

Tips for Getting Merged Companies on a Fast Track to Success

PROGGEX Newsletter, June 2009

The challenges faced by newly merged organizations are numerous and their dismal history of success certainly leaves you wondering why people even bother. In today's extraordinary economic circumstance, many companies are being forced to merge to survive, often without the benefit of thorough due diligence and planning for post-merger integration.

If your company is considering a merger or is in the middle of one, here are some of the more common pitfalls merged companies suffer and how you can avoid them:

1. High executive turnover.

A recent Harvard Business Review study of 473 merged and non merged companies revealed that merged firms registered about 20% executive turnover in the first year post merger, compared with 10% for non-merged companies. The attrition continues for several years after, however, and can create instability that will ripple throughout the organization for a decade.

Here's a good example. Back in 1999, Newell and Rubbermaid merged. Five years later, 75% of the combined companies' top 100 executives turned over. Even if redundant positions were eliminated, you can only imagine the environment in a company where employees regarding executives as short timers.

The first year post-merger is most critical for the new company to make progress on promises to deliver greater efficiencies, synergies, and process improvements. Ensuring stability of key leadership positions therefore becomes paramount. Offer retention bonuses to key people so you don't lose time and more money when the people who have the greatest leadership skills and institution knowledge walk out the door for other opportunities. When acquiring company executives are suddenly in charge of big projects they know little or nothing about, have to deal with low morale as a result of teams being broken up and responsibilities increased, and don't have the benefit of an understanding of the politics and culture of the acquired company, it's a recipe for disaster. Keep those key people in place to ensure stability no matter what you do.

2. Failure to deliver the cost savings, improved synergies, and enhanced shareholder value promised as justification for the deal.

Study after study has shown that mergers present a very high risk of failure, and even many of those that are successful take longer to produce the benefits promised when the deal was struck. Don't oversell fast cost savings and improved synergies to avoid the intense backlash that results when things take longer and cost more than you anticipated.

The devil, it seems, is in the details of post merger integration. In a perfect world, two companies' disparate or redundant IT systems will be quickly integrated and align perfectly with operations. Highly touted cost savings and other efficiencies will soon materialize. The new org chart will help everyone understand who's who in what everyone's roles and responsibilities are. New teams and departments made up of the employees who were not terminated as a result of the merger will work together harmoniously. And so on.

Alas, we don't live in a perfect world. Consider the challenges of post merger IT integration in financial services organizations alone. This is typically where merging CEOs will pronounce that they can achieve huge cost savings in a short time. But the size and complexity of their IT operations is tremendous. Solving problems of redundant applications, processes and data will take time and lots of money. But these same organizations, according to Gartner, are reducing

IT expenditures across the board and are not expected to resume a healthy level of IT spending until 2018.

3. No one owns responsibility for the progress and success of IT integrations and other key projects.

Identifying the person for whom the buck stops in terms of big project success can be difficult in many merged organizations. Assigning post merger integration teams in all critical divisions is key, but someone has to be responsible for ensuring they all work harmoniously and meet their goals.

There are few people in business who have a more successful track record of repeated success in mergers than John Chambers of Cisco. Chambers' formula for successful integration relies on the following:

- Shared vision of merged organizations
- Retention of key executives to restore stability quickly
- Identification of short term wins for acquired employees, long term wins for all
- Creation of permanent post-merger integration team
- Swift execution of processes in the planned integration
- Effective communications among teams.

Chambers' is very clear on who owns responsibility for all of the above: A project management expert whose job it is to make sure all mission critical projects are on track toward successful completion. He understands that merged company executives and their teams have enough on their plates just trying to adjust to the new environment. He's careful to avoid overloading them with all the responsibility for sorting out how to fit newly merged team members into existing ones and manage the success of ongoing integration.

So if your company is considering a merger, in the middle of one, or struggling to keep integrations and other post merger projects on track, take a lesson from John Chambers. Get the best project management expert you can find and make sure your merger doesn't end up on the list of merged companies that fail.