The Missing Intent in M&A

Focusing on the Upside Potential of Culture

"What if, and I know this sounds kooky,
we communicated with the employees."

Must haves and nice-to-haves

It's the season of "must-haves" and "nice-to-haves." We are once again in the midst of annual planning for many companies. It's the time leaders must choose between investment must-haves and nice-to-haves. At the same time, we in the United States are in the midst of our national election, with its own list of "must-have" key states up for grabs.

Both of these "must-have" themes came to mind recently as we were working with a group of leaders on the thorny issue of cultural integration. Culture, as we often hear, is the bogeyman of failed post-merger integration (PMI). Cultural

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Deliberate Integration at Enterprise Rent-A-Car

Andrew Taylor, CEO of Enterprise Rent-A-Car provided his script for leadership in his description of the 2007 acquisition of Vanguard, owner of the National and Alamo brands, in a 2013 Harvard Business Review article:

> Integrating an acquisition like this is a tough job. A lot of companies fail at it, and even when an integration succeeds, the acquired company sometimes feels that it has been swallowed up or "conquered." With Vanguard, however, we worked hard from the start to execute a thoughtful and respectful integration. We wanted to learn all we could from the company's brands, not impose our systems and methods at every turn. On the surface the deal was about boosting Enterprise's presence at airports, and that did happen. But in the process we also learned a lot about ourselves and changed our company in ways that have equipped us for faster growth on a global scale.

Taylor went on to note that his starting point for integration was to focus on company culture and values, and to adopt a "listen and learn" approach. Doing this in a forthright way minimized concerns across the Vanguard business while allowing each company to learn from the other in ways that have delivered tremendous market and financial success in the years since.

It is clear from his description that Enterprise gained far more than it had planned for in merging the three brands under one company. Systems and processes from National benefitted Enterprise, while the quality metrics that Enterprise championed brought customer service levels up at National and Alamo. These were two results of what Taylor dubbed "deliberate integration."

incompatibility frequently is cited as the cause of deal failure – recall Daimler Chrysler, AOL Time Warner and others. These were unwound with great loss of shareholder value after cultural differences could not be reconciled. Because of their size and audacity, we remember them.

But unwinding of a big deal is not the main outcome of cultural differences for merging companies. Contrary to what we usually hear in the press, M&A deals, on average, perform about as well as other types of investment, and many ultimately deliver what was forecast. Escaping notice in much of this analysis, however, is the missing performance upside associated with underestimating the positive potential of cultural alignment.

Why does this happen?

Typically, acquisitions are approved by executives and boards on the basis of operational and financial models agreed to by line managers, strategic planners and CFO's. Clear, quantitative, cause and effect relationships, such as the cost savings related to facility consolidation or elimination of management layers, underlie many of the model assumptions.

Growth objectives, on the other hand, are harder to quantify and are agreed to by negotiation between functional leaders. As a result, most acquisition models tend to be conservative, promising only as much upside potential as is required to meet ROI goals. Few companies push to exceed the integration benefits promised to the Board. This is where the missing potential of a deal truly lies.

What does this have to do with "must haves?" We believe that leaders should focus on post-merger integration must-haves, and they center around capturing the upside of the deal, not protecting against the possible downside losses.

There are many managerial and legal steps and approaches for dealing with the possible losses of value in a deal that are "nice-to-haves." The emphasis on methodology, steps and tools obscures the one "must have" in the PMI equation – the commitment of executives to a leadership approach that is compelling to the employees of the acquired business.

Successful integration leaders take an intentional approach to their role in bringing two companies together. Here is what that looks like:

- The CEO and the executive team take ownership for the integration.
- They clarify and communicate broadly the strategic purpose of the deal.
- They seek to understand the values and beliefs that underlie the culture of the acquired company, and why these have or have not delivered superior performance in the past.
- They engage the employees of the acquired company in achieving key strategic goals.

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The Power of Intent

Some leaders don't appreciate the power of deliberate integration. They may believe that their acquisition model is achievable without their personal intervention. Others believe, based on their intense participation in the pre-close period, that the hard work is now behind them. And some prefer to stick with the leadership style that served them in the past, especially if the deliberate leadership role is far from their comfort zone.

Leaders frequently ask, "What kind of commitment will the cultural integration take?" The answer is usually longer than they would prefer or requires more bandwidth than they feel they can ask of their organization. This belief can change when they are able to link the work of cultural integration with tangible business outcomes that are critical to success – factors such as improved customer satisfaction, or higher customer and employee retention or better employee brand.

We work with leaders to appreciate the importance of being clear about intent, being respectful of culture and values, and engaging the organization to understand the fears and concerns of acquired teams, and involve these employees quickly in creating the future of the combined businesses.

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Who We Are

Acquisition Solutions is a partnership of professionals who are skilled at the art and science of post-merger integration. Building on many years of corporate transformation consulting, we focus on establishing acquisition integration excellence for strategic buyers of middle market companies. Please visit our web site for more information.

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