Schulz Consulting
Corporate Psychologists
8 Vinca
Littleton, Colorado 80127-4343
Phone: 303.204.0849
Fax: 303.904.1224
www.SchulzConsulting.biz

A Guide
To Mergers
& Acquisitions

A Guide to Mergers & Acquisitions

"Putting together two businesses that are profitable, well managed, and even related in every way is not enough to create synergy….The overwhelming evidence is that mergers do not improve profitability… market share [or] growth….

"Warren Hellman, former head of Lehman Brothers, has commented, 'So many mergers fail to deliver what they promise that there should be a presumption of failure. The burden of proof should be on showing that anything really good is likely to come out of one.' "

Mark Sirower, *The Synergy Trap: How Companies Lose the Acquisition Game*

"People live for purpose. You must not impose a new order (or culture) without giving people a sense of purpose. You can change candles, but must first transfer the flame."

Robert Gilbreath, *Escape from Management Hell*

Most mergers and acquisitions fail to achieve the financial and business benefits they were intended to create. The primary causes of failure are

- Unrealistic financial projections
- The inability to recognize mismatches between organizational cultures and leadership styles
- The failure to create a new common identity which embraces both organizations
- The failure to resolve organizational and psychological conflicts generated by the merger/acquisition process

The Acquisition

Mergers and acquisitions are like marriage. They can be successful if there is a realistic understanding of the respective organizations and a clear, effective strategy for marrying the different organizational cultures and ways of doing business. Following a thoughtful, thorough strategy for evaluating the "soft" side of potential mergers and acquisitions, we can

- Use mergers and acquisitions to support our Strategic Intent
- Identify potential targets that fit with our Purpose and Core Values
- Successfully blend with candidates organizations

The acquisition process has three stages: *dating*, *courtship*, and *marriage*.

Dating

In the dating stage, organizations look over potential partners. As there are few matches made in heaven, most dates end up being explorations that go no further. It is in this stage that we look for attractive candidates (e.g., we like their line of business) and wonder if they and we are compatible. If there is enough mutual interest to pursue more than some casual dates, that is, we are starting to get serious, then it is time to look closely at how well suited we are for each other.

A key question that should be answered early in the process is:

- Are their values compatible with our Core Values?

If the answer to that question is "No," the likelihood of a successful match is remote. If the answer is "Yes," then we may proceed to a closer look at one another.

After asking the key question about Core Values, we should next ask the following questions:

- What does the other organization, and especially its senior executive, want from us?
- What do we want, psychologically, from them?
- What do we fear?
- What assumptions are we making about this target?
- How might our assumptions get us into trouble?
- What expectations are we keeping hidden from the target?
- What quality in this target will we lose by making them more like us?

Dating, by its very nature, induces us to distort reality. Our perceptions are colored by our past experiences, our fears, and our dreams. Answering the previous questions helps to counter our natural tendency to engage in self-delusion.

Building on Bill Schneider's work on corporate culture, the following matrix helps map out the type of culture of a target organization for rapid analysis of the fit between a potential acquisition target and the acquire. I am using Schneider's work as the basis for analyzing corporate culture for two reasons. *First*, he has developed a very cogent typology of organizational cultures. *Second*, if you think of corporate culture as the mirror of leadership style, his approach links leadership styles and types of culture in a very systematic manner. Using his approach to assessing corporate culture not only reveals the degree of match between your company and another organization, but it also predicts when organizations will have significant problems as a result of lack of a consistent cultural style.

CULTURE TYPE	**CONTROL CULTURE**	**FAMILY CULTURE**	**INNOVATION CULTURE**	**ENRICHMENT CULTURE**
STRATEGIC FOCUS				
Success Comes from	Market share dominance	The quality of relationships with customers	Product leadership and innovation	Realization of ideals, values, vision, or enrichment of lives
Pathway to Success	Get and keep control	Build cohesive teams	Pursue individual excellence	Actualize people to their highest potential
Approach to Customers	Controlling	Partnering	Provide the most superior value	Uplift and enrich
STRUCTURE				
Organizational Form	Hierarchical	Teams, groups	Matrix, project organization	Evolving, dynamic
Work Role	Compartment-alized functions	Generalist emphasis, cross-training	Specialist	Customized to fit the needs of the employee
Role of Employees	Follow orders	Collaborate	Be expert	Seek fulfillment
SYSTEMS				
Compensation	By power, position, or role in hierarchy	Tied to collective effort or accomplishment	Based on performance & EVA	Related to commitment to values or vision
PROCESSES				
Power Derived from	Position	Relationships	Expertise	Charisma
Principal Motivation	Need for power or influence with others	Need for affiliation	Need for achievement	Need for personal growth
Decision Making Style	Methodical, impersonal, create certainty	Participative, strives for consensus	Objective, seeks the best solution	Intuitive
Approach to Managing Change	By mandate	Team calls for change	Achievement goals drive change	Experimenting with change is an end in itself

CULTURE TYPE	CONTROL CULTURE	COLLABORA-TION CULTURE	COMPETENCE CULTURE	CULTIVATION CULTURE
PEOPLE				
Leadership	Authoritative, directive	Participative	Encourage excellence	Charismatic, visionary
Management Style	Systematic, bureaucratic, focused on order and control	Relational, team building, focused on consensus and cohesion	Rational, challenging, intense, focused on superlative performance and innovation	Personal, humanistic, focused on individual development as an end in itself
Leadership	Authoritative, directive	Participative	Encourage excellence	Charismatic, visionary
Management Style	Systematic, bureaucratic, focused on order and control	Relational, team building, focused on consensus and cohesion	Rational, challenging, intense, focused on superlative performance and innovation	Personal, humanistic, focused on individual development as an end in itself
Development	Emphasis on training to improve functional performance	Team oriented	Driven to learn	Learn for self-fulfillment, spiritual growth
Emotional Climate	Serious, formal	Harmonious	Intense, challenging	Lively, emotional
Key norms	Certainty, objectivity, stability	Democratic, egalitarian	Meritocracy, always pursue excellence	Faith, growth and development, embrace vision or values

Courtship

If the dating process leads to a serious relationship, one in which we can imagine a good fit and a promising future, then the courtship phase can begin. This is the phase of making plans, creating a common view of the future. Successful courtship requires engaging the target organization in developing a mutual process for planning how to marry the two organizations. As a start, this should include a common understanding of where there is the greatest similarity and where the greatest differences exist. Out of this, we can plan the wedding, that is, create an integrated road map for how to integrate the two organizations. The literature on failed mergers and acquisitions makes very clear that one of the crucial elements for successful M & As is an ongoing, multi-channel communication process for raising issues, addressing concerns, and keeping people informed throughout courtship and marriage.

Marriage

"One reason that synergy is difficult to achieve is that the current strategic plans and resources of the target do have value. The easiest trap to fall into occurs when acquirers forget about this value. Acquirer management must maintain and manage this value while making changes in operations It may be unrealistic to hope to gain two customers, but it is very easy to lose two customers after an acquisition."

Mark Sirower, *The Synergy Trap: How Companies Lose the Acquisition Game*

"From the outset, let us face squarely the reality that most mergers, acquisitions, and alliances have costs. Stress levels can be acute, and workloads exhausting; former colleagues may be fired and careers derailed; corporate cultures often clash; new structures may not align; and selected systems might fail to mesh….As one senior executive we worked with put it,' Buying is fun; merging is hell.'"

Mitchell Lee Marks & Philip H. Mirvis, *Joining Forces: Making One Plus One Equal Three in Mergers, Acquisitions, and Alliances*

The wedding signifies the blending of "your" and "mine" into "ours." Even when acquiring a much smaller company, it is essential that the management and employees of the target acquisition be directly involved in planning and executing the marriage. It is essential to have an integration strategy for making the transition from being separate companies to creating a new organization. Lack of a planned transition will only lead to chaos and confusion.

The Benefits of Successful Mating

- Retain intellectual capital
- Preserve organizational effectiveness
- Integrate with new organizations while maintaining our Purpose and Core Values
- Avoid costly divorce

How much will this acquisition cost?

Key Acquisition Evaluation Questions

What is the premium (i.e., purchase price – market value) being paid for the target company?

What alternative investments for this premium are available (i.e., how else could the money be used)?

Among all the possible investments for this money, which would generate the highest return for shareholders (i.e., what is the highest and best use of the investment capital available)?

After the acquisition is concluded, how much will it cost to maintain the revenues of the target?

How will the acquisition limit competitors' ability to contest our value chain or the target company's value chain?

How will the acquisition open up new markets or encroach on competitors' markets in a way competitors cannot respond (i.e., what unique competitive edge is created for us in new markets)?

Will the target be [a] stand alone, [b] stand alone with a change in its strategy to bring it in line with our strategy, [c] part of our operations, [d] completely integrated into our company, or [e] expected to take over a portion of our current business operations?

What is the degree of fit between our strategic intent and that of the target?

What will it take for the target's customers to even care, much less align with, our strategic vision?

What can be further sustained or improved along our value chain that competitors cannot challenge?

What resources will be integrated and which will remain independent?

When changes are introduced to support the acquisition, how will they clash with our culture and the culture of the target?

How will cooperation between us and the target be fostered?

How will conflicts between us and the target be resolved?

Who is likely to defect or not cooperate?

What will be the change in free cash flow as a result of this acquisition?