More often than not a merger or acquisition will fail. Don't fall into the common traps.

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podcast

AVOID COMMON PITFALLS OF Major Restructuring

BY ROBERT WHIPPLE

Would you get onto an airplane that has known problems and will get you to your final destination without a mishap only 30 percent of the time? Of course not. According to a March 2011 *Harvard Business Review* article, numerous studies have found the failure rate for mergers and acquisitions to be more than 70 percent, depending on how you define a failure. Why, then are CEOs so cheerful and optimistic when they head into a merger, acquisition, or major restructuring with the intent to arrive at the Promised Land unscathed? We desperately need to improve the odds.

Acquisitions gone bad are not hard to find. For example, the Daimler-Chrysler merger in 1998 was a classic debacle that cost Daimler nearly $36 billion over a decade, reports AutoObserver.com. As a reality check, this was a loss of almost $10 million per day for 10 years. The major reason for the breakup was the failure of the two cultures to integrate.

Large-scale disasters such as Daimler-Chrysler are plastered on the front pages of business periodicals, and the MBA case study books are laden with classic merger and acquisition blunders. Countless unsung smaller-scale disasters go on continually within organizations of all sizes and types. Their collective impact is immeasurable.

There are thousands of reasons major restructurings fail, but four in particular stand out: relying too much on the mechanical process, loss of objectivity leads to inadequate planning, lack of adequate training, and expecting too much too soon.

Relying too much on the mechanical process

MBA classrooms are full of bright students eager to learn how business works and how to be a successful executive or advisor. When they learn about mergers and acquisitions, the content usually is focused on the financial and legal details of setting up a combined entity from two unique groups.

Topics covered include asset valuation, due diligence, negotiation, legal aspects, management structure, and numerous other organizational factors that must be considered. Little attention is paid to the cultural part of the equation in these courses. Students are left to assume that the culture simply "sorts out" by itself over time. That over-

ANTICIPATE A BUMPY RIDE, AND EXPECT THAT SIGNIFICANT PSYCHOLOGICAL CALMING IS GOING TO BE NEEDED AT TIMES.

sight is a huge mistake that carries over to corporations.

To improve the merger and acquisition process, it is critical to give the cultural integration equal footing with the legal and financial aspects of the activities from the start. Most of the merger and acquisition failures result from the inability of the two groups to work well together, which causes considerable negative impact on the financial and other mechanical aspects of the plan.

Some groups struggle for years and never achieve a homogeneous culture in which people can even tolerate, let alone embrace, their compatriots. The solution is to spend as much time planning the cultural integration as you do the legal and financial aspects of the deal as soon as the merger and acquisition is a twinkle in the eyes of executives.

Loss of objectivity leads to inadequate planning

Top leaders who study the impact of a proposed restructuring can readily see the tangible rewards, and the benefits look seductively attractive. Typical examples of the benefits include increased market share due to better coverage, reduced costs by elimination of redundant staff, and new product lines to sell.

The costs and hassles seem to be manageable, so little energy is spent on an organized campaign to mitigate potential negative effects on people. Often, the impact of a restructuring on the customers is not well addressed during the initial considerations, when it should be a center focus.

The upside of the deal is championed, while problems are pushed aside. Lack of planning for contingencies comes back to haunt the action during the execution phases. The CEO driving the deal becomes like a teenager in love. Objectivity gives way to passion for the deal. Anyone who brings up a potential problem is labeled as "not a team player," so reasonable dissent is extinguished. This overenthusiasm typically gets the venture off on the wrong foot, and it gets much worse before emotional bankruptcy, if not physical bankruptcy, is reached.

There are three antidotes for this situation:

- Have a trusted devil's advocate on the senior team who will prevent myopic optimism.
- Explore potential problem areas and design solutions that mitigate risk.
- Calculate the return-on-investment based on your best guess of the benefits, but inflate estimated costs and problems because real costs will surface later and be larger than anticipated.

Lack of adequate training

Training is critical in any major restructuring. Most people will have new or modified roles, and the entire premise of the business must be recast in light of the combined entity. It is a common mistake to throw people into a new configuration and let them sort out what actions are best. That strategy is a formula for chaos internally and customer frustration externally.

Although there will be a need for training at all levels, I will focus on training senior leaders and supervisors because these two groups hold critical leverage for the success of the activity.

Leadership training is especially crucial during any kind of restructuring. Many organizations back off on training programs for senior leaders because there is so much chaos during the integration that most leaders are too busy to sit in the classroom. The solution, then, is to bring the classroom to the chaos.

What better time is there to do leadership development than right there in the middle of the crucible? Skilled learning and development professionals can leverage the urgent need for

solutions into pragmatic problem solving and motivational skills.

In *On Becoming a Leader: The Leadership Classic*, Warren Bennis, often called "the father of leadership," writes, "Leaders learn by leading, and they learn best by leading in the face of obstacles. As weather shapes mountains, so problems make leaders." Learning and development professionals can help leaders understand their roles at times when they might otherwise be too distracted or frantic to recognize the learning opportunities at hand.

Supervisors also are in urgent need of leadership training during a restructuring because they form the critical link between the management layers and the workers. Changes faced by each supervisor are stressful, yet this individual is vital in creating order for the others. Weak or bully supervisors often come unglued due to the pressures of a merger, so they need assistance and some relief to perform their function when it matters most.

Often supervisors have been placed in positions of authority with inadequate leadership training. They gain their purchasing power to lead based on content knowledge and longevity, but in a restructuring, the content knowledge has less importance because processes must be reinvented. Think of the leadership training as a team building opportunity that allows the supervisors from both organizations to get to know one another well in a neutral setting.

It is tempting to prune the training staff early in the process due to apparent redundancy. A best practice is to take advantage of every training resource to help with the integration design and to do the extensive cultural and operational training. Identify the functions carefully and do cross training throughout the merger process.

Expecting too much too soon

In the anticipation of a merger or acquisition, adrenaline drives expectations of what the merged entity can accomplish. It is easy to assume that individual needs will be resolved and team cohesion will somehow settle in quickly. That is not the case, and often bitter feelings linger on, hurting the integrated organization for years. Classic organizational development approaches are inadequate to cover the depth of disarray and terror that people in the workforce often attempt to hide for their own survival.

The antidote is to anticipate a bumpy ride, and to expect that significant psychological calming is going to be needed at times. Here are 10 ideas that may be helpful:

- Be clear and transparent throughout the process.
- Include the customer in every decision, especially during the chaos phase.
- Assume the risk of setbacks willingly, and do not let unexpected issues spoil the soup.
- Invest in emotional intelligence training for people in the organization, especially management.
- Bring in a grief counselor to help people cope with the loss and the transition.
- Create design teams early to help people connect with the future more quickly.
- Celebrate positive movement in an integrated way to model the spirit of the merged culture.
- Train leaders to model the integrated behaviors, and do not tolerate silo thinking.
- Consider cross-locating or co-locating people, where possible.
- Prune redundant resources delicately with a sharp scalpel rather than a long line of guillotines.

There can be times of joy and accomplishment during any merger or acquisition. After all, the vision for the whole activity is a brighter future. Wise leaders will recognize that changes of this magnitude require extraordinary effort and patience to achieve the anticipated result. By focusing the same level of effort on establishing the right kind of culture as they do on the financial and legal aspects of restructuring, leaders can ensure they meet or exceed their goals.

Bob Whipple is CEO of Leadergrow, an organization dedicated to growing leaders, and author of a book and video series titled *Building Trust and Unity During a Merger, Acquisition, or Restructuring*; bwhipple@leadergrow.com.

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