Heitger Consulting

In love, engaged, married – happy?

Value added by means of Mergers & Acquisitions

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1. Introduction

Mergers & Acquisitions (M&A) are an essential thrust for the growth strategies of many companies. They are a core element of their efforts to improve their competitive positions and added value. M&A are mega interventions in the scope of any company development, as they – nearly always – represent far-reaching and radical changes in strategy, structures and culture. The internal business function M&A thus has tremendous creative power. So it is all the more surprising that this function has so far not received the attention it deserves in the scope of company practices. Only in very few companies is M&A a properly differentiated, independent function. Professional dealing with M&A usually only becomes part of the company's agenda when it becomes urgent: shortly before the deal – and sometimes even later . Accordingly, the performance of M&A, i.e. the value added by M&A, is disgraceful. In other words: There is hardly any other function with greater room for improvement. This also calls for attention from other internal business functions such as HR, IT, controlling and communication. They are of utmost importance as far as controlling and implementing mergers are concerned. They usually bear the main burden of integration and are facing a special challenge, as they often consider themselves threatened by mergers (e.g. two divisions are merged into one) or by staff reductions.

Especially the second half of the 90s was characterised by an unparalleled wave of mergers. In the year 2000, more mergers took place than ever before: more than 5000 in Europe alone, with a transaction value exceeding 1600 billion euros. Two years later, there were only little over 3000 mergers at a value of about 600 billion euros. Yet we are, time and again, shocked by the fact that almost all surveys on the success of M&A reveal that most mergers are failing. Selden and Colvin (2003) estimate that, between 1995 and 2000, more shareholder value was destroyed by M&A than by the burst of the dot-com bubble: more than $ 1,000,000,000,000.-- or in words: more than 1 trillion US dollars. Or, to put it another way: These results show the business function M&A as one of the largest value-destroying factors of the past few years.

There are now a large number of studies on post-merger performance of companies. What these studies are revealing is a scene of horror. 61% of all mergers are annulled after a period of 5 years (Porter 1987) and approximately 70% of mergers do not even lead to the expected increase in market value (Jansen 1999). These are sobering facts. As we, as consultants, are very often dealing with mergers and are striving for a sustainable, successful development of our clients' companies by giving positive impetus, this more than sobering result of past M&A activity and the outlook on a new wave of such transactions inspired us to take a close look at this subject from a systemic perspective – both conceptually as well as practically oriented. Our central questions are as follows:

- What are the critical factors for success and the lessons learned we can extract from experience and from analysing past mergers ?
- What needs to be done in order to make future mergers more successful?

- How can the M&A function be organised in a sensible way.

To us, this seems to be of particular importance on account of the fact that the logic of laws, business figures, business activities and tasks related to content have a greater impact on mergers than on the scope of any other initiatives for change. At the same time, emotions have to be taken into consideration. This creates contradictory requirements concerning decisions and actions for all people involved.

2. Lessons learned and factors for success

As mentioned above, mergers are mega transformations. According to our experience, mergers are part of the most radical and comprehensive forms of change. They often are extraordinarily complex and demanding transformations, severely modifying or at least questioning the identity of the organisations involved. In many cases, drastic cuts (e.g. personnel reduction, cost reduction, improvement of efficiency, reorganization, new IT, change of the product portfolio, new company name, different management culture) and new growth (e.g. new business fields, product and process innovations) are taken into consideration at the same time.

Mergers are radical transformations. Mergers differ from other change projects in one fundamental aspect. The system coordinating orientation, employees' and managers' frame of reference, can change and disappear, because sometimes everything seems to be on the line: the strategy, organizational structure and therefore the hierarchy, the position held within the company and therefore the social status, the rules of cooperation and the organisation's values and therefore the orientation of day-to-day actions. The announcement often suddenly and unexpectedly challenges all this for the people involved. In an organisation struck by such a blow, the mental models of both organisations and of their members start floundering.

However, mergers do not have to fail, even given cultural differences. Studies on the failure of post-merger integration projects quote cultural and organizational differences between the merging companies among the most important reasons (Jansen 2000, p. 35 cont.). From our experience, it is not a difference in culture that leads to the failure of a merger, but rather that the organisation's members believe this difference to be bad and disadvantageous. If this difference is addressed as diversity and considered as a valuable resource that gives rise to new opportunities, companies might profit even from mergers without a cultural fit. Therefore, the decisive factor is the design of culture and integration process - not the culture of the companies involved.

Mergers never are no mere trifle. The top management in particular tends to underestimate the requirements, difficulties and costs of integration. Especially those managers whose companies have already carried out some acquisitions are at risk in this regard, if previous experiences have not been sufficiently reflected upon, regarding context and lessons learned. The risk inherent in the fact that an unfounded generalisation of these experiences is accompanied by a tendency to centralise decisions, to neglect the integration of external stakeholders and to underestimate the merger syndrome and the time required to implement it (Jansen 2000, p. 46). Additionally, the top management is usually considerably ahead of its own organisation when going through phases of change (Heitger/Doujak 2002, p. 232), as it has already dealt with the merger intensively for weeks, long before it was announced to employees.

We often had the experience during merger processes that shortly after the announcement management was already inundated by a flood of urgent questions. There is a significant risk of being swept away or of trying to muddle through on an operational level just to keep one's head above water. In this phase, many executives are given the impression that top management has abandoned them. This can lead not only to inappropriate controlling measures in the merger process, requiring revoking decisions, but can also lead to burnout especially in middle management whose presence and productive contributions are essential to the success of the merger. Many mergers are failing due to great fluctuation in management. For example: during the first year following the acquisition, the staff turnover of companies taken over triples and even 9 years after the acquisition, it is about twice as high as in companies that remained independent (Krug 2003).

- **Unrealistic promises of top management**
  - → Keep a logbook on conversations
  - → Keep some of your options open.
  - → Provide a sense of security/orientation through a "big picture" of the implementation process (architecture and master plan) instead of (making) concrete promises regarding the content
  - → "Talk turkey" – regularly and interactively, better consistently clear than continually touching up
  - → How to deal with the tricky business?
- **The 'why', 'what' and 'where to' of the merger are unclear or "only" backed up by numbers**
  - → Prepare the content of the future vision/strategy
  - → Define growth objectives and the business model
  - → Substantiate organisation and control quantities in concrete terms as soon as possible
  - → Turn management's values into a "tricky business"
  - → What kind of merger do we want? (see figures 6 and 7)
- **Controlling the merger process is not transparent**
  - → Architecture and process stable and clear – but open to new issues (turbulences)
  - → Start top down/set up a project office
  - → Clarify: 'when are we successful', and integrate PMI focus into executives' goals/aims
  - → Decentralise decisions about onsite staff (procedure and support from HR)
  - → Cooperation and participation as a maxim
- **Hidden devaluation of the respective other company and power struggle for pre-eminent position respectively.**
  - → Appraisal of oneself and of others as a maxim
  - → Clear communication of differences (what kind of a merger and what control philosophy for the integration process
  - → "Merger of equals" has high potential for escalating conflicts
- **"The one who retains his identity wins, the one who has to change was taken over and has lost" – as *assessment factor***
  - → Provide opportunities for choices and decisions (new commitment between the company and the employee - new "material-psychological contract")
  - → Example: all positions are newly advertised
  - → No equivalent double staffing in the new line – risk of paralysis
- **Internal orientation as a vortex**
  - → External competition and new orientation in the business as common PMI initiatives generate the most power (customer orientation, working with suppliers etc.)
  - → Actively plan quick wins that impact on the market
  - → Immediately address 20 % of the most important customers/partners: what changes will be made in orientation/contacts/business activities – what will remain the same/unchanged

- → Top management: regular contact with the 10 most important customers/partners (*collecting inputs*))
- **Everyone keeps their workplace**
  - → Physical proximity to in day-to-day operations is decisive for a successful integration
  - → Share everyday work, combine moves/relocations and departments
- **On the working level, employees from both companies get acquainted too late or not at all, or are supposed to work together without ever having been in touch before**
  - → Get to know each other right at the beginning: people – tasks – competences/know how (what are we/others capable of; what are we/others proud of)
  - → Share common experiences and have fun
- **Not managing the little but visible things in everyday life professionally (e-mail addresses, visiting business cards, website, intranet ....)**
  - → Integrate them quickly and competently into everyday life

Table 1: Typical stumbling blocks in the context of mergers and how to deal with them

Mergers have the same gravitational force as black holes. Black holes in the universe fascinate many people on account of their tremendous power to draw in any matter and even light. Mergers have the same effects in many respects. To begin with, they radiate such power that, apparently, anyone involved is only able to gape in fascination in their direction. The merger thus becomes the central topic of each formal and informal communication in the organisation and with the environments (customers, value adding partners). At the same time, the focus of attention shifts: away from the market, competitors and customers towards one's own organisation. The power of this vortex of internal orientation is in many cases so strong that customers and day-to-day operations are neglected and competitors are granted an unexpected gift. In summer 2003, for example, the business press was full of reports on SAP that reckoned it had good chances to win over unsure and neglected customers from its competition and achieved this as well, thereby emerging victorious from takeovers of J.D. Edwards by Peoplesoft and Peoplesoft by Oracle.
Mergers are a question of production and the credible provision of orientation. A great variety reasons are given for mergers, such as cost synergies in purchasing or on account of staff reduction, the common opening-up of customer groups and cross-selling potentials, the increase in innovative power or the acquisition of new technological competences or economies of scale and international presence. It makes a big difference what the motives for a merger are and what justifications are given. The images that develop in stakeholders' heads are very diverse: drastic cuts giving rise to fears, or opportunities of new growth promoting hopes and motivation. Nobody will accept and believe the sublime message of the golden future of the merged company unless the drastic cuts that are to be expected have been previously addressed in an open and honest manner. An integration process always becomes difficult when drastic cuts are forthcoming, but these are only introduced bit by bit in the course of time. This creates an atmosphere of permanent distrust and of fear that prevents the development of growth potentials and undermines management's credibility. In consequence, the frequently announced "Merger of equals" are production that will facilitate many things in the beginning, but which will have a boomerang effect, when the partners' inequality comes to light during the integration process. Disappointment and conflicts are the results that are not only let out as cynical jokes about the merger, but also lead to defensive routines of the people involved.

The visions for the future do not arise on their own, nor do they integrate themselves. In the beginning, the people involved often have different ideas about the nature of the merger, the future strategy, organisation, management and culture of the common company, but these will remain concealed at first, if they are not already exchanged at an early stage. These latent differences permanently result in small disagreements and conflicts until they finally escalate and a dialogue about visions for the future can begin. We believe that one important reason for postponed conversation on visions for the future is that the parties concerned do not wish to threaten the realization of the deal. This, however, leads to conflicts, the loss of energy and possibly even to blockades that come to light in the post-merger phase and that, as a rule, are carried out by and at the expense of middle management .

So far, M&A is an internal and only little differentiated function in most companies, which is perceived only from case to case (when planning a merger or a takeover) and by varying people (teams created ad hoc consisting of top managers, staff (functions and external consultants). In many cases, staffing is changed according to the phases of the M&A process: Whereas top management, investment bankers and lawyers dominate at the beginning, the central roles of the PMI phase are often adopted by middle management, HR and organisational consultants. A continuous controlling process throughout all phases or even a permanently staffed M&A department with comprehensive responsibility throughout all process phases can be found in only very few companies, such as e.g. Cisco, which considers M&A a core element in its growth and innovation strategy.
We can now state a first interim balance from the practice of mergers & acquisitions. One thing is clear: No merger is like another. However, some factors for success and recommendations can be deduced from these lessons learned in order to increase the M&A performance of companies and to make mergers more successful.

- **Mergers require a lot of external orientation** and clear and intensive communication with external stakeholders such as customers and value added partners. This helps to escape the internal vortex and provides orientation with regard to the meaning of the integration for external stakeholders. Pointed and quick common activities directed towards the market considerably strengthen integration.
- An essential factor for success consists in the creation of clear and commonly **supported ideas for the future** at an early stage, as far as vision, strategy, organisation and culture of the merged company are concerned. We are looking at the cornerstones and the global vision that will be developed in greater detail and more specified further on in the integration process. This includes, in particular, the development of a common image of the nature of the merger and an architecture with a master plan and milestones for the further integration process.
- **Post-merger performance requires a process that already begins in the pre-merger stage.** A successful post-merger integration management requires integration planning, due diligence that also includes cultural and organizational aspects, and a realistic evaluation of the costs of integration in the pre-merger phase.
- **Post-merger begins in the pre-merger phase:** What has been happening before, what expectations there are and what relations with and ideas about the others have existed up to now: This is the basis on which the integration process will be built upon.
- **The objective of the post-merger phase is not a standardising form of integration , but rather a differentiation that appraises value:** Integration, often understood as standardization and adaptation, arouses fears among employees and executives and obstructs the view on the diversity of necessary and fruitful forms of cross-linking in the post-merger phase. “Simple integration and harmonization do not create a prerequisite for an organizational form suitable for the future” (Jansen 2000, p. 35). Both issues are thus always at stake: integration and its opposites – value-appraising differentiation and cross-linking. Conflicts are caused by over-integration: Therefore, greater importance needs to be attached to differentiation and the recognition of differences as a resource.

When they are aiming at more than just “coexistence”, merger processes are changes of 2nd order (transformation) squared. For both systems involved, they mean change - with regard to a common future and identity. Contrary to other change projects, it is not just a question of the evolutionary or "radical" change of the own company, but also of the integrated change of two companies in a developing relationship, which is simultaneously determined by competition and cooperation. The quality and development of the mutual relationship is decisive for the success of the merger process. At the same time, this development is observed and interpreted by all parties involved with a high degree of attention and sensitivity: Who will determine development in the process? Who will be appointed to be responsible? Whose strategies and rules will prevail?

There is no other type of change where the people are, at the same time and with such an intensity, persons involved and process designers. At first, they do not even have a common map that tells them how to interpret the market, business, organisation and management, nor do they have a “network of relationships” to make these maps visible and to negotiate them. In practice, this manifests itself in a high degree of irritability: Questions from the respective others on the appraisal of one’s own successes and capabilities characterise events just as much as the wish to impose and/or to protect one’s own share of the identity. The greatest challenge on the process side of mergers is to sensibly and productively design a simultaneity of cooperation and competition, while at the same time developing a common work basis that allows getting to know and understanding oneself and the other company in all dimensions.

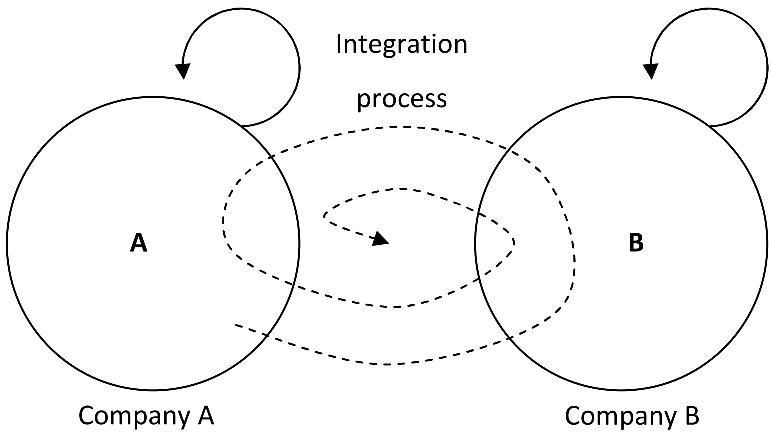


Figure 1: Mergers are changes of 2nd order squared

A merger process is comparable to a voyage to an unknown country, with tourist partiers who do not know one another, but who know that they will spend quite some time together and that the success of their voyage depends on the quality of their cooperation. Where the travel route and results (strategy, structures and staffing) cannot yet be clearly defined to provide orientation and stability concerning the content, it must at least be clearly defined how, when and by whom the travel route will be planned (architecture, process and milestones of integration required), in order to provide process orientation and stability. To continue our analogy, a well-differentiated M&A function would assume the role of a professional guide making use of expert knowledge on travelling and experiences from previous travels for planning and preparing the travel route, events and results, and advising the travellers accordingly, as well as taking part in and supporting the planning of the course.

3. Increases in M&A performance

What can businessmen and managers do to increase the post-merger performance of their organisation and to design successful mergers in the future? From our point of view, this requires a global approach that integrates all phases and aspects of M&A and which takes the most appropriate M&A strategy and learning organisation as a basis. We would like to suggest an integrated M&A performance framework to achieve this. It shows which tasks an M&A function should comprise to deliver sustainable contributions to value creation.

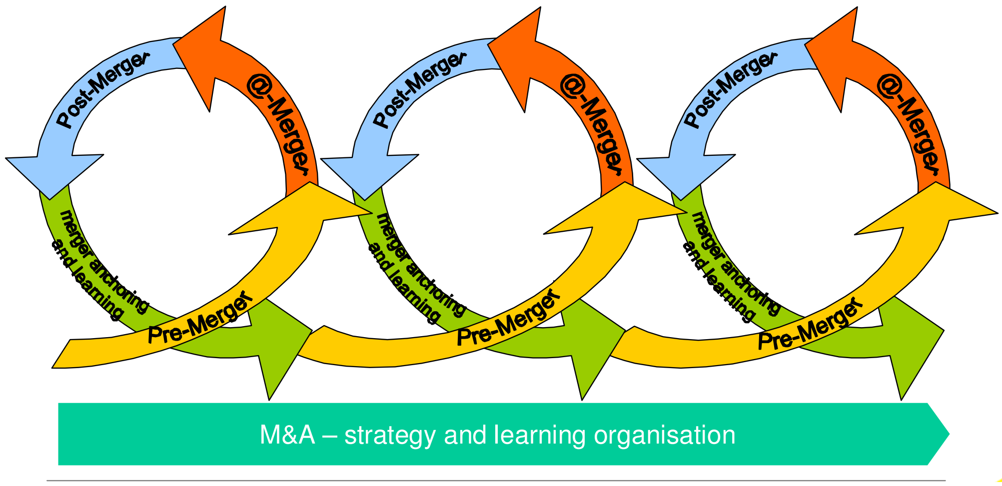


Figure 2: M&A performance framework

M&A strategy and learning organization

A strategy and a clear overall concept for the merger already have to be developed in the pre-merger phase, so the merger can be managed actively and comprehensively. Isolated actions almost never achieve the expected results. Studies show that those companies which carry out frequent, but small-scale acquisitions are more successful than those which do so only occasionally or only once. The most successful are those that acquire systematically – both during economic booms and in times of recession (Rovin/Lemire 2003). The companies whose M&A activities are the most successful are those that proceed according to particular principles and have built a learning organisation around their acquisition activities. “At first, they carried out smaller acquisitions, transferred their processes and established feedback systems in order to learn from their mistakes. They were continuously checking their objectives and updating lists of companies they would buy, given a reasonable price. They set up a permanent committee for holdings, that was involved in all of the acquisitions and enabled the company to skilfully take advantages of good opportunities. They asked line management to participate early on in carefully examining acquisition candidates (due diligence) and developed clear guidelines for the integration of the companies being taken over. Above all, these “experienced” purchasers distinguished themselves by refraining from risky transactions.” (Rovin/Lemire 2003, p.9). Based on this continually developed M&A strategy and learning organisation, individual mergers and acquisitions are actively managed. The creation and further development of this M&A strategy and learning organisation are core tasks of each M&A function aiming at providing sustainable, positive contributions to added value. It thus assumes both ordering functions and functions of information control and supply.

Pre-Merger phase

The pre-merger phase entails not only the assessment of strategic and business implications, due diligence of potential risks and the negotiation of the company evaluation, the structure of transactions and contracts, but also the preparation of the bases for announcement and integration of the merger. This includes a sufficient diagnosis of the culture and organisation of the companies involved and the creation of common images about the kind of merger and the demand for change. Based on this, common future images for the cornerstones of the future corporate strategy and organisation as well as the architecture and the master plan of the integration process are to be developed.

@-Merger phase

The announcement of the merger has to be well prepared and to be controlled very accurately, since it lays the foundations for any further events within a very short period of time characterised by an extremely high pressure for action: Not only are stakeholders expecting open information on the background, the objectives and the further modus operandi, but also a first orientation as to what this will mean for them. It is a matter of addressing their questions, concerns and moods at an early stage and establishing an open interchange with them in order to prevent rumours, avoidable insecurity and the standstill of day-to-day operations. However, these activities are sometimes confined -within narrow boundaries: In many cases, awaiting the approval of anti-trust authorities or outstanding committee resolutions such as decisions from General Assemblies require an intermediate phase between the signing of contracts and their actual coming into effect and into force (closing). Many companies are obliged to disclose a merger immediately following the signing, due to legal requirements, e.g. for stock market transactions, while further implementation steps towards integration can be made only after closing. This leads to an intermediate phase, during which many issues are still up in the air from the point of view of many people concerned and the development of which is therefore very demanding.

Post-merger phase

We believe it is important to focus on differentiation and cross-linking the members and parts of the organisation during the post-merger phase. Putting high pressure on integration and standardisation tends to lead to the opposite of the intended results. The motto for post-merger strategies “ start-up with history” – building on the history and the differences between the companies. Creating innovations and being innovative, as well as new know-how and do-how are more important than adapting and transferring existing practices to the new organisation. When developing the decision and control architecture for the post-merger phase, accurate planning has to take place, concerning the centralisation and decentralisation of controlling and decision tasks within the divisions, as well as the question of which tasks will be left to self-organisation. In any case, the external and market orientation of all activities has to be taken into consideration. In the post-merger phase, however, latent topics have to be dealt with as well in order to avoid development blockades; for example, both time and space are required for relieving and processing disappointment and sorrow, as each new beginning is also an end. There has to be an exchange of reciprocal images the parties concerned have of one another. The start-up typically has a history in which both parties once faced each other as competitors. Transforming from competitor to partner and then to a single entity not only means strategic, organisational, content-related and structural work, it also means – directly interwoven – the progressive creation of a common language, mental images and futures.

Anchoring and learning

It is essential for long-term post-merger performance to anchor the achievements of the start-up phase and to keep on developing them by permanent evaluation – even after all integration teams have been dissolved and the responsibility has been fully assigned to the new organisation's line managers . It is important for further development of the M&A strategy and organisational learning about the successful design of change and M&A processes to carefully evaluate the lessons learned in the pre, @ and post-merger phases and to integrate them into future measures. This is an essential contribution from each M&A function to added value.

We would now like to take a closer look at the dynamics and the useful intervention and design strategies in the different phases and to provide specific hints on how M&A can create value.

4. Pre-merger

Dynamics

Pre-merger phases usually have their very own characteristic emotional and content-related dynamic. It usually starts with secret meetings held in the small circle of the board members. Then, an increasing number of experts is consulted regarding the preparation of the merger. They still remain a small circle; other parts of the organisation and the environment as well – not least journalists – increasingly feel there is something in the air. This gives rise to questions about the future (What? With whom? What does this mean for us? How will things develop?) and to rumours (merger with XY, -staff reduction, transfer of production etc.), creating insecurity. At first, only the small circle of people involved will find answers to these questions about the future, although they are often only provisional.

For top management and the preparation team, the pre-merger phase means a period of great working intensity and stress. During this period, they are already running through large parts of phases 1 to 3 of the phase model for change processes: Their daily routine is interrupted and they begin to deal with the forthcoming changes and to develop future images of the new company. Finally, the decision in favour of the merger is made. So they are considerably ahead of all other executives and employees as regards the running through of the "change curve". They already have answers to questions their colleagues have not even asked themselves yet.

The obligation to maintain confidentiality agreements usually imposed and often necessary, too, in this phase, represents a particular difficulty: Without it, a heavy strain would probably be put on negotiations and the merger would be at risk. Regulations governing stock market transactions may enforce confidentiality. On the other hand, a good pre-merger preparation requires the inclusion of experts and managers to ensure the quality of assessments and content-related decisions and planning. From our experience, confidentiality additionally leads to particular stress for the small number of insiders: apart from the preparation team, they have nobody to talk to about the forthcoming merger. While, at a later date, it is often a (premature) integration which is at stake, the focus of this phase 1 is placed on separation and shielding – with the exception of the small circle of "insiders" – not least due to legal and commercial reasons.

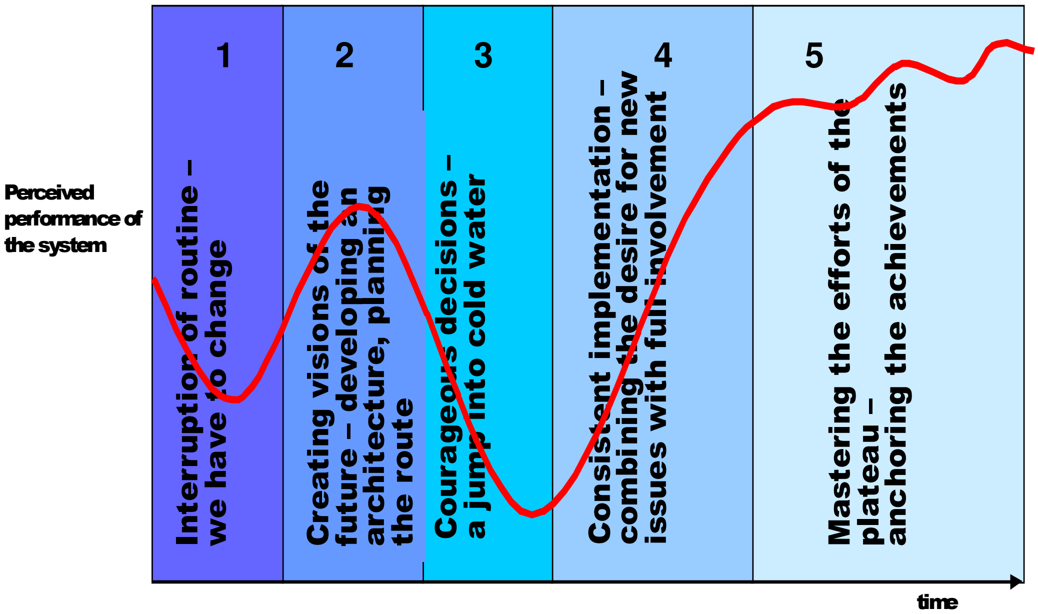
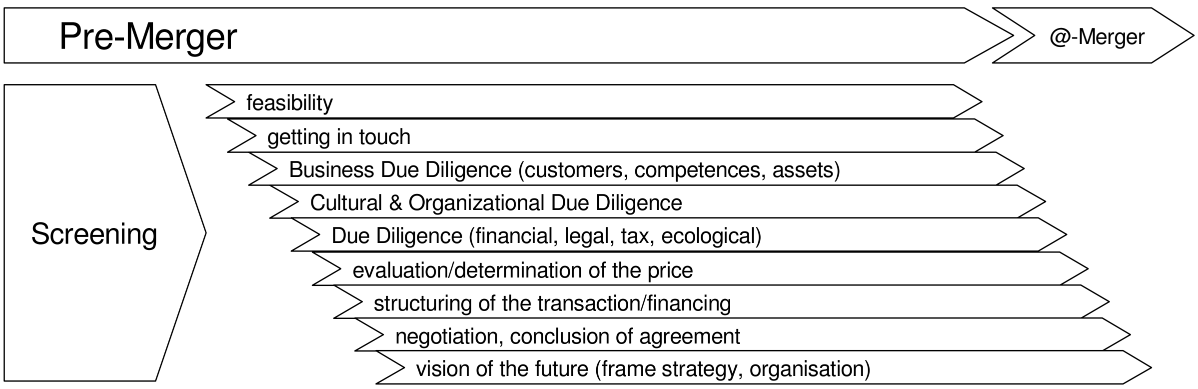
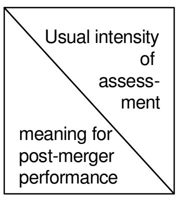


Figure 3: Phase model of change processes

Intervention and design strategies

The pre-merger phase includes a large number of activities that start at different points in time but, subsequently, are for the most part executed in parallel. This is preceded by screening possible partners, which should be done openly and carefully to find those, with whom a merger could be of strategic advantage. Usually, top management will then examine the feasibility of such a merger and get in touch with the Board or the Management of the potential partner. If both companies' top management reach an agreement on the fundamental possibility of a merger, the actual preparation work will commence.





Assessment focus		target/search for
Due Diligence	Legal, Tax, Environmental	Deal-Breaker? Value reducer?
Business	Customer value Competences (employees, management, technology) Strategic assets (intangible and tangible)	Standards of valuation Potentials
Culture & Organization	Values, standards, management, structure, core processes, rules of cooperation	Fit? Integration work?

Figure 4: Pre-merger activities

In addition to negotiating company evaluations and contracts, as well as the financial and legal structure of the transaction, a thorough, reciprocal assessment of the partners is an essential element of the pre-merger phase. This is not only a due diligence review, capturing and evaluating the financial, fiscal, legal and ecological risks. It is also an intensive diagnosis of the culture and organisation of the partners. This cultural & organisational due diligence should provide a basis for the estimation of the need for integration, from which the architecture and master plan for the further process in the @- and post-merger phases will be developed.

But the objective is also to get an estimate of the necessity and urgency for change and each organisation’s capacity for and willingness to change, with and without a merger (see figure 3), by taking into account the results of a strategic analysis of the strengths and weaknesses of the organisations involved and of the opportunities and threats resulting from the changes in environments (markets, competitors, technologies etc.). The healthier and the more stable both companies are, the better this is for a partnership-oriented merger. The greater the difference, in particular with regard to the size of the companies and the current need for change (without a merger), the more probable asymmetric integration strategies and architectures become. From this, essential information on the thrusts and priorities of the integration and development activities in further process phases can be gained.

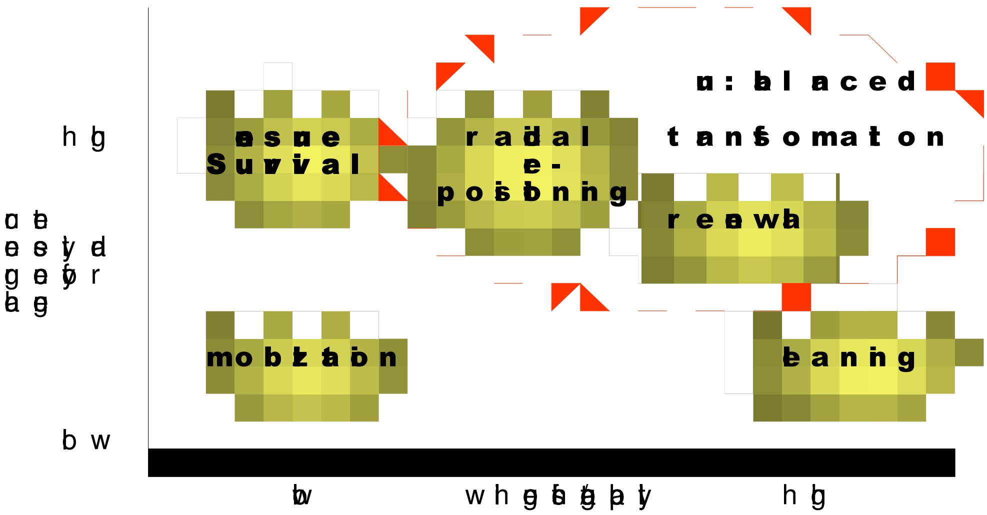
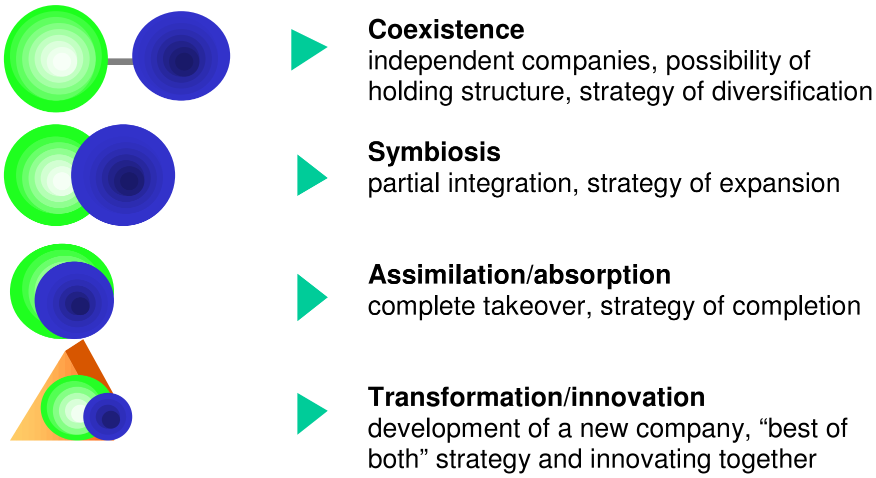


Figure 5: Map of change types (according to: Heitger/Doujak 2002)

Extremely important – yet often neglected in this phase – is answering the questions on the Why, What and Where to of the merger. Top management of both organisations need to develop a common idea about the kind of merger and the type of change (see figures 5, 6 and 7). The central question here concerns the relationship pattern in the dimensions of integration versus autonomy and super-/subordination versus equality.



Figures 6: What kind of merger are we talking about?

The idea the kind of merger will often be dynamic and differentiated and thus change in the course of the integration processes and/or differ for each of the different business areas. Whereas one business area may perhaps be more interested in an assimilation, in which one of the partners is clearly dominant, another business area might be focused on a novation, the joint creation of a new organisation.

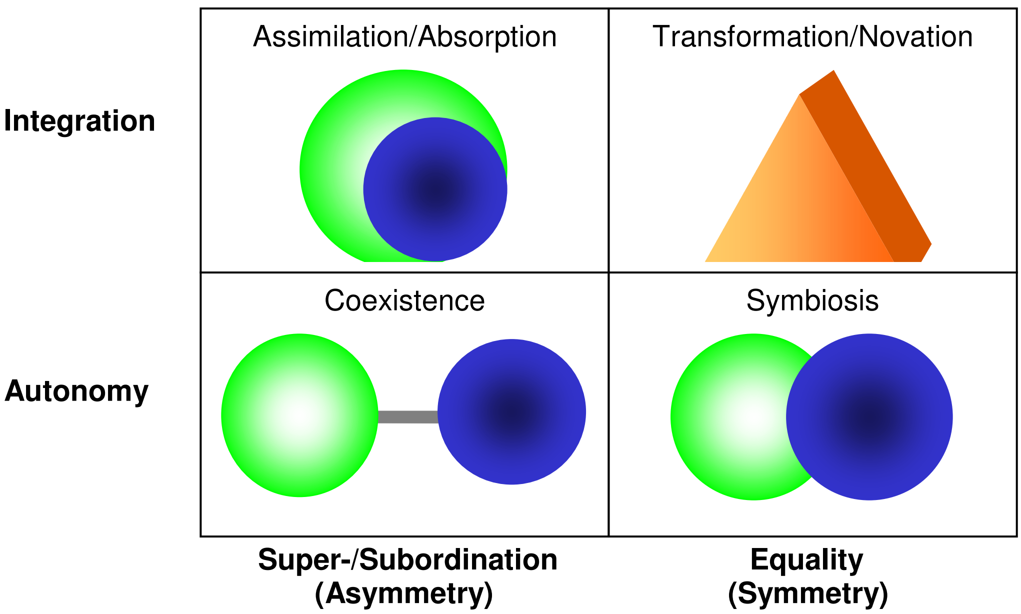


Figure 7: Maps of the merger types

Gaining a fundamental orientation about which of these future visions is being aimed at and which strategic concern is going to be realised, are the dominating questions for all people involved. This also illustrates which perspectives, chances and risks have to be concretised, respectively. The dynamics are different for each type – but in every case, the intensity of change is strongest where integration is aimed at and both companies are changing their identity (in the case of an acquisition, this also applies to the company that is taking over!). Integrations on the premise of equality of partners, the so-called "mergers of equals", are the most demanding. The risk of these merger processes lies in symmetric escalations and/or increasing internal orientation in the course of permanently balancing the required "equality".

The chosen term will determine which associations will be triggered: is it about integration, fusion or growing together, takeover, start-up, partnership, cooperation, alliance, start of a new area, often elements from all four fields can be found in the process of a merger.

Finally, this pre-merger phase is also about designing a common future vision for the future organisation and sketching a way towards it – based on top management's assessments, objectives and values. This implies, on the one hand, preparing cornerstones for the future business strategy and organisation (vision, positioning, objectives of growth, business model, structure and top management levels, control quantities, values of top management).; on the other hand, an architecture with a master plan and milestones for the integration process has to be developed. In particular, the following questions have to be answered (see figure 8):

- How are we going to coordinate the cross-linking of different subsystems and the respective organisations?
- How are we going to deal with cultural differences, and which culture shall bear the cross-linking process itself?
- How are we going to lead and control the integration process?
- What are we going to do to intensify external links to customers and value added partners?
- How are we going to secure know-how and core competences in the integration process?
- How are we going to deal with employees and executives?
- How are we going to communicate, internally and externally ?

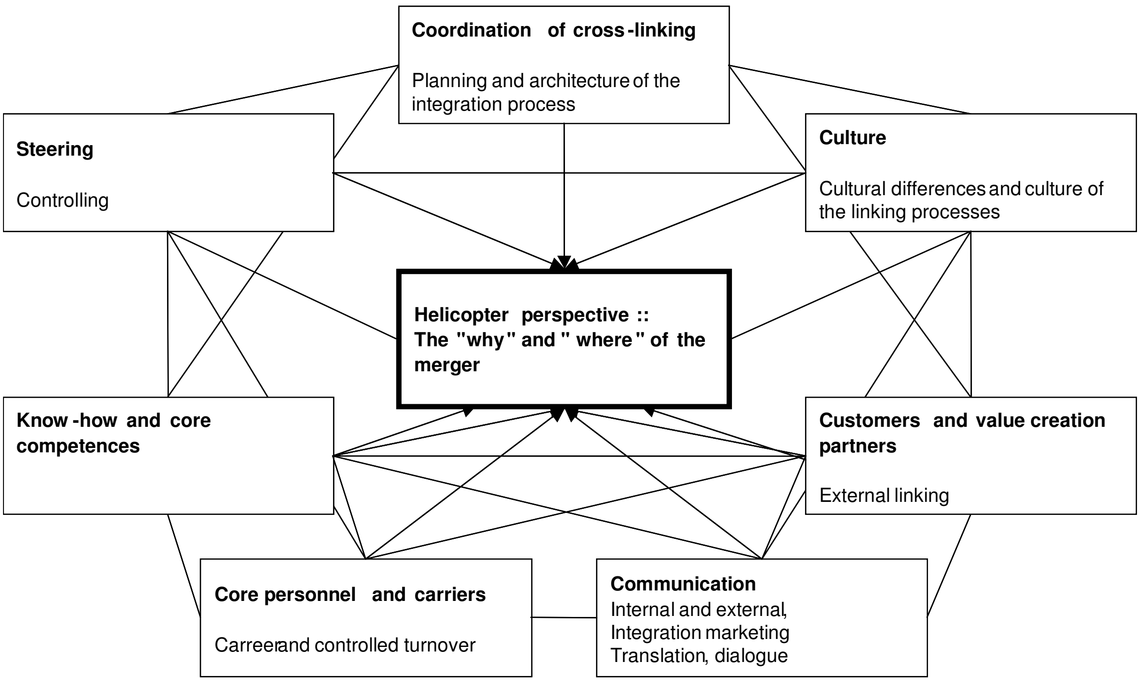


Figure 8: Layout of merger processes in accordance with the respective situation (after Jansen 2000, modified)

5. At-Merger

Dynamik

The announcement of a merger is “not so easy”. In many cases, entire parts of the companies concerned tumble into a mixture of relief (“finally, we know for sure”) and a state of shock, which is characterised by uncertainty, fear and withdrawal. In most cases, this merger syndrome is rooted in the fact that the announcement was unforeseeable (--) often despite all previous rumours (--) the surprise it brings with it as well as the employees’ and executives’ questioning of the existing reference and orientation system.

We have observed time and again that a series of typical reactions taking place immediately after the announcement of a merger:

- Prejudice: the merger has grasped employees’ full attention and they are speculating intensively on what it means for them individually. This distraction often leads to weaker job performance.
- Rumour mill: conversations are dominated by rumours and stories. Worst-case scenarios are the normal case. Communication is no longer accepted or only very sceptically and selectively.
- Stress reactions: nervousness leads to aggression, withdrawal or somatic reactions such as headache and sleeplessness – and sometimes, when there is a high degree of personal involvement, to increased consumption of alcohol and cigarettes, as well.
- Cautious communication: limited contact between staff and decision makers, lack of transparency regarding the objectives of the merger and the further modus operandi.
- Illusion of control: employees no longer trust management’s declarations that they have a detailed master plan that will allow clear and realistic implementation, while top management is under the impression it has everything under control.

The dynamics are understandable, since everything that constitutes a system – images about the past and the future, the relation between system and environment, the organisation with its structures and processes and the controlling of decisions – is called into question and thus has to be renewed. This applies equally to the relation of stakeholders (in particular executives and employees) to the company (material-psychological contract).
At the same time, the public announcement of the merger means considerable relief for the people involved in its preparation until then: the enormous work pressure is reduced, at least for the short term. And, above all: they can now talk to other colleagues about the merger and are no longer under the tremendous strain of secrecy.

Intervention and design strategies

In the @-merger phase, informing the relevant committees and, subsequently, the media and employees (see figure 9) becomes the focus of attention. As all this has to happen in a very short period of time – especially for a company listed on the stock exchange -, many companies mainly or exclusively fall back on the media for internal communication during this phase: e-mails to all employees, information on the intranet or speeches of the Board. Only a select few executives will have the advantage of being able to talk directly to the Board or to the members of the preparation team. From our experience, however, the nature of the information provided is not as important as its communication and the open and personal exchange on the subject of the merger and the forthcoming changes. We believe that interaction and dialogue already during the merger’s announcement phase, e.g. in form of a large-scale group intervention for all executives or ideally even the employees on the day of the announcement or on the day after, are essential factors for success. Top management has to face the questions, concerns and moods of its executives and employees as early as possible.

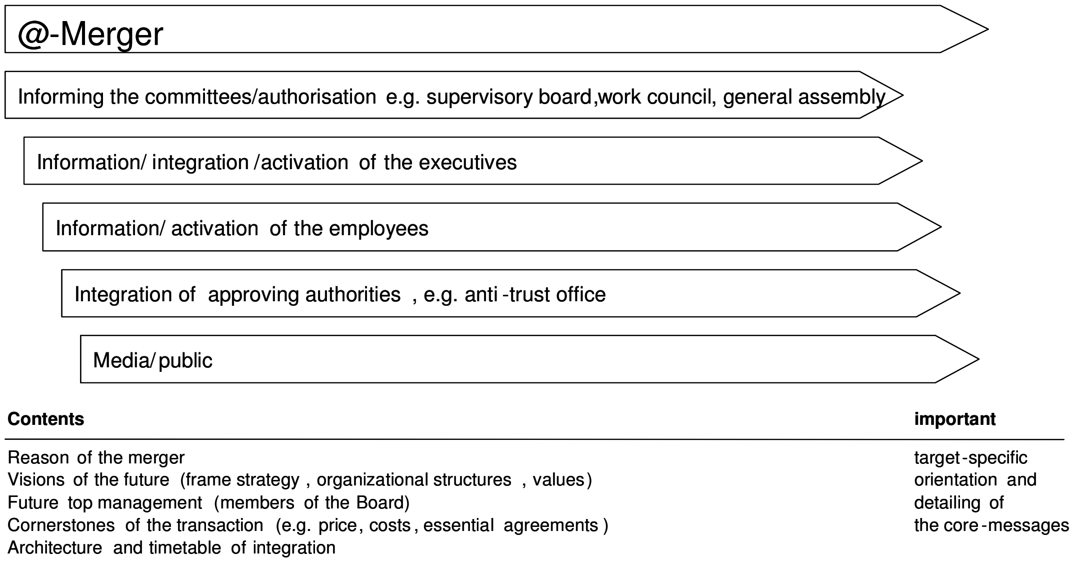


Figure 9: Activities of the @-merger phase

From our point of view, the essential ingredients of such communication are as follows: the background of the merger, the visions images for the future prepared in the pre-merger phase, the people selected for future top management, an introduction of the new partner and the architecture and the master plan for further integration. It is important to provide security and orientation with a “big picture” of the implementation process and the results aimed for. This implies “talking turkey” regarding drastic cuts to be expected and putting all cards on the table at once and not one by one . In no way should top management make unrealistic promises (“Nothing will change”) and, if necessary, keep a logbook on current conversations, so as not to forget what was said and what was promised to whom. Where clear information on the content is not possible, it becomes all the more important to clarify the process, how things will continue.

In 2003, we were able to accompany the merger of two insurance companies during the @-merger phase. The Board members of the insurance company that entrusted us with the job had placed importance on the fact that as of the announcement of the merger, an open and intensive communication was to be maintained between all executives and employees of their own company to get them all on board. The objective was both to inform the employees about the new partner and the future strategy, and to convince them of the advantages of the merger as well as facing their questions and moods. Public announcement of the merger was scheduled for a particular day immediately following the signing of the contracts. It was clear that on and around that cut-off date, the internal communication with executives and employees had to take place as well. Together with the Board and the Head of Corporate Communication, we developed an architecture that allowed the conclusion of negotiations and the signing to be coupled with an effective external and internal communication for the announcement of the merger. On three consecutive days, at an intense and demanding pace, a mini diagnosis was made of the mood of executives and employees and a workshop with all executives was held; a press conference, a works meeting and a day-long large group intervention took place with all executives and employees as well as the new partners’ Board members. A preliminary diagnosis of the situation was made by means of interviews with employees (day 1) and executives (day 2), which served as a basis for further tailor-made communication, in particular also the large group intervention on the third day. In the executive workshop, participants were informed about the project and, with them, the further modus operandi was discussed and agreed upon. The objective was also to define one’s own role as an executive in this merger process. On the second day, around noon and immediately after the press conference, a work meeting took place, in which the works council and the Board informed employees about the merger and invited them to an all-day dialog event for the next day. This was the highlight of the @-merger communication: as all daily newspapers had already reported on the merger on the 3rd day, executives and employees were able to inform themselves in several partial plenary assemblies about the new partner, the further strategy in the scope of the merger and the future marketing and distribution strategy and were given the opportunity to exchange their opinions. In a full plenary assembly, the Board answered questions from about 400 participants. As a second mini diagnosis, made several weeks later, showed, this intensive communication provided a clear vision right from an early stage of the merger and the events lying ahead of the executives and employees. As a consequence, uncertainties, rumours and fears were avoided to a large extent and a lot of energy was liberated for the merger and the next steps.

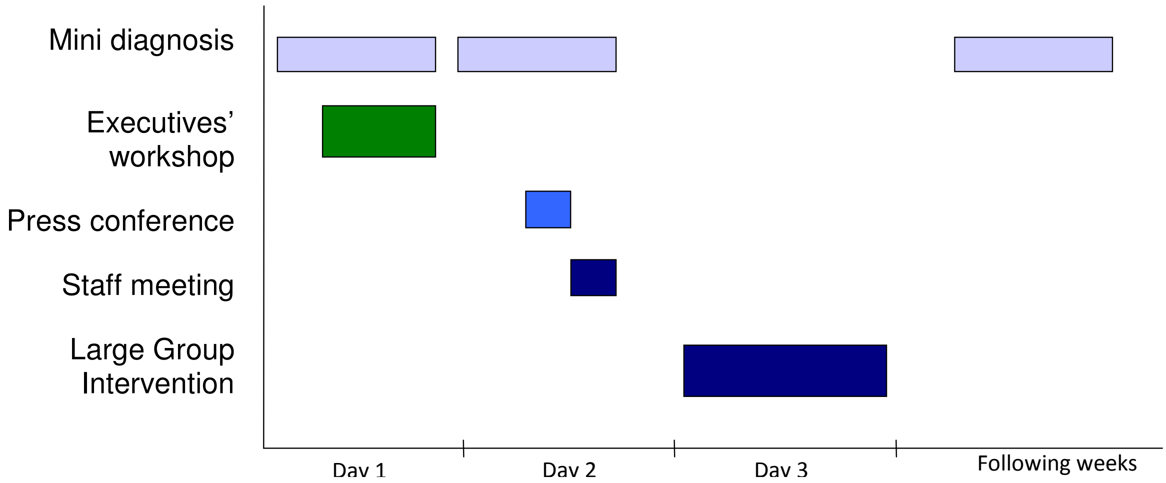


Figure 10: Example of an @-merger architecture

The support of communication by and with top management also includes dialogue events in all business units on a departmental or team level, in which line managers and their employees can exchange their ideas on the merger. They are supposed to provide space for an exchange and thereby an analysis of the merger, also providing orientation for the integration phase. Feedback and resonance from these events should definitely be collected and integrated into the further development of the integration architecture. In the case of the insurance company, this enabled us to gather information on the employees' and executives' point of view, by means of short individual and group interviews and sounding boards, before, during and after the announcement of the merger and to finely control our interventions accordingly.

6. Post-merger

Dynamics

The mood and dynamics at the beginning of the post-merger phase depend to a great extent on how the @-merger phase went and how much orientation was provided and/or uncertainty caused by the announcement and the related communication. The more clearly background information and visions of the future have been communicated and the more open the exchange between top management, executives and employees has already been prepared during the announcement stage, the more calmly, openly and prudently both organisations will treat and approach each other.

One should not forget, however, that the change process has only just begun for most of the organisation's members. Even if the Big Picture of the future organisation has already become fairly clear in @-merger communication, many members still do not know what exactly this means for them. For most of them, the announcement of the merger was a sudden interruption of their day-to-day routine. On a cognitive level, it is obvious: We have to change. Pressure, uncertainty and fear dominate the emotional disposition and wrench the organisation from its safe sphere/sphere of comfort into a phase of great uncertainty. This uncertainty is both capital and resource, because it mobilises. When it is too great, though, it can have a paralysing effect, leading to inner or outer resignation. Especially now, employees look more than ever to their immediate superior: What is his view on the situation? What will happen next, according to him? What will be his role in the merged organisation?

This phase of enormous pressure is often the beginning of a struggle among the cultures. The employees see big differences between their company and the other one, e.g. with regard to organisation, values as well as the style and the competences of respective management. Even for cultural characteristics that are similar when regarded from the outside, a mythology of differences begins to develop. Under certain circumstances, this may even lead to antagonism: Us versus them. Differences are perceived more keenly than common interests. These perceived differences aggravate over time. This could lead as far as employees and executives of an acquired company seeing themselves as the losers. Who remains the same, wins. The one who is forced to change because he was taken over loses. The feeling of being the loser often leads to resignation and to greater fluctuation of employees. The imaginary winners, however, tend to be arrogant and to overestimate the situation's creative possibilities .

The more an organisation drifts into such dynamics, the more the members of the two organisations reciprocally act in attack and defence. Both sides will keep very close watch on how the other organisation is changing and at the same time will try to protect their own against change. Own performances will permanently be compared to those of the other culture, and each will consider their own organisation to be superior.

Figure 11: The logic of feelings (according to Ciompi 1997, see Heitger/Doujak 2002, p. 120)

According to our experience, the emotional dynamics of mergers follow an inner logic of feelings. Having been torn from one's daily routine by the @-merger announcement and having absorbed any available related information with interest, phases of insecurity, aggression and annoyance and finally disappointment and sorrow follow, before courage to make a new start and joy about the creation of the new joint company can appear.

Interventions and design strategies

Creating a basis: Getting to know each other and experiencing people, their tasks, competences and know how (What are we capable of /what are the others capable of? What are we/the others proud of?) is the backbone of the post-merger cross-linking. Executives, employees and in particular experts of both companies should get to know each other on the working level as quickly as possible, establish mutual relationships and try to understand the other company and the new colleagues. Intervention and design strategies should not only focus on the creation of new issues, but should provide, at least in the beginning, sufficient space and time for relieving frustration and processing disappointment and sorrow ; they also have to clarify what will remain stable at any rate. Any other behaviour would impair the success of the merger and would block the integration process, even if this seems paradoxical at first glance. As a consequence, integration is at first also a question of its direct opposites: separation and differentiation. What are our images of the others? What are the associations of A's employees as far as the customers, business, organisation and employees of B are concerned, and vice versa? What are the common interests and what are the differences? We found the creation of an interactive exchange on the executive level and also on the employee level in the respective areas to be very helpful in merger processes, as it uncovers the subjects festering beneath the surface and thereby helps to address them. This way, an accelerated run-through of the phases of the logic of feelings is permitted. People and social systems need time to say good-bye to a proven and familiar environment and to start dealing with new subjects, processes and cooperation's.

Central staff decisions and drastic cuts as quickly and as transparently as possible: Decisions concerning human resources are of great importance, as in almost every merger positions have to be newly filled and this is, in many cases, combined with staff reductions. The respective decision processes and the criteria applied should be very clearly defined and communicated in a transparent way. This requires tailor-made personnel work, individually adjusted to the different people and implemented with a high degree of involvement on part of the management. It is very important to find a good form of separation and dismissal of executives and employees who no longer fit in the new organisation. The way they are treated will be closely observed by all members of the organisation and will determine the new culture. In particular operational executives play a decisive part in the post-merger phase. As a consequence, these positions have to be filled as quickly as possible, to the extent that changes are scheduled.

Staff reductions and other drastic cuts where the start-up with history involves a clear change of the identity so far (e.g. strategy, organisation, management) are of temporal priority in the post-merger phase. Drastic cuts need directive control and supportive change management. **Employees particularly look to their immediate superior for guidance.** Executives do have a stronger position when they have a clear view of their sphere of responsibility and the next steps in the integration process. Therefore, they need **security with regard to the integration process:** The architecture of the integration process, as well as the rules applying to it, should be designed clearly and reliably, at least for them.

Middle management in particular, but also other key people and teams are **important multipliers** and should be strengthened and supported as such. It is therefore important in the post-merger phase to strengthen the competences in the areas of change management and leadership. In addition to targeted training, this can be achieved in workshops in the form of high-impact inputs or by means of work sequences that, in individual or group work, intensively deal with the role of management in the post-merger phase. And even the apparently insignificant, but **visible issues of daily routine**, such as new e-mail addresses, business cards or the company website should be managed very professionally and revised quickly, as they are symbolical of the new organisation.

We consider as essential that **conflicts are almost always caused by over-integration,** due to the fact that, for example, the pressure from above, requesting quick progress and general standardisation, is very high. We have often observed that the organisation that was taken over adopted the purchaser's practices and/or that the "victorious organisation" was imposed on the "losers". This leads almost always to considerable problems and mediocre post-merger performance. High integration pressure creates counter-pressure by encouraging the need for demarcation and autonomy. As integration frequently is associated with standardisation and the creation of homogeneity, it seems to us that integration is not the only suitable leitmotiv for a successful post-merger phase. From our point of view, the post-merger phase is aiming at a dynamic process of linking the members and parts of the two merging organisations – however, with different, content-related intensities and modi operandi. Productive cross-linking, however, quickly arises out of a self-organised, decentralised process of merging. However, where it is a question of integration in the literal sense – often, e.g., in the IT area – an effective change process requires a high degree of attention from management.

From our experience, particularly those mergers are successful that very closely follow the **change strategy for renewal** in the post-merger phase: its main objective consists of the setting up and consolidation of growth and future potentials by developing and anchoring a new vision and strategy for the whole entity and each of its parts, the conception and implementation of innovations and the strengthening of the capability for and joy of innovation. As the coordinate system of orientation for executives and employees may sometimes change all of a sudden with the announcement of the merger, **working on visions images for the future** is a central element of the post-merger phase. The visions images for the future of the global organisation, already communicated at the announcement, have to be interpreted and have to be concretised for each area of the organisation. Structures, processes and systems (e.g. Controlling, management, HR, IT) are adapted only according to demand and only step by step. Any steps in the change process and interventions are linked to team building, working on processes and culture. The leitmotiv of a successful post-merger phase is a **start-up with history.**

In the **decision and control architecture**, an exact distinction needs to be made between centralised and decentralised controlling in the different areas and/or the issues to be left to self- organisation. With the exception of drastic cuts requiring clear top-down controlling, it seems to make sense to give priority rather to a pull than to a push strategy: Top management provides global orientation and incentives, thus determining the frame for activities driven by innovation. Top management makes central policy decisions, but leaves their concrete conception and realisation to decentralised (project) teams. These will be subject to self-control within the given framework, but will be linked together by the control architecture, e.g. a control/controlling group or an integration team. The architecture developed in the pre-merger phase has to be concretised and detailed by means of objectives and milestones for the global process and its decentralised sub-processes. For this, architecture and master plan always have to be understood as works-in-progress. They are continuously adapted to demand on the basis of feedback and hypotheses, thus permitting a quick and flexible response to unforeseeable events. The old triangle of objectives of project management is valid here as well: time, costs and quality. Top management should decide where priorities lie on a global level. Priorities should then be established in the same way, according to the respective situation, for the different projects. The culture of post-merger management itself will be determine the new culture of the merged company.

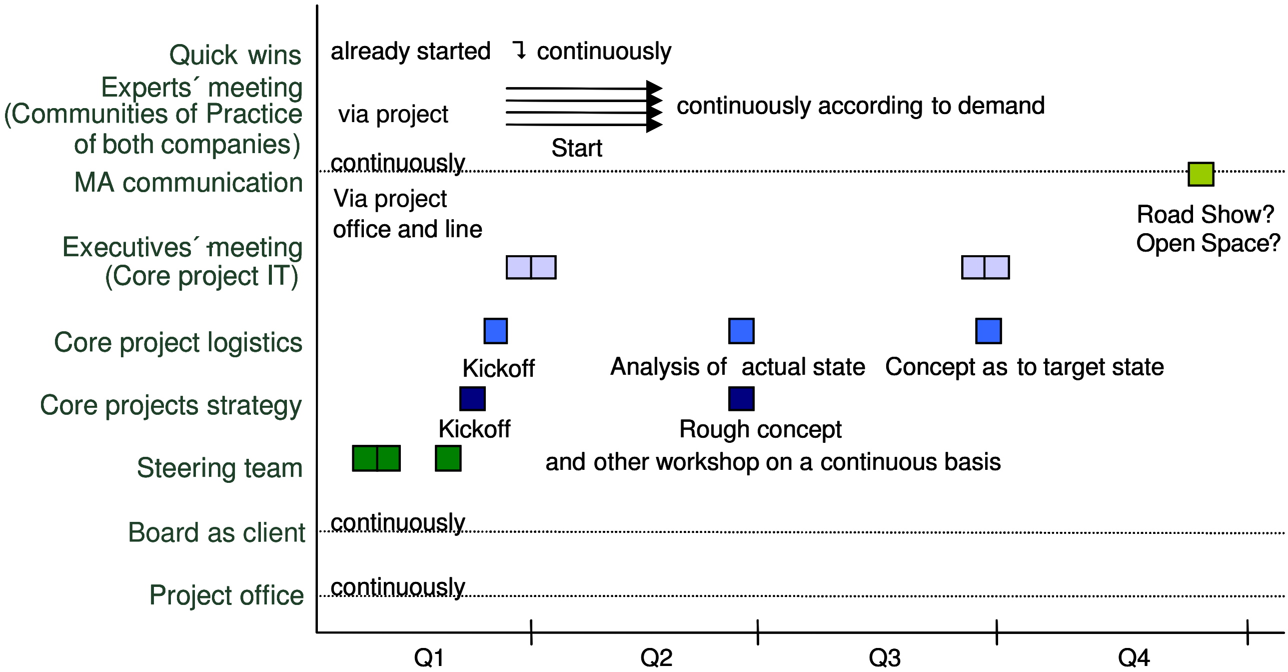


Figure 12: Master plan and architecture for the integration process of two trading firms

Figure 12 shows an example of post-merger architecture. In this project, differentiated control was applied to integration activities:

- Top-down controlled core projects with high attention from management: Policy decisions were made by new management teams, involving stakeholders. This entailed decisions as to strategy, structure and personnel, as well as the planning and preparation of implementation with the focus on quality, time and deadlines and costs, as well as the integration of the three core projects.
- Quick wins were controlled and/or decided top-down and implemented in the line in a decentralized way. Here, speed was more important than quality, i.e. the focus was on quick implementation (e. g. concerning the support of key customers and suppliers).
- Experts' meetings and communities of practice: Incentives were set top-down to cross-link experts, resulting in initiatives for integration controlled bottom-up, such as e. g. marketing activities and management development programme.

The control team assumed global control of all three integration levels, and consulted the Board with regard to fundamental decisions. The executives' meeting also had the function of a sounding board and of multipliers.

Project office	Operational control of the integration project incl. controlling/monitoring, communication/ documentation and -organisation in the sense of operational project management
Board	Functions as client, particularly regarding decisions about strategy, structure and personnel (quality and speed determine the success! Checking of milestones and commissions. Communication with the owner)
Controlling team (members: Board, core project manager, representatives of important functions of both companies)	Strategic control of overall project, cross-linking and, if applicable, integration of partial projects, quick wins and activities of the experts' meetings; detailed commissioning and monitoring, resonance on partial projects and consulting of the Board on the subject of global decisions
Core project strategy	Development of a strategic concept for the group of companies, global strategy and vision (which SGF?, Which ones are autonomous and/or which ones are integrated? Organisational structure)
Core project logistics	Development of a concept for logistics and/or logistics strategy according to strategic decision (storehouse, sites, supply chain processes, procurement, stock management, technology etc.)
Core project IT	Actual situation of IT strategies of both companies up to and after the integration and prioritisation of PMI-IT projects
Quick wins	Merger of infrastructure, of sites? Customer-related quick wins? Supplier-related quick wins? Personnel development?
Experts' meetings	Employees of both companies are linked and get to know each other, i.e. their respective functional counterparts, exchange of know-how and experience, development of decentralised quick wins out of own initiative, organisation of the meetings by project office, setting-up communities e.g. of product managers, central areas etc.: 2 employees from each company - are in charge and communicate results to the controlling team; line responsibility will be maintained for the implementation of quick wins.
Executives' meetings	Resonance/feedback and multiplier function, impulses for projects, quick wins ...
Communication and resonance	Target-specific mixture of subjects: - Line communication - Staff newspaper, e-mail, intranet - Roadshows - Large scale group intervention e.g. open space - Qualitative evaluation by quarterly group interviews
Support and training measures according to demand	Workshops, coaching, intensive inputs on the job - as far as possible
Events with customers/suppliers according to demand	To be settled: customer and/or supplier parliament? Focus groups? Targeted, when relevant in projects and/or in connection with quick wins (impulses, acceptance).

Table 2: Elements of architecture and their functions (see figure 12)

After a first phase of getting to know each other and sizing each other up, executives and employees of both companies should start to cooperate in the form of projects and to exchange experiences. These project teams are set up by future employees of the new organisational units and their managers. Physical proximity is a decisive factor for success: Being together in the daily routine requires moving teams into common offices at an early stage and promoting the mingling of employees of the two former companies. Here, the transfer, but above all the generation of new know-how and do-how is important, as these are decisive for post-merger performance. It is not enough to only pay attention to the given factors in both organisations and to what was best practice. The encouragement of ideas and the joint development of new innovative structures and processes, as well as of rules of cooperation that are fit for the future are fundamental; for the whole and each of its parts. These visions of the future will then be tested in pilots and simulations and developed and improved by means of quick feedback. This gives rise to new practises which will progressively be established and anchored in every day life.

In this context, it is important to assure high external and market- orientation of the teams and their activities: What do our customers and value added partners expect and what does good cross-linking with them require? External competition and a strong business orientation generate the most power. Quick wins that are effective on the market, such as positive customer feedback or sales records have to be planned actively and have high priority. That is why at least the most important customers and partners should be approached immediately: What will change with regard to our orientation, pricing, contacts? From our experience, it is helpful if top management regularly gets in touch with e.g. the ten most important customers and partners, too, and collects input from then on how they are experiencing the new company in the post-merger phase. Incentives from customer and market impulses and from the integration of value added partners into the post-merger process provide, from our experience, the most productive energy for the cross-linking process and set up plenty of feedback loops which make the decentralised activities of the project teams stay on course. This entails, finally, the optimisation of the value added network. Here too, the following assumption is valid: Authentic and open communication between the internal and external persons involved in the merger is the most important thing.

7. M&A anchoring and learning

Dynamics

In this phase, the new has, in part, already become normal daily routine. The new organisation and its practices are clearly understood, are lived in many cases, but are not yet anchored in day-to-day operations everywhere and for everyone. Issues that still need to be settled keep appearing, and the new has yet to be anchored in all systems and corners of the organisation. The success of the merging so far provided a lot of energy and self-confidence, but many people start to lose awareness of how much has already been achieved.

Intervention and design strategies

The objectives of this phase are, on the one hand, mastering the efforts of the plateau and anchoring the achievements, i.e. merging. For this, the process has to be newly stimulated time and again with new projects, topics and impulses and has to be progressively handed over into line responsibility by dissolving the project teams. Now, consistent controlling and monitoring are the key to further improvement and performance optimisation.

On the other hand, an analysis of the lessons learned from the merger process should not be forgotten: What went well? What could we have done better? What would we do again in the same way? What in another way? The objective consists of learning from the merger process for further change and merger processes and to additionally receive feedback for the further

8. Conclusion – The M&A function of the future

In the past few years, we were able to consult and support quite a number of mergers and in each case we learned something new. This article is, therefore, more of an interim report on our experience so far, than a final documentation of all that may be said on the subject of value added by M&A. Today, multiple hints can already be deduced from the lessons learned from M&A practice up to now; lessons on what should be done - and what should not be done – in order to make future mergers more successful. Here, the M&A performance framework provides a conceptual frame for orientation. Mergers are so very complex that they require controlling. They are of such fundamental importance and as radical as hardly any other change process. That is why they involve the risk of expecting too much. They are a state of transition both for the organisation and for the persons involved. The M&A process cannot be controlled by top management alone, but requires the support of the M&A department – if there is one -, but also of HR, corporate communication, IT and the other internal corporate functions.

The results presented in this article suggest the further professionalisation and differentiation of the M&A work as an internal corporate function. The question as to how it is to be designed specifically in the future, in order to meet the requirements of the ordering and information control and distribution function, seems to be, in our opinion, still open for discussion. Depending on the size of the company, the importance and intensity of M&A activities in the frame of the corporate growth strategy and the resource situation of a company, different paths will be pursued in practice. Larger companies that see M&A as a core component of their growth strategy, could consider an organisational differentiation of this function, in form of a clearly defined M&A staff department responsible for the global control of M&A activities throughout all process phases and for the development of the M&A strategy and learning architecture. Smaller companies that are less oriented towards M&A should take the first serious considerations concerning possible mergers and acquisitions as an opportunity to begin setting up virtual M&A teams, which can, in the long run, carry out the M&A function. In any case, it is worthwhile considering M&A as an corporate function and accordingly dealing with it intensively. The negative results of previous M&A activities make this a requirement of business sense. The function’s unused value added potential promise rich rewards to those actively developing the M&A function in their company.

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