Vision as Key Factor in Merger Processes

By Oliver Recklies

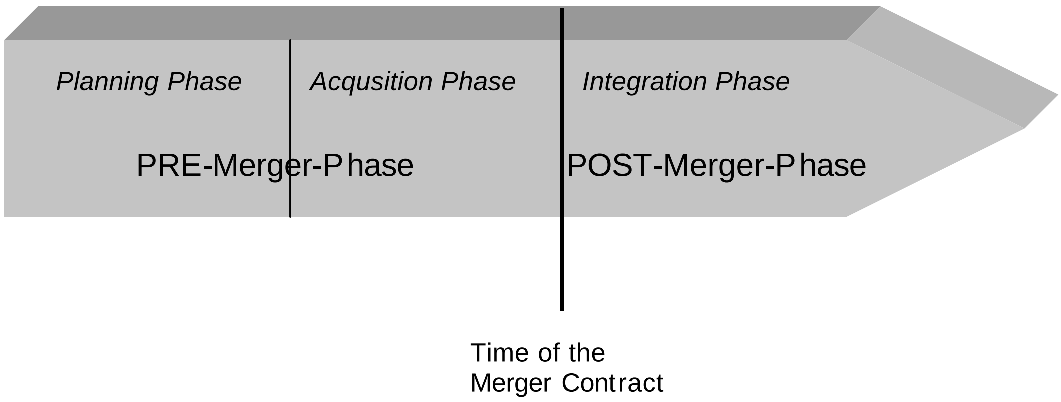
The Problem

Definition

The term "merger" describes the highest form of strategic partnership, in which two or more legally independent organizations merge together to one organization – both legally and economically.

The post-merger integration process is a difficult and complex task. It comes along with long lists of activities and tasks that have to be fulfilled within a short time and partly with incomplete information (e.g. formation of new teams and departments). There are many opportunities to exploit and many decisions to take. However, as long as there is no vision for the new organization that is well known to everybody, there is no use in investing too much effort in all these issues. The vision for the new organization has to come first.

During a merger, we can distinguish the following phases:



The post-merger integration phase covers the operational part of the merger project. Often this phase decides if the merger becomes a success or failure. Many of the critical success factors of the integration phase are so called soft factors (compare the "soft S'" in the McKinsey 7S Model). Therefore, it is necessary to focus attention on issues like:

- Communication of the new strategic objectives and the new vision of the merged organization.
- Implementation of a new shared corporate culture and management culture.
- Development of a new management structure for the new, larger organization; especially overcoming of leadership problems in very large units.
- Bringing together formerly separate units from both former organizations.
- Harmonization of management compensation and management incentive systems.

- Overcoming of language barriers and country specific cultural differences.
- Overcoming of staff's suspiciousness of the other organization ('Us vs. Them' syndrome).
- Filling of management positions.
- Allocation of responsibilities
- Knowledge transfer among units that are to be integrated
- Maintenance of customer relationships during integration phase.

Many mergers fail because of a lack of coverage of one or more of these issues.

How successful are mergers?

An ATKearney research from the late nineties proved that the vision has a critical function in post merger integration. The following facts give evidence:

- Most companies see compatibility (i.e. fit in terms of customer base, regional coverage, product portfolio etc) as more important than a shared vision in mergers. In the ATKearney research, 78% of participants' thing a parallel past is more important than a common idea of the future. (Excursus: A real-life analogy - in private life, would you start a relationship with somebody with whom you do not share a common idea about your future as a couple? Probably not. Why do so many managers to something in business life that they would not do in their private lives? If you follow this analogy, the second research finding will not be a surprise.)
- Most mergers fail. 58% of mergers analyzed by ATKearney do not end successful since they do not meet expectations and objectives. The reasons vary. ATKearney says that some mergers fail to meet expectations because these were much too high. Others meet some of the initial objectives but do not achieve the same performance in terms of growth and shareholder returns as their competitors do.
  In fact, many mergers destroy value instead of creating value.

There are misunderstandings about the term 'vision'. In business life, several concepts from strategy to operational plans are sometimes wrongly taken as the 'vision'. Due to the increasing dynamics in every organization's environment, the vision is more important today than ever before. For merged companies, the shared vision is the central element that allows them to gain the support of all involved parties.

More than 25 years ago, a fairly unknown Mr. Gordon Moore from a fairly unknown company named Intel mentioned that his engineers are the real revolutionaries of the sixties. He said he expects computer processors to double their capacity every 18 months. What a vision!

Recklies Management Project GmbH ▪ www.themanager.org
Tel. 0049/391/5975930 ▪ Fax 0049/721/151235542 ▪ mail: drecklies@themanagement.de

The Problem of the Fit-Approach

As mentioned earlier, more than 75% of mergers are initiated on the basis of the impression that both organizations 'fit' together. A closer look at this criterion reveals that this is no good starting point. Often, companies draw more or less superficial comparisons of customer segments, product portfolio or market scope in order to determine if there is a fit between them. Similarly, financial data is often used to determine the degree of fit. Doubtless, it does make sense to look out for synergies and similarities in these areas; however, a decision about a common future should not base solely on such data.

In view of the fact that 58% of mergers achieve no or negative results, the 'fit-approach' is no suitable criterion for a successful merger. Even a perfect financial fit neglects some hard and soft factors that have a major contribution for merger success.

Factors like

- Corporate culture and existing value systems
- Staff qualification
- Core competencies and intellectual capital
- Leadership styles and communication systems
- Strengths and weaknesses of the critical success factors of each business unit

should be included in the pre-merger analysis. These factors make or break the merger of the so far separate corporate systems. A good fit looks at the past and – at its best – at the present. It is not able to give the new organization a promising strategic direction and to drive integration. An important success factor that is not related to a fit in products or markets is, for instance, the degree to which the merged organization can develop a new culture that is accepted by the members of both 'old' companies. In order to initiate the necessary activities and to grow together in these soft issues, the company needs a guiding 'route map' that gives direction – the vision.

The Development of a Vision

The development of a corporate vision is not as easy as one might think. A merger without a clear and realistic vision may lead to similar negative results in terms of shareholder value as merger based solely on fit-approaches may do. Visions are borne from good ideas, often developed by visionary people in endless meetings and projects. The problem is that many ideas look promising at the first sight, but prove to be useless later on.

Famous examples for ambiguous visions and their failure in practice:

- *Merger between US-Railroad Pennsylvania and New York Central (1968)*
- *AT&T and NCR*
- *Transformation of Daimler Benz into a technology group*
- *Announced and withdrawn merger between Deutsche Bank and Dresdner Bank (2000)*

Recklies Management Project GmbH ▪ www.themanager.org
Tel. 0049/391/5975930 ▪ Fax 0049/721/151235542 ▪ mail: drecklies@themanagement.de

- *Siemens-Nixdorf (1986)*

Mergers that aim to achieve economies of scale are not more successful than mergers for other reasons. The opportunity to achieve economies of scale does make sense. It is a logic business proposition. It may, however, make managers neglecting negative side effects of a merger with the potential partner.

It takes an open analysis of the final objectives of both partners without any taboos to develop a realistic vision. This analysis should look at the core competencies and financial resources of both companies too. An study of reasons for resistance of particular interest groups in mergers proves, how difficult this per-merger analysis is (here at the example of stakeholders of credit cooperatives):

Stakeholder Group	**Experiences problems and resistances**
Members of board of directors	Fear of a dominating merger partner Fear to loose the own position as CEO Conflicts in allocation of responsibilities and tasks Conflicts in location of new headquarter Personal hostility among CEOs of both partners Conflicts because of higher claims for redundancy payments
Members of Supervisory Board	Fear of a dominating merger partner Fear to loose seat in the Supervisory Board Conflicts in name of the merged bank and location of the new headquarter Problems with regional / local politics Interest in regional independence
Owners / Members of Cooperative	Lack of understanding of need for merger Problems with regional / local politics Interest in regional independence Interest in improved financial benefits
Staff	Conflicts due to fear of changes in the middle management and among the all staff

Resistance and problems in pre-merger phase[1]

Due to these problems, Due Diligence should be extended to all issues of business and strategy. A key question could be: “What will we be able to offer to our customers in future and what can the potential partner contribute to that?” That means, Due Diligence needs to be extended to areas that traditionally are not part of this analysis:

- Customers
- Competencies and abilities of staff
- Competitors
- Costs
- Culture

Outlook

Visions do not emerge as side effects of a merger. They are the result of a planned process. The vision has to grow from the creativity and imagination of the leaders and top-managers. They have to

Recklies Management Project GmbH ▪ www.themanager.org
Tel. 0049/391/5975930 ▪ Fax 0049/721/151235542 ▪ mail: drecklies@themanagement.de

take into consideration strategic results from Due Diligence and soft factors such as corporate cultures.

A new rule of the game of mergers and strategies is: Every merger and all following integration-activities have to be guided and supported by a clear and realistic vision that is based on strategic Due Diligence.

Checklist for Mergers and Visions

- ✓ Definition of the feasible: What competitive advantages do we have? Will the new organization be able to take a leading position in research & development or any other area? It is necessary to evaluate the opportunities of both partners.
- ✓ Strategic Direction: In which markets shall the new organization operate? What is the best way to exploit the combined strengths of both partners?
- ✓ Realistic approach: It is necessary to pay attention to factors like credibility and feasibility. An unrealistic vision will not gain the support of staff.
- ✓ Uniqueness – no copying: The best visions are that unique that it is impossible or very difficult to apply them to other organizations.
- ✓ Ongoing communication: Live the vision! Visions can take on various functions – support, control, motivation etc. The leader who continues to communicate the vision and its meaning, supports his people in everyday business life. Moreover, it is much easier to evaluate alternatives or to take decisions if everybody is clear about the one question: “What does our organization really want to achieve?”
- ✓ Do not overemphasize the fit-approach: If both organizations share a common vision about their future, it will not be necessary to ask if the ‘fit’ together. They will fit together because their strategies and visions do so.

[1] S. Topp. 1999. Die Pre-Fusionsphase von Kreditinstituten. Wissenschaft und Praxis. Sternenfels