guide search and selection of all alliance partners, such as not going into business with firms in turnaround situations and not straying beyond its core competency in manufacturing.

The second set of criteria guide the assessment and selection of a specific partner. In its effort to acquire other healthcare providers, a southern California hospital established criteria for what it was looking for in this particular search. These included “maintain/enhance quality of care—bring a continually improving level of quality care to the community served by the hospital” and “geographic distribution—enhance the geographic reach of the hospital across Los Angeles county and throughout southern California.” Some selection criteria were at odds with one another, such as finding a partner that both is the “low-cost provider” and “adds prestige.” The hospital’s executive team prioritized the relative importance of each criterion prior to the selection process. When it came time to evaluate choices, the team then assessed the multiple candidates and weighted the high priority criteria accordingly.

Successful acquirers know what they are looking for and conduct a thorough due diligence to ensure that they get what they want. Their screening of candidates covers the obvious strategic and financial criteria, but extends also to include assessments of the human and cultural elements that can undermine an otherwise sound deal. How deep is the management talent in the target? What labor relations issues lurk around the corner? How does the company go about doing its business? Is their culture a good enough fit with ours?

Thorough screening
The value-creating acquisition of Benham Capital Management Group by Twentieth Century Advisors began with a screening process that integrated human and cultural issues with strategic and operational criteria. Both firms meshed along operational lines in offering only no-load mutual funds and treating small shareholders well; but one senior executive told us that an exchange of corporate values statements during due diligence was among the data indicating that cultural compatibility existed as well: “Their ‘Guiding Principles’ and our ‘Statement of Beliefs’ were very similar. Both companies stated honesty as a fundamental belief and you don’t too often see that both stated and acted out in the financial-services industry.”
A thorough assessment of combination candidates also covers less tangible matters. First, it reveals the motives of the sellers in an acquisition or partners in a merger. Why does leadership of the target want to sell? Are they responding to a business opportunity or are they driven by more personal motives, like wanting to cash out their investment? Does senior leadership want to stay on board after the sale? Do the buyers want the seller’s leadership to stay? If so, will there be good chemistry between the leaders of the two sides?

Second, thorough screening gets below the top leadership and considers the mindsets of the two management teams. How do the target’s people feel about working with or for the buyer’s people? Are they looking for a company with deep pockets to fund them to glory, or are they likely to fight hard to fend off any threats to their autonomy after the deal closes? Does the buyer’s management team buy into this deal or do factions exist? Where does the target’s team stand? Are the technical and professional staff—who are outside the inner circle, but are needed to make the combination work—involved in the process? Are they apt to depart after a combination is announced? Even if answers to these questions are not deal killers, they indicate what has to be done to win people over during courtship phase.

A thorough precombination screening comes only from speaking directly with a good cross-section of the management team from the potential partner. Automated Data Processing CEO Art Weinbach is clear on the value of face-to-face due diligence with an array of managers from potential partners: “The greater surprises have come to us in the people and the people relationships. We have to spend more time on the people side of the equation in the due-diligence period. That is not as simple as looking at organizational charts; it requires speaking and listening to people both for the formal business issues as well as the less formal how does it really work issues. You learn a lot by listening.”

“We have to spend more time on the people side of the equation in the due-diligence period.”

Diligent due diligence

In most combination programs, true diligence needs to be put back into due diligence. Typically, the financial people who dominate due-diligence teams get a sense of the partner they want and build a case for combination going forward. It is important to get people on the team who will probe deeply and thoroughly enough to work backward and identify faulty assumptions and what might hinder eventual success.

Take information technology as an example. Proper due diligence ascertains first the extent to which the candidate’s system has the capacity to meet its own current and future business needs, and then considers the compatibility between the two sides’ systems right now and following anticipated growth. If the capacity and compatibility are not there, then the cost for getting there—and the impact of that cost on the financials of the deal—needs to be determined through a realistic (as opposed to an overly optimistic) evaluation.

Broadening the membership of the team also enhances organizational due diligence. Membership can be expanded to include staff professionals from areas like human resources and information technology, and operating managers who will be working with new partners if the combination is carried out. A functional specialist provides a breadth of analysis that simply cannot be conducted by a corporate generalist. Operations managers have a particularly important role on due-diligence teams. They can find many reasons why a deal that looks good on paper would crash on takeoff. In addition to reviewing operational issues, they can also assess the chemistry between themselves and their counterparts. If it is not there early on, it is not likely to be developed later. Differing viewpoints and preferences for how to conduct business are not in and of themselves reasons to negate a deal, but incongruent values, genuine distrust and outright animosity should be noted as red flags.

Some organizations we have worked with place up to 20 people on their due-diligence teams. This may be bulky in terms of scheduling logistics and organizing findings, but it pays off when a potential showstopper gets unearthed. One organization convenes two diligence teams to assess candidates and overcome the deal fever that frequently afflicts due diligence. Knowing that a poor partner can exact a huge financial toll and be a tremendous burden on management time and energy, this company goes forward only with combinations that pass muster with both teams.

Due diligence is also a time to size up the breadth and depth of managerial talent in the potential partner. A study of large combinations found that 65 percent of successful acquirers reported managerial talent to be the single most important instrument for creating value in a deal. Smart buyers not only evaluate current executives
but also look closely at managers not yet in leadership positions.

**Smart buyers not only evaluate current executives but also look closely at managers not yet in leadership positions.**

**Parameters: Defining the Combination**

There is a tendency for buyer and seller to get mired in the details of their transaction and lose sight of the big picture. Studies of the acquisition process have found that a fragmentation of financial, strategic, organizational, and cultural analyses leaves the executives involved with different, and often competing, perspectives on how to put their organizations together. In addition, each company has its own way of doing business, its own preferences and power structure, and a history of past decisions, forsaken options, and financial and physical investments. What appears to yield strong financial and strategic synergy between, say, two manufacturing groups may not be realizable because of incompatible structures and systems or sharp differences in cultures.

**Defining the end state**

Partners in successful combinations share a commonality of purpose and recognize and accept the terms of their relationship. People are able to focus their energy on a common goal and let go of any wishful thinking that may run counter to the realities of the combination. Yet in so many cases, corporate marriage contracts, like those between individuals, tend to be implicit rather than explicit, and are open to interpretation and misunderstanding. Carefully defining the end state of a deal can bring the pleasantries and promises of the precombination courtship to a quick halt. Failing to do so can lead to an even more unpleasant divorce.

While the work of achieving the desired end state will involve many people, the initial step is the responsibility of senior executives involved in doing the deal. In the best cases, the senior executive from the buying side puts his or her cards on the table regarding expectations and assumptions for the combining organizations. The senior executive needs to think through and come to the precombination discussions with a clear sense of which aspects of this desired end state are open to negotiation and which are not during precombination discussions and subsequent planning.

With this in mind, executives who hope to combine their companies are well advised to consider and share their hopes, expectations, and biases for how the postcombination organization will be structured. These intentions are largely determined by the degree of integration anticipated for the combined organization. We use a grid of different types of postcombination change to help executives think through their options and clarify their intentions. (See Figure 1.)

**Preservation**

This end state where the acquired company faces a modest degree of integration and retains its ways of doing business is typically found in diversified firms that promote cultural pluralism among business units. To succeed, corporate management has to protect the boundary of the subsidiary, limiting intrusions by its corporate staff and minimizing conformance to its rules and systems. Strategic synergies generated in a preservative combination come from the cross-pollination of people and work on joint programs.

**Absorption**

When the acquired company is absorbed by a parent and assimilated into its culture, the lead companies generally bring in new management and conform the target to corporate reporting relationships and regimens. Acquisitions in the airline industry, such as American’s absorption of Air California, Delta’s of Western, and USAir’s of PSA, are classic examples.

**Reverse takeover**

In the mirror image of the absorption combination, the acquired company dictates the terms of the
combination and effects cultural change in the lead company. When this unusual type of combination occurs, it typically involves the absorption by an acquired business unit or division of a parallel unit in an acquirer. For example, Marriott Corporation acquired Saga and folded its own contract food-services business into it.

**Best of both**

Studies find the achieving of synergy between companies through their partial to full integration to be more successful than others—and most fraught with risk. It can also be the bloodiest. Financial and operational synergies are achieved by consolidation. This means crunching functions together and often leads to reductions in force. The optimal result is full cultural integration—the blending of both companies' policies and practices. The merger of equals between Chemical Bank and Manufacturers Hanover and the combination of Canada's Molson Breweries with Carling O'Keefe are examples.

**Transformation**

When both companies undergo fundamental change following their combination, synergies come not simply from reorganizing the businesses, but from reinventing the company. This is the trickiest of all the combination types and requires a significant investment and inventive management. Transformation poses a sharp break from the past. Existing practices and routines must be abandoned and new ones discovered and developed. In the integration of Pfizer Animal Health and SmithKline Beecham's animal pharmaceutical business in Europe, president Pedro Lichtinger took two orthodox operations and transformed them into a new organization geared toward the emerging realities of the European Community. In doing so, he broke down traditional country-specific structures and cultures and forged a pan-European strategy, structure, team, and identity as the precombination parties merged.

A senior executive will frequently enter a combination with ideas for differing functions to end up at various points on the grid. In Pfizer’s acquisition of Warner-Lambert, financial reporting systems clearly were mandated by the buyer. A reverse acquisition occurred in the consumer-products area, however, where Warner-Lambert's business was much larger. John Niblack, head of Pfizer’s R&D function, used the merger to transform that organization. An executive has a picture of where he or she wants the combination to end, and makes those intentions clear to all parties. Certainly this end state may change as the partners learn more about each other, and about opportunities and challenges that arise during the combination-planning and implementation phases, but both sides enter into the combination with a shared sense of the desired end state.

**Cards on the table**

One of the worst moves any buyer can make is to talk merger and act acquisition. Sometimes buyers think they are doing the right thing by softening their messages and welcoming target personnel as partners. Other times, they are being outright manipulative by wooing the other side with pledges of a merger of equals when their true intention is to dominate. When postcombination parameters do not mesh with precombination promises, the result can only be disenchantment and distrust.

Whatever the intentions of the lead organization, false expectations abound in the target. Sometimes, people innocently misinterpret what they hear because of the inconsistent use of language across partners. Other times, being in a state of psychological denial interferes with partners' truly hearing what is being stated. Still other times, a partner knows quite well what is being said, but presumes that its own political skills will reign and change the situation as the organizations come together.

Announcing the desired end state provides an early opportunity to clear the air of any misperceptions or fantasies about how the two sides will coexist in the combined organization. Beyond checking misperceptions, a well articulated desired end state communicates to the work force that their leadership has a solid sense of where it wants to take the combination. This breeds employee confidence that leadership is managing the combination well. It also gives people something tangible to talk about, rather than turn to the worst-case scenarios, rumors, and naysaying that predominate in most combinations. Finally, a clear and understood desired end state guides combination planning and implementation. With the parameters established, integration planning teams and busy executives can study options and make

---

Transformation poses a sharp break from the past. Existing practices and routines must be abandoned and new ones discovered and developed.
recommendations within a realistic context rather than worry about having plans shot down by a senior executive because they did not fit preconceived expectations.

People: Managing the Dealings

Combination partners typically enter a deal with distinct mindsets. In an acquisition, the buyer and seller usually have very different psychological perspectives on the deal. Often they bring a one-up versus one-down outlook into their dealings, particularly when the acquiree is strapped for cash and has had a downturn in business performance. In cases where the roles of lead and target are not so well delineated, psychological factors can also influence the relationship. Members of one side may see themselves—or be seen by the other side—as more worldly, technically sophisticated, financially strong, or savvy in the marketplace. Yet the very premise for the merger—that the partners will gain access to or leverage each other’s technology, patents, customers, or some other capability that they do not already possess—calls for a true meeting of the minds. The AOL-Netscape integration, for example, was slowed by Netscape’s self-perceptions of technical superiority; the people who believed they had invented the Internet were dismayed at combining with a firm they considered the McDonald’s of the Internet.

Psychological mindsets certainly influence early dealings and can dominate the critical months of transition planning and implementation. (See Table 1.) And they often carry over into the combined organization. Awareness of these mindsets—both one’s own and one’s partner’s—helps both sides prepare for a successful combination.

Mindset of the buyer

To the victors go the spoils. Bidding wars and hostile takeovers are certainly exhilarating for the winners. And even for executives involved in a friendly deal, there are few moments in a career that equal the intensity and satisfaction of buying another company.

Acquiring another organization, or assuming the role of lead party in a merger, translates into a strong air of superiority. This attitude frequently carries over into assumptions that the buying company’s business acumen—and policies, procedures, people, and systems—are superior to those of the purchased firm. Being the dominant party contributes to condescending attitudes about the other side: On more than one occasion, we heard executives from buying companies crow: “They are still battling the problems we solved five years ago. Wait until we show them how to do things.” Thus AOLers themselves felt superior to their counterparts from Netscape.

As the combination begins, lead companies are impelled to move fast and consolidate their gains. A sense of urgency prevails in the lead organization as it wants to put its plans into motion fast. There is always something uncertain about precisely what has been bought—who they are, what they do, whether they really know how to run their business. Corporate staffers pounce on the target to get their hands on things in a hurry.

This fuels managers’ momentum in the lead company to dominate the action. They have studied the situation longer and have more detailed plans and priorities. Top management may have promised to go slow and honor traditions during the precombination negotiations, but vice presidents, corporate staffers, and managers get the taste of power and have their own designs. Moreover, they are rewarded for meeting budgets and producing results, not for how fairly or smoothly they manage the combination. As a result, lead managers often unilaterally dominate the action and impose their own integration plans. Prior promises mean nothing.

Mindset of the seller

Why is being acquired so debilitating to an organization? In a hostile deal or one imposed by the board, there is from the start a sense of violation: Executives we have interviewed have likened it to a rape and described their buyer as an attacker or barbarian. Even in friendly deals, acquired managers often describe themselves as being seduced by promises that changes will be minimal, and as being taken advantage of once they are forced to accommodate to the new owner’s demands.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Precombination Mindsets of Buyers and Sellers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Party</td>
<td>Mindset</td>
</tr>
<tr>
<td>Buyer</td>
<td>Air of superiority</td>
</tr>
<tr>
<td></td>
<td>Drive to consolidate gains</td>
</tr>
<tr>
<td></td>
<td>Urge to dominate the action</td>
</tr>
<tr>
<td>Seller</td>
<td>State of shock</td>
</tr>
<tr>
<td></td>
<td>Defensive retreat</td>
</tr>
<tr>
<td></td>
<td>Sense of fatalism</td>
</tr>
</tbody>
</table>
Even in friendly deals, acquired managers often describe themselves as being seduced by promises that changes will be minimal, and as being taken advantage of once they are forced to accommodate to the new owner's demands.

A state of shock permeates a company following an acquisition announcement. Executives wander the halls after a combination is announced, unprepared to assume new duties and responsibilities. Executive recruiter John Handy found that 90 percent of nearly one thousand senior and middle executives he studied were psychologically unprepared for the changes in status and organizational structure they would encounter following their company's acquisition. 

One way executives cope with their shock is by a defensive retreat. This allows acquired executives to regroup and reformulate a battle plan for countering the enemy. At one acquired manufacturing firm, this led to a strategy of noncompliance and various tactics to resist the overtures of the lead company. Even in mergers of equals, perceived fears of losing status or ways of doing things lead executives to dig in and protect their turf.

Acquirees often feel powerless to defend their interests or control their fate. Even when the deal is friendly or when a company is rescued from a hostile deal by a sympathetic third party, the consequences are frequently out of the acquirees' control. Sellers sometimes respond with passive or aggressive hostility; other times, they withdraw with a sense of defeatism.

Many managers use Elisabeth Kübler-Ross's stages of reactions to death and loss to illustrate their personal reactions to being acquired. Initially, there is denial and disbelief. Upon learning they are up for sale, executives go into a state of shock, denying the reality and their own vulnerability. The work force can both under- and overreact, predicting that nothing will happen or that everything will change. People in the target company then experience anger. They will be angry at their leadership for selling out and then for cashing in. Later they will be angry with the buyer. While expressions of anger allow people to vent their emotions, many become stuck at this stage and are never able to move on to accommodate to the new situation.

For those who can psychologically move forward, next comes bargaining. People's natural tendency is to look out for themselves. Some will leave what they consider to be a sinking ship. Others will try to make themselves indispensable. Some will cozy up to new management and pitch their importance and value to the organization. Others will guard data or customer relationships as leverage for survival.

Only after time will people accept the reality of the new situation and be ready to work with counterparts in a genuine and committed way. For some, this may be a matter of weeks or months. Others take years. Some individuals never reach the stage of acceptance.

Psychological Preparation

An executive we worked with suggested that preparing for a combination was like "preparing to be hit by a Mack truck." Maybe so, but at least it helps to know that others have gotten up off the pavement and gone on with their lives. Psychological preparation for a combination means raising awareness of the normal and to-be-expected mindsets of combination partners. Preparation alerts executives on both sides to the mindsets of the buyer and the seller, and holds up the mindset of partnership as the standard to achieve.

In many combinations in which we have been involved, employees from both sides have participated in sensitization seminars to foster dialogue about their respective mindsets. Individuals hear about combination mindsets, express their hopes and concerns going forward, and learn tactics for coping with their mindset and that of their counterparts.

Another way to raise awareness of combination mindsets is by educating people through readings, presentations, or discussions of the human realities of a combination. Many organizations distribute books and articles describing the mindsets of buyer and seller, sponsor workshops in which outside experts describe the dynamics of combining, and engage executives in discussing expectations or experiences in going through combinations. In organizations with experience in combinations, veterans of previous mergers and acquisitions can share their first-hand experiences with novices. Central to Cisco's fine reputation as a successful acquirer is its use of a buddy system to link veteran acquirees with newly acquired executives.
In organizations with experience in combinations, veterans of previous mergers and acquisitions can share their first-hand experiences with novices.

Combination preparation workshops

A more dynamic approach to raise awareness of these mindsets is through an experiential activity that helps people develop a true feeling of what it is like to acquire or be acquired. This proved to be a powerful intervention when two CEOs of high-technology companies shook hands on what they jointly termed “a merger of equals.” Little did they know that they held quite different interpretations of that phrase. The target company CEO assumed this meant that both sides would have equal say in combination decisions. The lead company CEO, however, intended it to mean that his side would have the final say, but would engage its counterparts to determine how to best implement those decisions. Both CEOs prepared their teams according to their personal interpretations and ultimately destroyed the goodwill between them.

The target CEO convened his board and asked it to negate the deal. The target company was in a weak financial condition, however, and the board could not justify that course of action. The deal remained, but so did the bad blood between the two sides.

One of us engaged executives from both sides in a two-day meeting that combined educational with experiential activities. The morning of the first day began with a discussion of human, cultural, and organizational issues in combinations, including the mindsets of buyers and sellers. After a lunch break, the two teams went to work on a business simulation. Acquired executives played the Green Widget Company and lead company executives the Red Widget Company. Being competitive business people, they threw themselves into the simulation and established strategies and tactics for maximizing their returns. Just five minutes before the close of the first day’s session, however, the facilitator announced that the Green company intended to acquire the Red company, reversing their roles in the actual deal. Nothing further was said about the details of the acquisition, though more information was promised for the next morning. Day one adjourned and all were invited to cocktails and dinner.

In the lounge, it was as if the simulation were still on. Red Company executives huddled in one corner, wondering out loud what their fate might be at the hands of their new owners and plotting ways to resist any changes in control. Green Company executives, at the other end of the bar, began planning how they would establish authority in their new acquisition.

The next morning, the two groups identified their negotiating teams and readied their combination strategies. The Red team was determined to protect its independence despite the change in ownership. The Green team aimed toward consolidating operations quickly. Neither team was coached to develop these mindsets; they developed naturally based on their roles. It was then announced that the two sides would participate in a series of negotiating sessions, with time allotted for the teams to report back to their colleagues. After three rounds of negotiations, no progress had been made: target executives were obstinate in their resistance and lead executives grew increasingly disenchanted with the lack of progress in negotiations and planning. In a fit of frustration at the next negotiating session, the Green team head fired the executive who headed the Red team. The facilitators then called an end to the simulation and the two sides were brought together to discuss what they had experienced.

Green Company executives began by asserting how uncooperative and unrealistic their acquired counterparts had been. Red Company executives, in turn, complained that the Greens never intended to listen to any input from their side, were disrespectful to them and their way of doing things, and were not willing to negotiate alternative courses for approaching the combination. Red executives acknowledged that what they saw the Green team doing in the simulation reflected their own tendencies in the real acquisition: they were eager to move ahead with consolidation and assumed things would go their way. More than this, however, the Reds gained a deep understanding of what it is like to have one’s organization suddenly taken away in a combination. They became more sympathetic and empathetic toward the plight of their real-life acquired counterparts. The Greens, for their part, came to see how easy it was to slip into the mindset of the buyer and dominate the action. The awareness of self and others raised in the experiential activity led to the creation of formal ground rules for combination planning.

As the combination became legal and integration planning hit full stride, no one expected a complete turnaround in people’s behaviors. Yet both sides saw enough movement from their counterparts and give-and-take in their relationships to build confidence in their ability to move forward together.
Commitment from top leadership

Another way to rein in the controlling behaviors of the lead company is to have the proper outlook modeled and managed at the top. In the merger of paper producers Abitibi-Price and Stone-Consolidated, we got senior team executives to meet early in the precombination phase, well before the deal became legal. Working with internal human resources professionals, one of us designed an offsite meeting agenda that included frank discussion about the role of the group in leading the combination and the ground rules that would guide its leadership. One ground rule directed executives to reach out to the other side when as they proceeded to make staffing and integration decisions. Only if they practiced partnership and overcame the tendency to favor people and practices familiar from their side, the executives acknowledged, could middle-level managers be expected to do the same.

Another way to rein in the controlling behaviors of the lead company is to have the proper outlook modeled and managed at the top.

Middle managers who must make the deal work also manifest the mindsets of buyer and seller. Some headiness on the part of lead company managers down the line is inevitable. It is imperative, then, that senior executives set the proper tone, articulate the principles of integration, and bring those principles to life in their own actions. Senior executives must also be prepared to act accordingly when the principles are not followed. A top executive from the lead company in an entertainment merger one of us worked on recalled: "Despite all of the urgings from partnership from our CEO, a sense of 'when in doubt, go with our way' prevailed among middle-level managers from our company. It is very difficult to get people to put aside their way of doing things." In this case, lead company executives listened and responded to complaints from acquired counterparts and spent time coaching their own middle managers. Realistically, acts of domination were not overturned, but the acquired team recognized that a genuine effort was made to counter excessive domination.

Precombination Planning

Some firms are beginning to complement preparation for a specific deal with a more generic approach to precombination planning, particularly in industries, like telecom and healthcare, where combinations have become recurring events. Their aim is to have their act together when a combination opportunity arises.

As these organizations survey their competitive environments and deliberate strategic responses, they see that combinations are increasingly important for getting them where they want to go. Knowing that acquisitions and mergers are essential to meeting their strategic objectives—and in some cases necessary for their basic survival—executives take the opportunity to prepare to meet the organizational challenges in combining entities. A small but growing number of companies have either learned from their own failed combinations or taken seriously the feeble track record of other organizations and recognized the need to beef up their readiness for combining successfully.

Kaiser Permanente, the large health-maintenance organization, determined through its strategic-planning process that multiple acquisitions and strategic alliances would be essential for its long-term growth and survival in the volatile healthcare industry. Kaiser’s leadership recognized that it did not have the internal competence to identify and implement combination opportunities. Advice from external consultants, coupled with the urging of an executive with considerable combination experience who had just joined Kaiser’s senior team, led to the formation of an internal Acquisitions and Alliances SWAT Team. Middle-level managers from a broad array of functions and geographical units were asked to contribute their perspectives in the full combination process, from target selection to integration. Team members received a crash course in everything from valuation to culture clash. Nearly fifty managers graduated into roles to complement staff professionals and external advisors in targeting and integrating acquisition targets and alliance partners.

At Weyerhauser, the forestry and paper-products giant, consolidation among other industry players and the recognition that new ventures were likely to be pursued through acquisitions and alliances prompted senior executives to enhance their awareness of combination pitfalls and success factors and their readiness to manage a combination. Finance, strategy, and human resources executives joined with operations executives who had managed previous acquisitions in the company for an earnest assessment of their acquisition performance. The open discussion of what had and had not worked in previous combinations, both inside and outside the company, led to a more thorough and rigorous regard for the full set of organizational challenges in a combination.

At both Kaiser and Weyerhauser, organizational
preparation began well in advance of combination activity. Even when organizations have not been this foresightful, there is still time to act after the initial combination announcement. In some large acquisitions, several months can pass awaiting legal approval. Most organizations waste this time. Others use it. At Pfizer, even before the Warner-Lambert acquisition received legal approval, merger-management training programs raised awareness of combination mindsets and alerted executives to the realities of the integration process. Internal facilitators participated in a day-long integration-team launch meeting that described pitfalls common to other firms’ integration efforts and guided team members building effective teamwork in their planning groups.

**In some large acquisitions, several months can pass awaiting legal approval. Most organizations waste this time. Others use it.**

A particularly in-depth precombination planning session was coordinated by internal organization development professional Ronny Versteenkste of Seagram Spirits and Wine Group (SSWG). Soon after acquiring Seagram, French entertainment conglomerate Vivendi announced its intention to retain the target’s film and music holdings, but divest its liquor and wine businesses. Employees in SSWG were in limbo as their unit was put on the auction block. Rather than wait and see what the buyer would do, Versteenkste convened a four-day meeting of senior human-resources professionals. The meeting featured discussions of the status of major HR initiatives in the company in light of the eventual change in ownership, the fate of employees who would not be retained after the sale, success factors in mergers and acquisitions, and the human and cultural realities of joining forces. On the closing day, executives from BP and Amoco and Chemical Bank and Chase discussed their successful integrations. The meeting concluded with a discussion of strategies for actively dealing with the buyer by sharing the output produced at the meeting and reaching out to form a collaborative relationship with counterparts in the lead organization. There was no assurance that the buyer would be receptive to this outreach, but HR professionals left the conference feeling confident that they were doing the best job possible to prepare themselves, their organization, and their new colleagues for the rigors of integrating previously separate organizations.

**Preparing to Move Forward**

Actions taken—and not taken—in the precombination phase as a deal is being conceived and negotiated set a direction whereby a merger or acquisition heads down a successful path or veers off toward failure. In this phase, leadership sets its growth objectives and business strategy, and determines what kind of firm it wants to partner with, how, and why. It conducts a search, selects a partner, and negotiates a deal. To enhance the likelihood of a successful combination, leadership uses this period to prepare to join forces strategically and psychologically.

Successful combinations begin with self-scrutiny and analyses that yield a conclusion that a company can realize strategic goals more realistically, rapidly, and/or cost-efficiently through a combination than by acting on its own. This creates the basic rationale for scouting the marketplace with the intention of merging or acquiring. Fleshed out further, it also informs search criteria and is applied in screening candidates. As a partner is identified, strategy comes to life in preparing a business case for how the two parties will create value and in thoroughly analyzing potential costs and risks in putting the two together.

Companies have to organize themselves to buy and sell. On both sides, this means putting together a team that includes not only corporate staff and the CEO but also the executives who ultimately have to lead the combination. In addition to its obvious part in determining strategic and financial fit, thorough screening explores a partner’s motivation for doing a deal, its culture, and the makeup of its people. Diligent due diligence, in turn, digs deep to understand if the values of the potential partner are compatible; if the bench strength exists to manage the combination while running the core business; if all parties are on the same wavelength on synergies and what it takes to combine; and if there is enough trust and chemistry to propel the combined organization into becoming more than the sum of its parts. Such diligence counters momentum and the rush to close, giving the parties a chance to get better acquainted and—when warranted—to back out gracefully.

Good strategies do not necessarily produce good combinations. Psychological preparation educates people about the mindsets of winners and losers and readies them to meet and work with their counterparts. Seminars and simulations help employees contend with the concerns that arise early on and increase once integration starts.

In the period between the announcement of a sale and its legal close, executives can begin to identify the optimal points of integration between firms, de-
fine a desired cultural end state, and prepare for the
grueling work of forming transition teams. They also
need to think through how to allocate executive time
and talent to the combination process. Meanwhile,
preparations can be made to ramp up communications,
conduct training, and develop and implement
retention and layoff policies.

Strategic and psychological challenges afflict all
combinations, even the friendliest and most soundly
conceived ones. The more these issues are raised
and worked through during the precombination pe-
riod, the more prepared people will be to take on the
challenges of integration and contribute to mining
the strategic synergies in a combination. Precombi-
nation planning readies people to move forward in
their personal and organizational transitions, and
establishes the dynamics that endure as the combing
teams come together to manage the transition to
a unified postcombination organization.

Endnotes

1 For studies of postcombination financial results, see
Wright, M., Hoskisson, R. E. & Busisetz, L. W. 2001. Firm rebirth:
Buyouts as facilitators of strategic growth and entrepre-
Davidson, K. M. 1991. Why acquisitions may not be the best
organizations: A force-field perspective. Human Relations, 47(4):
431–453; Hitt, M. A., Hoskisson, R.E., Ireland, R. D., & Harrison,
Academy of Management Journal, 34(4): 693–706; and Lubatkin,

2 The strategic role of combinations is discussed in Haspeslagh,

plus one equal three in mergers, acquisitions, and alliances.

4 Management Analysis Center. 1985. A study of the performance
of mergers and acquisitions in the financial services
sector. Cambridge, MA.

5 Boucher, W. I. 1980. The process of conglomerate merger.
Washington, DC: Bureau of Competition, Federal Trade
Commission.

Press.

7 Conference Board. 1994. Change management: Strategic
alliances. New York.

8 McCreight and Company. 1996. Ensuring success with
mergers and acquisitions. Wilton, CT.

9 Anslinger, P. L. & Copeland, T. E. 1996. Growth through acqui-


11 Handy, J. 1969. How to face being taken over. Harvard
Business Review, November-December.

and Schuster.

Executive Commentary

Leo F. Brajkovich
International Survey Research LLC

A wise person once said that a beautiful marriage
is one in which two people become one. The trou-
ble starts when they try to decide which one. Many
members of the clergy will not marry a couple
without prenuptial counseling. Organizations con-
sidering a merger would be wise to follow this
example. The emphasis that Marks and Mirvis put
on preparing psychologically and culturally for a
merger or acquisition is long overdue. As they
rightly point out, much has been written about how