

## Our Conclusion

*The human elements that make mergers and marriages difficult to sustain are predictable, though perhaps not quantifiable. Given this predictability, it is surprising that more "cultural due diligence" is not conducted prior to deal closing. The typical "human resource" due diligence with respect to wages, benefits, employment contracts and collective bargaining agreements misses the burning cultural issues entirely. These cultural issues can produce a business-threatening environment in which the focus of the organization shifts to internal matters, leaving customers unserved.*

*If your organization is considering M&A activity, make sure to conduct cultural due diligence before finalizing the deal. Develop an integration plan before closing, and begin implementation of the plan immediately, on day one of the integration. And then celebrate each anniversary of the newly merged entity, because the closing of the deal is really just the start of a new business.*

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# Why Business Marriages Fail

## Seven Sure Signs There's M&A Trouble Ahead

A wise person once remarked that, in an ideal world, the reception after a wedding would be a small private affair, followed by a progressively bigger party on each anniversary, until a baseball stadium is needed in the 50th year to hold all the friends and relatives who helped make the marriage work across the decades.

The point is simple yet profound: the wedding is the easy part. Staying married is hard work. The same can be said for business mergers and acquisitions: making the deal is easy compared to making the deal work over the long term.

The stats on M&A failure, in fact, might be gloomier than the American divorce rate. Depending on whether success is defined by shareholder value, customer satisfaction, or some other measure, most research places the merger failure rate somewhere between 50% and 80%.

Why? Did the accountants add up the columns wrong? Did the attorneys fail to craft technically excellent documents? No and no. Business marriages fail for the same reasons as real marriages: that amorphous bundle of personality traits, communication patterns, power struggles, leadership styles, and other integration issues known as "people problems." On the surface, we may argue about "hard dollars," like who spent too much money at the grocery store or on a corporate jet, but the real issues are "softer," deeper and more difficult to address.



Here are the *top seven people issues* that cause business mergers to fail:

### **1. Blurred Vision**

All of a sudden, customers and employees don't know what's what and who's who. Employees want answers to basic business questions. What is the mission of the newly combined organization? Who is in charge here? How does each client, each product and each employee fit into the new mix? Salespeople have lost their 30-second elevator pitch. An employee is tongue-tied over Thanksgiving dinner when grandma asks, "so what does that company of yours do?" As trite as it may sound, this is typically the result of poor and inadequate communication from the highest levels of the organization. The reasons for the merger, and the mission of the combined entity, might be clear to those who made the deal, but you can bet that isn't the case throughout the entire workforce.

### **2. Internal Myopia**

If the long-term vision is blurred, members of the organization will, by nature, focus on the here and now. This can lead to an unhealthy overemphasis on internal tactical matters, such as: Which employee benefit plans will we retain? Who gets what office? When are we implementing that new ERP system? How do I request vacation? Where is the new policy handbook? What should we do with all this old letterhead? Not that these issues are unimportant; but they need to be decided *before* deal closing, as part of an integration-planning phase. After the closing, everyone in the new organization needs to focus on the customers, the competition and the market.

### **3. Power Struggle**

As soon as the merger or acquisition is announced, managers in each organization may attempt to consolidate their power. This pursuit can take many forms, but it usually involves staking out turf over customers, employees and budgets. The most debilitating power struggles are those



that involve customers. If you hear the refrain that goes something like "These are MY customers and I'll decide who has contact with them," you are in deep trouble. The new organization cannot permit such fiefdom-building. It is highly likely that one of the justifications for the merger involved cross-selling to each entity's customers, so any attempt to control cross-selling will by definition imperil the success of the merger. In a truly merged culture, relationships with customers and employees must belong to the organization, not to any individual or group of individuals.

#### **4. Culture War**

With managers engaged in a closed-door power struggle, it's not hard to envision a full-blown culture war breaking out among rank and file employees. Often, this begins with sarcastic jokes and negative comments by members of the acquired company. Seemingly, every announcement and decision communicated by the new leadership team, even positive news, is met with derision. If this negative atmosphere is allowed to fester, it won't be long before employees of the acquiring or dominant entity begin responding in kind to every idea, new or old, good or bad emanating from their new co-workers. Such ill will can spiral out of control, killing any chance for synergy and cooperation. Nothing turns off a customer quicker than an employee complaining about internal management issues. The answer to preventing that early rush of negativity is to seek and encourage workforce-wide input from the very start, while making a loud and conscious effort to reward positive behavior. As a last resort, those who don't buy in have to be weeded out.

#### **5. Decision Paralysis**

With everything around them changing, managers and employees will often become tentative. Because employees are searching for their equilibrium in the aftermath of a merger, they may become hesitant and



slow to react to challenge. Decisions that were easy in their former organization become a little tougher to make. It's bad enough when employees from each side of the deal are questioning each other's judgment, but it's a disaster when employees begin to question themselves and their own abilities. The problem is compounded when these employees call up the chain of command for assistance and are met with similar indecision by their managers. Everyone ends up waiting for someone else to make a move. In the best mergers, decision-making slows; in the worst, it may stop altogether. Senior leaders need to be aware of this dynamic and actively encourage progressive decision-making. Employees need to know that the only way to move up in the new organization is to take decisive action.

## **6. Survivor Syndrome**

In most M&A situations, the newly combined organization will experience a dip in productivity for a period of time. The depth of the dip, and the length of the time frame, are dependent on whether there is a workforce reduction. Even if a reduction in force does not occur, employees probably believe that it will - so most are suffering fear of job loss. This fear leads to unproductive time spent worrying, not to mention time spent surfing the internet for a new job. If layoffs actually occur, those who have been retained can experience anger, guilt and sadness. The workplace can become a hotbed for gossip and rumors. Turnover then rears its destabilizing head: the best salespeople are scooped up by competitors; strong managers leave in search of that "family" atmosphere seemingly lost in the merger; and those employees who were surfing the net out of unjustified fear happen to find new opportunities. And once this employee exodus begins, customers will soon follow. The way to avoid this desperate situation is to give employees a short period of time to adjust then usher in the new era with an aggressive communication effort. Most important, lay out clear objectives for your employees, trust their decisions and celebrate their



successes.

### **7. Death By 1,000 Cuts**

Almost every merger causes some sort of pain, but the worst ones are both painful and s-l-o-w. Human nature dictates that employees will be wary of every move that takes place during the integration period. Navigate through that period with all deliberate speed. If a reduction in force must occur, get it done quickly and get it done in one decisive move. If organizational changes are required, make them prudently, but fast. If customers and employees are still waiting for another shoe to drop 24 months after the deal is closed, chances are you have failed.

