January 2006

Why Do Mergers Fail? What Can Be Done to Improve their Chances of Success?

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"The amount of time and energy needed to successfully merge two sophisticated organisations is more likely to resemble the planning and execution of the invasion of Normandy, accompanied by the resultant clash of cultures from many elements attempting to work together towards one end. This corporate failure to consider and plan for the long-term consequences can result in financial problems, loss of employee loyalty, lowered employee morale and reduced productivity."[1]

(1) Introduction

In recent years, the number of mergers and acquisitions that have taken place across the world has been staggering and has affected nearly all industries, as well as large and small companies alike. In 1998, there were 23,000 M&A deals worth $2.4 trillion.[2] In 1999, merger deals in the U.S. alone were valued at $3.4 trillion, according to the Wall Street Journal.[3] In 2000, 9,700 mergers and acquisitions took place in the U.S., each worth over $1 million.[4]

Increasing globalisation has also given rise to a higher number of cross-border mergers such as the Daimler-Chrysler deal, Exxon-Mobil and Alcoa-Reynolds, to name a few.

The reasons given by companies for this recent wave of consolidation have included cost-cutting through economies of scale, strengthening the company's market position, gaining access to new markets, global expansion, gaining a talented workforce, acquiring new knowledge and expertise, gaining a new customer base, and pursuing new technologies.

However, although mergers and acquisitions are being aggressively pursued by companies, recent studies have indicated that 60-80% of all mergers are financial failures when measured by their ability to outperform the stock market or to deliver profit increases.[5]

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[1] John C. Bruckman, Scott C. Peters, *"Mergers and Acquisitions: The Human Equation"*, **Employment Relations Today**, Spring 1987

[2] Charles Odell, Steven Goldberg, "*M&A's Performance Traps - Critical Do's and Don'ts to Protect the Value of Your Next Acquisition"*, **HR M&A Solutions International**, 1999

[3] Steven J. Wall, *"Making Mergers Work"*, **Merger Integration**, March/April 2001

[4] Wayne R. Pinnell, *"People and Purpose: Tips for a Successful Merger or Acquisition"*, **Advisor**, November 29, 2001

[5] Raymond Noe, *"Mergers and Acquisitions"* **MHR 860**, Ohio State University Fisher College of Business, January 17, 2002

While it is true that some of these failures can be largely attributed to financial and market factors, many studies are pointing to the neglect of human resources issues as the main reason for M&A failures. A 1997 PricewaterhouseCoopers global study concluded that lack of attention to people and related organisational aspects contribute significantly to disappointing post-merger results.[6]

Lawyers, bankers and accountants are indispensable in the process of a merger or acquisition, but they are not the true determinants of a successful merger. Rather, it is how effectively the people from the two organisations are brought together that will ultimately determine whether the merger will be successful.

In a McKinsey report, Ira Kay and Mike Shelton state: "Plenty of attention is paid to the legal, financial and operational elements of mergers and acquisitions. But executives who have been through the merger process now recognise that in today's economy, the management of the human side of change is the real key to maximising the value of a deal."[7]

As it stands, employees do not participate enough in the integration process of a merger. If a merger is to reach its full success potential, they need to be informed and involved more actively throughout all the stages of the merger process.

This report will focus on identifying the main human resources-related causes of merger failure, and will also provide recommendations on how to achieve a successful merger.

(2) Why Do Mergers Fail?

First, it is useful to look at the failure statistics more closely.
A study by Watson Wyatt based on a survey of 1,000 companies revealed that more than two-thirds of companies failed to reach their profit goals following a merger, and only 46% met their cost-cutting goals.[8] Those findings are further supported in a study by A.T Kearney that shows 58% of mergers failing to achieve their stated goals, and only 42% of global mergers managing to outperform their competitors after two years.[9]

Although many of the merging or acquiring companies state the importance of retaining and acquiring key talent, 47% of senior management in the acquired firm leave within the

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[6] Bob Zukis, Carol McGregor, *"Human Resources: A Critical Component to Your M&A Success in Japan"*, **Success Stories Japan**, PwC Unifi Network Japan, November/December 1999

[7] Suh-kyung Yoon, *"'People Problems' Hinder Post-Merger Success"*, **Far Eastern Economic Review**, November 15, 2001

[8] Ibid.

[9] Anne Freedman, *"Assessments Key to Merger Success"*, **Human Resource Executive Magazine**, April 2002

first year and companies experience on average a 50% drop in productivity in the first 6-8 months of the integration.[10]

Mergers typically fail for the following HR (human resources) reasons:

Lack of Communication

According to a survey examining the role of human resources in mergers and acquisitions, and based on responses from 413 HR directors in companies with 2,000 or more employees, 70% of the respondents cited employee communications as being one of the most important issues which needs to be addressed during a merger or acquisition process.[11]

Poor communication between people at all levels of the organisation, and between the two organisations that are merging, is one of the principal reasons why mergers fail.

Middle management and lower level employees in particular are kept in the dark when it comes to merger issues. A survey by The Conference Board revealed that less than 30% of companies customise merger information for middle management and lower levels of employees.[12] Therefore, it is not surprising that "many managers find themselves learning more about their corporation from reading the daily business section of the newspaper than from their own superiors."[13]

Not only is lack of communication a serious issue for merging organisations, the deliberate withholding of information from employees on the part of the senior executives who are dealing with the merger is also a major problem, and contributes to confusion, uncertainty and a loss of trust and loyalty on the part of employees. In some cases, companies even feel the need to lie to their employees by making reassuring statements about the continuity of their roles and pay packages, and by falsely stating that there will be no redundancies.

Peter Dixon, a merger expert at Braxton Associates, explains: "Lack of information, no clear direction and confusing messages, all boil down to uncertainty, which is destructive.

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[10] Raymond Noe, *"Mergers and Acquisitions"* **MHR 860**, Ohio State University Fisher College of Business, January 17, 2002

[11] *"Human Resources Seeks Greater Strategic Role in Mergers and Acquisitions – and the Training to Support it"*, **CG&Co. in the News**, February 1, 1999

[12] *"Strong Employee Communications Can Smooth Mergers"*, **The Conference Board**, July 14, 2000

[13] John C. Bruckman, Scott C. Peters, *"Mergers and Acquisitions: The Human Equation"*, **Employment Relations Today**, Spring 1987

It is really very important to be clear and consistent, even if the messages may not always be positive for everyone."[14]

A need to meet regulatory requirements and to safeguard the proposed merger and the value of the company on the stock exchange means that information sometimes must be withheld, both within the organisation and externally, before the merger is completed. This leads to conditions of secrecy and uncertainty throughout the company.

"Consequently, executives without a 'need to know' are often excluded from having the very information they need to effectively plan for, and communicate with their employees about, a potential merger."[15]

The fact that employees are often excluded while the merger deal is being finalised is all the more reason to communicate thoroughly and effectively after the merger deal has been officially sealed. However, the section below shows that human resources are not sufficiently involved in the post-merger integration process, which means that issues affecting employees are not being given appropriate attention. This, in turn, has serious implications for the success or failure of the merging companies.

Lack of Direct Involvement by Human Resources

As discussed in the previous section, the early stages of mergers and acquisitions (i.e., planning and negotiation) are often carried out in secret and do not usually involve human resources in the discussions.

The following table has been obtained from a presentation by Raymond Noe and illustrates the various stages at which human resources become involved in the merger process in the United States, Asia-Pacific and Brazil.

[14] *"Mergers and Managers Don't Mix. Will Corporate Marriage Mania Ever Get Better?"*, **The Executive Issue**, Issue 2, 1998

[15] John C. Bruckman, Scott C. Peters, *"Mergers and Acquisitions: The Human Equation"*, **Employment Relations Today**, Spring 1987

Human Resources Involvement in the Merger Process

	United States	Asia-Pacific	Brazil
Initial Planning	16%	19%	8%
Investigative	41%	21%	12%
Negotiation	16%	16%	24%
Integration	27%	44%	56%

Source: Raymond Noe, *"Mergers and Acquisitions"* **MHR 860**, Ohio State University Fisher College of Business, January 17, 2002

According to a 1999 survey of 134 human resources executives, HR departments are not always involved in the merger process, with only 59% of HR staff members in the acquired companies being asked to participate before the merger, and only 58% being asked after the merger.[16]

This lack of involvement by human resources can have a detrimental impact on the merger, since it means that many issues that are directly linked to the success or failure of the merger will have been overlooked.

Nathan Ainspan, who co-wrote the report in which the survey features, states: "If legal and financial experts are driving the strategic work behind the integration, then a number of important considerations critical for the financial success of the merger, such as the productivity of the new employees, may be overlooked unless human resources and corporate communications staff members provide their input."[17]

[16] *"Strong Employee Communications Can Smooth Mergers"*, **The Conference Board**, July 14, 2000

[17] Ibid.

Lack of Training

Lack of training, not only of employees throughout the merging company, but also of the senior managers and HR professionals who are supposed to oversee the merger process, is one of the main contributors of merger failure.

Training is an essential ingredient in aligning post-merger processes and activities and in achieving a smooth integration process. However, in a recent survey involving HR directors in large companies, only 48% of the respondents reported taking part in training and development in the post-merger phase.[18]

In many cases, HR professionals are left out of the merger process because they are considered ill-equipped to deal with the merger and the issues to which it gives rise. The survey reveals that 81% of HR directors believe that "most HR professionals do not have sufficient technical knowledge of M&A and other corporate growth activities to support acquisition strategy development."[19]

Therefore, senior managers are often reluctant to involve human resources professionals in the merger process because they do not believe that HR possess the skills required to contribute effectively to the merger process.

"As long as human resources professionals are viewed by many senior executives as not being able to play in the corporate big leagues, this situation is unlikely to change."[20]

The irony is that the lack of training creates a vicious circle: senior executives do not want to involve HR directors in the merger process because they are not properly trained to deal with merger issues and activities, but in order to get that essential training in the first place, HR need the support of senior management.

In many instances, senior managers themselves lack the proper training that is required to deal effectively with mergers and acquisitions, and yet they are the ones who are often in charge of making human resources decisions that will affect employees, including decisions about job losses and changes to people's roles in the organisation. According to a survey involving 88 senior HR executives of companies that have recently experienced a merger or acquisition, less than 33% of respondents reported that training in M&A communications was provided to top management, and training was provided to the CEO, middle managers, or frontline supervisors in just one out of five companies.[21]

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[18] *"Human Resources Seeks Greater Strategic Role In Mergers and Acquisitions – and the Training to Support it"*, **CG&Co. in the News**, February 1, 1999

[19] Ibid.

[20] John C. Bruckman, Scott C. Peters, *"Mergers and Acquisitions: The Human Equation"*, **Employment Relations Today**, Spring 1987

[21] *"Strong Employee Communications Can Smooth Mergers"*, **The Conference Board**, July 14, 2000

If this situation does not change, senior managers will not be able to lead the post-merger processes effectively, and will lack the necessary knowledge that will enable them to meet the demands of the newly-merged organisation.

"Senior and middle managers normally need considerable training and development in order to cope with the demands of the larger organisation. If they do not receive this training, then the company's efficiency and profitability will be negatively hit."[22]

Loss of Key People and Talented Employees

"An increase in the turnover rate of productive employees is one of the greatest prices of corporate mergers."[23]

Mergers and acquisitions often lead to the loss of the merging companies' greatest assets: talented employees and key decision-makers. According to the American Management Association, one out of four top performers leaves the company within 3 months of the announcement of an event involving major change in the organisation[24] and 47% of senior managers in the acquired company leave within the first year.[25] A *Wall Street Journal* article estimated that 50-75% of managers in companies that have merged plan to leave within three years.[26]

Yet the decision to merge or acquire is often based on the desire to gain a talented workforce, and new knowledge and expertise. This obvious contradiction is not dealt with satisfactorily by company leaders who are not taking sufficient steps to resolve this problem. They need to realise that when employees leave the company following a merger or acquisition, they are taking with them the knowledge and expertise that was part of the reason the merger occurred in the first place.

Robert Critchley, president of Drake Beam Morin, a large outplacement and career-management consultancy, states: "Employees are the most important assets companies

[22] John C. Bruckman, Scott C. Peters, *"Mergers and Acquisitions: The Human Equation"*, **Employment Relations Today**, Spring 1987

[23] Ibid.

[24] Suh-kyung Yoon, *"'People Problems' Hinder Post-Merger Success"*, **Far Eastern Economic Review**, November 15, 2001

[25] Raymond Noe, *"Mergers and Acquisitions"* **MHR 860**, Ohio State University Fisher College of Business, January 17, 2002

[26] John C. Bruckman, Scott C. Peters, *"Mergers and Acquisitions: The Human Equation"*, **Employment Relations Today**, Spring 1987

have. Yet they are totally forgotten about when a deal is being done. The boards and senior management just don't get it."[27]

A good example which illustrates how losing talented employees can lead to the failure of a merger or acquisition is the case of NationsBank-Bank of America's acquisition of Montgomery Securities in October 1997. The acquisition led to the loss of most of the investment bankers at Montgomery who left following disputes with management and culture clashes with Bank of America. Many of those investment bankers joined Thomas Weisel, a rival of Montgomery Securities, run by Montgomery's former boss.[28] Montgomery Securities never regained the status it once had, showing how losing key talent can undermine the success of a merger or acquisition.

Frequently, employees do not leave of their own free will following an M&A transaction, as companies reduce their headcounts and downsize in a bid to reduce costs. At the same time, however, companies in today's economy seem to be rated more and more on their innovative capabilities and unique expertise, which reinforces the notion that employees are a company's greatest assets.

"As the knowledge economy evolves, Wall Street is responding by valuing companies on their ability to deliver innovative and creative products and services."[29]

Not only do merging companies suffer a drop in productivity as a result of losing talented employees, but lower morale and a sense of insecurity on the part of the employees who remain in the newly-merged organisation can also lead to productivity problems. Remaining employees end up distrusting their employer and often become reluctant to safeguard the interests of the new company. They also become de-motivated to work to their best abilities.

"The resulting loss of creative power can cripple a corporation that is competing within a rapidly changing industry."[30]

Loss of Customers

With the loss of employees also comes the loss of customers during mergers and acquisitions. Some of the most talented employees, responsible for bringing in valuable

[27] Suh-kyung Yoon, *"'People Problems' Hinder Post-Merger Success"*, **Far Eastern Economic Review**, November 15, 2001

[28] Randall S. Schuler, Susan E. Jackson, *"HR Issues and Activities in Mergers and Acquisitions"*, **Rutgers University**, May 2, 2001

[29] John C. Bruckman, Scott C. Peters, *"Mergers and Acquisitions: The Human Equation"*, **Employment Relations Today**, Spring 1987

[30] Ibid.

business to their organisations, are often the ones who leave, resulting in the loss of key customers.

"All companies need to remember: it's the people who produce profits, represent the company, establish rapport with the customers, and, ultimately, are the ones that will make the combined company succeed."[31]

Even if merging companies succeed in retaining the employees that bring in the business, customers may still decide to take their business to other companies if they fear that their level of service is going to deteriorate in the newly-merged organisation. Lack of communication on the part of management is therefore the culprit not only when it comes to the employees of the merging organisations, but also when it comes to their customers.

Corporate Culture Clash

Even if two companies seem to have all the right ingredients in place for a successful merger, cultural differences can break the deal. It is not enough for two companies to appear to fit well on paper; at the end of the day, if the people are not able to work together, the merger will not succeed. Business International states that poor communications and inability to manage cultural differences are the two main causes of failed mergers.[32] Cultural differences that cannot be resolved affect communications, decision-making, productivity and employee turnover at all levels of the organisation.

"All the best laid plans – exhaustive analyses of strategies, marketing tactics, legal issues, etc. – can fall apart if the people cannot work together. If the two workforces fail to unite behind the strategic goals underlying the consolidation, even the best financial deals and most rigorous legal contracts fail to guarantee success."[33]

An example which demonstrates the importance of cultural differences is the DaimlerChrysler merger. The post-merger phase highlighted the difficulty of trying to integrate two very divergent cultures. Even though in the beginning, Daimler-Benz and Chrysler both expressed their commitment to working together and sharing work practices and product development methods, this commitment did not materialise, a phenomenon exemplified by the Daimler management's unwillingness to use Chrysler parts in Mercedes cars.[34]

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[31] Wayne R. Pinnell, *"People and Purpose: Tips for a Successful Merger or Acquisition"*, **Advisor**, November 29, 2001

[32] Irene Rodgers, *"Culture Bridging for International Performance"*, **Personnel ANDCP**, April 1999

[33] *"Why Do Mergers and Acquisitions Fail to Create Synergy? Is the Situation Redeemable?"*, Interview with Maria Kouli, Deputy Director of the National Bank of Greece, **The Executive Issue**, Issue 12, 2001

[34] Randall S. Schuler, Susan E. Jackson, *"HR Issues and Activities in Mergers and Acquisitions"*, **Rutgers University**, May 2, 2001

Yet despite mounting evidence that culture clashes are at the heart of many failed mergers, managers are not taking enough measures to try to resolve and manage these critical cultural differences.

Power Politics

Power struggles can be a major obstacle to the success of mergers and acquisitions. Clashes between the management of the two companies, as well as clashes within a company's own management, can lead to the demise of a merger. Not only do power struggles distract management from focusing on business issues, but managers also tend to place their own self-interests above those of the business, and often make decisions that will benefit them at the expense of the rest of the organisation.

Although there is a tendency to assume that power disputes are more common in the case of acquisitions than mergers, there is no such thing as "a merger of equals". Even in the case of the Daimler-Chrysler merger, it was clear that the distribution of power was not equally spread out. According to Chrysler marketing chief Jim Holden: "We felt like we were marrying up, and it was clear that they thought they were marrying down."[35]

Inadequate Planning

Planning is a crucial exercise that will help determine the success or failure of a merging organisation. However, many merging organisations do not have adequate or complete integration and implementation plans in place. Only one out of five companies that have acquired another has developed a clear and satisfactory implementation plan.[36]

A major downside of the planning process is that it can take the focus away from daily business activities. It can also fail to address serious HR issues and activities that can have a strong impact on the organisation.

Another flaw in many M&A plans is that they often include expectations that are unrealistic and that will stretch the merging organisations beyond their capabilities.

[35] Ibid.

[36] Mike Harrison, *"HR Has a Major Role to Play in Mergers"*, **Personnel Today**, September 25, 2001

(3) Recommendations for a Successful Merger

This section will look at the key factors that are required to ensure a smooth and effective merger process.

- ***Extensive and Regular Communication***

Communication at various levels is crucial during all stages of the merger process, and is the key to its success. It is interesting to note that a recent Watson Wyatt survey found that only 5% of executives picked human resources and communication as a top priority matter, preferring to focus instead on strategic and financial issues, even though 71% of executives stated that communication was a vital ingredient of M&A integration.[37]

Even when communication is given high priority, the manner in which it is used is often less than ideal. To be effective, the communication process has to be carried out in such a way as to avoid confusion and mixed messages. It needs to be honest and to focus on positive messages. If not, it can encourage rumours that can have a negative impact both within the organisation and externally.

"Communications are a lever to influence the market, a tool for managing internally, and a potentially dangerous narcissistic trap where one may, in one phrase, destroy stock value, personnel motivation or one's personal image…"[38]

It is very important for management to communicate clearly and regularly to all employees the implications of the merger, including the planned changes to working practices and organisational processes. If management is unable to discuss the merger while negotiations are taking place, then it needs to make up for it immediately in the post-merger phase. The communication process should include stating the merging company's goals and objectives to all employees and keeping them informed of progress during the implementation and integration phase of the merger.

The communication process should also encourage two-way feedback between management and employees to make employees feel that they are contributing to the solution. By involving people at all levels of the organisation, the merging companies are encouraging widespread acceptance of the merger process and reducing feelings of insecurity.

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[37] Suh-kyung Yoon, *"'People Problems' Hinder Post-Merger Success"*, **Far Eastern Economic Review**, November 15, 2001

[38] Charles Gancel, Elisabeth de Saint Basile, *"How to Marry Your Enemy"*, **Fusions et Acquisitions Magazine**, September 1999

Not only is communication within the merging organisation essential, but communication between the two companies that are merging is also important to reduce the "us" and "them" mentality which can be destructive during the merger process.

It is also important for the merging companies to communicate extensively to customers and to reassure them that their level of service will not be affected. The information flow needs to be continuous and specific in order to maintain a sense of continuity and to reduce feelings of uncertainty on the part of customers.

"Management does not want to complete a merger and wake up the next day without a key customer or supplier who is no longer doing business with the company because of uncertainty resulting from lack of communication."[39]

- ***Effective Planning***

"Success in mergers and acquisitions correlates directly with the level of planning that goes into them."[40]

Careful and early planning has been shown to influence the success of a merger. A joint study by PA Consulting Group and the University of Edinburgh Management School, based on 85 M&A deals worth over £50 million ($75 million) each, found that companies that had planned the merger in great detail achieved short-term share price returns that were 4.5% higher than companies that had not carried out adequate planning. Companies that had created an integration and communications plan before the merger deal was finalised improved their share price return by a further 2.3 percent.[41]

Plans need to include realistic goals and reasonable timeframes, and should cover all the key aspects of an organisation including people, systems and organisational processes. They should also focus on ways to align systems, work structures and processes between the merging organisations, and on implementing structures and procedures that will allow the organisation to handle the changes brought about by the merger. Effective planning leads the way to a smoother implementation process and maximises the chances of success of the merging organisation.

"When a carefully laid out integration plan is implemented, companies can achieve optimal results and maximise the value proposition of strategic transactions,

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[39] Wayne R. Pinnell, *"People and Purpose: Tips for a Successful Merger or Acquisition"*, **Advisor**, November 29, 2001

[40] Richard Storey, Lisa Gander, *"An Integrated Approach to Mergers and Acquisitions: Integration Management"*, **Comment** (Arthur Andersen), Summer 2000

[41] *"M&A Study Overturns Wisdom on Why Mergers Succeed or Fail - Research From PA Consulting Measures the Cost to Shareholders"*, **PA Consulting Press Release**, 12 June 2000

regardless of the merger objectives."[42]

- ***Retaining Key People***

The retention of a talented workforce, which is often a major reason behind the decision to merge, should take priority during the merger process, and management needs to adopt measures to improve the retention rate of the best people in the merging companies. The good news is that over 76% of executives recognise the vital importance of retaining key managers during M&A integration, according to a survey by Watson Wyatt.[43] The bad news is that senior managers in many companies have not yet mastered efficient ways of retaining their best people.

Truthful and thorough communication with employees can play a significant part in management's retention strategy. If the communication process is performed effectively, it can reduce employees' sense of insecurity and give them a better picture of what the future holds for them. If, however, managers are not honest about the true implications of the merger, they will lose the trust of their employees, causing them to leave the company. As for the remaining employees, they may no longer feel motivated to produce their best work.

"Don't expect employees to show loyalty if the employer does not act with the utmost integrity and sensitivity."[44]

Pay and reward strategies can also play an important role in management's retention strategy but they need to be addressed early on in the merger process and should not only focus on senior executive pay, but also on the remuneration of employees at all levels of the organisation. They also need to reflect the newly-merged company's goals and business needs.

"Instead of being a challenge, pay must become the cement that will help bind the new company or entity together more positively and effectively."[45]

Companies that are considering cutting costs by lowering headcount should think twice and must remember that quality is more important than quantity. It is often the best people who are pushed out following a merger or acquisition, and the remaining

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[42] Richard Storey, Lisa Gander, *"An Integrated Approach to Mergers and Acquisitions: Integration Management"*, **Comment** (Arthur Andersen), Summer 2000

[43] Suh-kyung Yoon, *"'People Problems' Hinder Post-Merger Success"*, **Far Eastern Economic Review**, November 15, 2001

[44] Mike Harrison, *"HR Has a Major Role to Play in Mergers"*, **Personnel Today**, September 25, 2001

[45] Patricia K. Zingheim, Jay R. Schuster, *"Pay and Rewards Can Bind People in Mergers and Acquisitions"*, May 27, 2002

employees are not always the most effective at bringing in business and clients. Talented employees are a company's best assets, and company leaders need to distinguish between their best people and poor performers before making decisions about job cuts.

"It's terribly easy for senior managers orchestrating a merger to get stuck in an Industrial Age mentality that focuses on reducing operating costs through the shuttering of factories and wholesale layoffs. But companies that want to develop long-term, sustainable competitive advantage had better safeguard their intellectual assets."[46]

If job reductions need to be carried out, they need to be communicated throughout the organisation in a speedy manner, and if possible, senior management should reassure the remaining employees that there will be no more redundancies. This will enable those employees to redirect their full attention to their work and to keep productivity up.

- ***Managing Cultural Differences***

Companies that are merging need to be aware of cultural differences between them and need to find practical ways of reconciling those differences.

According to the previously mentioned study by PA Consulting Group and the University of Edinburgh Management School, corporate mergers where the acquiring company is aware that cultural differences exist, produce considerably higher shareholder value than those where the acquiring company believes there are no such differences.

Jeremy Stanyard, a member of PA Consulting's Management Group, explains: "A measured and selective approach to post merger integration, coupled with a recognition that different companies have different cultures – no matter how similar the businesses appear – are two determinants of success."[47]

Conducting a cultural audit is a useful way of obtaining useful information about the two companies' differing cultures and helps to evaluate differences and similarities in work standards and practices. That information can raise awareness of potential difficulties and issues in the merging process, and allows the merging company to take steps to minimise culture clashes by building an effective communication structure.

Part of the communication process should involve bringing together people in both organisations and encouraging them to take part in both social and professional activities together. The two companies should be encouraged to build on their common ground.

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[46] Mark Mazzie, *"Merging Companies That Fail To Integrate Their Intellectual Assets May Be Squandering the Value of the Merger. Knowledge Management Can Help"*, **CIO Enterprise Magazine**, October 15, 1999

[47] *"M&A Study Overturns Wisdom on Why Mergers Succeed or Fail - Research From PA Consulting Measures the Cost to Shareholders"*, **PA Consulting Press Release**, June 12, 2000

"Probably the most effective way to avoid the destructive conquered vs. conqueror mindset is to ensure that as many people as possible in the two organisations get to know each other early in the process".[48]

With an increasing trend towards global mergers, language barriers also need to be taken into consideration, and companies should consider providing language training to their employees if this can benefit the integration process.

Successfully integrating the two cultures of the merging companies is an essential step towards achieving a successful partnership. In order to do this, cultural awareness and sensitivity are crucial to avoid potential clashes and misunderstandings between the people in the two companies.

- ***Training and Development***

Training and development should be provided to senior and middle management and should focus on all aspects of the merger process. Such interventions will facilitate more effective leadership on the part of managers, who will have a better understanding of the key issues that arise during the course of a merger.

Training should focus on the implications of the merger for the company, its effects on employees at all levels of the organisation and its impact on working practices and organisational structures. Training should also educate managers on what each stage of the merger process entails for them and for the company as a whole.

Ideally, training on M&A issues and activities should take place even if a merger is not being considered, so that managers are prepared in the event of a future merger or acquisition.

Training managers on how to communicate M&A implications and issues to the rest of the organisation is also required. Managers need to be able to engage employees at all levels of the organisation in order to make them feel part of the decision-making process and to cultivate their support.

[48] Steven J. Wall, *"Making Mergers Work"*, **Merger Integration**, March/April 2001

- ***Post-Merger Integration Teams***

One way of ensuring that post-merger integration will run smoothly is to set up a post-merger integration team in all the critical areas of the organisation, including finance, sales and marketing, human resources, and operations.[49]

The above study by PA Consulting Group and the University of Edinburgh Management School found that integration teams that were set up early, and where at least 40% of the team were from the acquired organisation, increased short-term share price returns by 6.5 percent.[50]

An interesting and rather more surprising finding from the study is that "over-integration" of the merger target can also harm shareholder value because it can destroy the essential value of the target company. The most successful mergers were those that aimed for a medium level of integration. Their share price returns were 5.9%, compared with 2.8% for the highly integrated mergers.

John McGrath of Diageo, who participated in the study, states: "There can be dangers in over-integration, or in moving too fast in an attempt to realise all your synergies at once. It's a question of identifying where value is being created, and then making sure you protect it during the integration process. You have to be selective when deciding exactly what to integrate, and how quickly."[51]

(4) Conclusion

On one hand, it seems that senior executives in most companies recognise the importance of human resources issues in determining whether a merger is going to succeed or fail. On the other, those executives are not doing enough to encourage the involvement of HR teams and employees in the M&A process. This clear contradiction between what executives know to be true and their reluctance to do anything about it is baffling.

"No one would get into a car knowing that it had a fifty-fifty chance of reaching its destination safely without taking precautions. The same thinking should be applied to merger/acquisition integration."[52]

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[49] John C. Bruckman, Scott C. Peters, *"Mergers and Acquisitions: The Human Equation"*, **Employment Relations Today**, Spring 1987

[50] *"M&A Study Overturns Wisdom on Why Mergers Succeed or Fail - Research From PA Consulting Measures the Cost to Shareholders"*, **PA Consulting Press Release**, June 12, 2000

[51] Ibid.

[52] *"Protecting Your Workforce, The Human Element in Mergers and Acquisitions: Uncertainty and Stress"*, **Insights**, **The Aon Risk Services Risk Management and Insurance Review** , Edition 4, 1998

The good news is that even though many companies continue to neglect HR-related issues in mergers and acquisitions, there is some evidence which suggests that more and more companies are trying to do something about it and that they are increasingly recognising the importance of having people in place with the necessary skills and experience to lead effective mergers and acquisitions. According to a study sponsored by KPMG and conducted by The Conference Board, many leading firms are now working on making M&A integration a "core competency" in their company. Over 45% of companies that have been through recent mergers or acquisitions have made M&A integration a core competency and have set up integration teams made up of people coming from all the critical areas of an organisation, including human resources.[53]

Obviously, the importance of financial, market and legal factors must not be downplayed in the merger process. However, human resources issues, such as the effects of the merger on the workforce, must not be neglected either. Unfortunately, they "are typically short-changed in the euphoria of the financial transaction."[54]

Yet those issues are just as, if not more, important in determining the success of a merger. They can greatly maximise the chances that a merger will succeed if they are dealt with promptly and effectively.

"The business situations may be complex and unique, but the people situations are predictable and addressable."[55]

Most companies have emphasised time and time again that their employees are their most valuable assets. Now they need to back up their words with appropriate actions, including adopting measures that will protect and motivate their talented employees in the aftermath of a merger or acquisition.

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[53] *"M&A Know-How Becoming Critical in Top Firms"*, **The Conference Board**, August 16, 2000

[54] Charles Odell, Steven Goldberg, *"M&A's Performance Traps - Critical Do's and Don'ts to Protect the Value of Your Next Acquisition"*, **HR M&A Solutions International**, 1999

[55] Wayne R. Pinnell, *"People and Purpose: Tips for a Successful Merger or Acquisition"*, **Advisor**, November 29, 2001