M&A Dynamics and What to Do About Them

Even though the predominant mergers and acquisitions of today are often designed to ensure a tight strategic fit between two companies, the task of integrating the companies remains difficult. To meet this challenge, the integration process must often be treated as nothing less than a far-reaching change-management initiative across both companies.

Change management—largely regarded as a discipline that realigns operating companies so that they can deal with economic, technological, and other forces shaking up their marketplaces—present significant challenges to a firm's leadership during the M&A process. For one thing, mergers and acquisitions are among the most important organizational responses to market-based change. For another, few initiatives change the configurations or the environment of a company more visibly and dramatically than a merger or acquisition does. "Big Change" (Franklin, 2013) is an apt term to describe what happens during M&As. Indeed, the changes introduced by M&As come far more quickly and are more significant than those to which most organizations are accustomed. Therefore, both parties to the M&A deal should use proven concepts and tools of effective organizational change management. Even if the buyer is a multibillion-dollar enterprise that is bringing in a smaller concern, chances are that the acquirer also is experiencing significant change in some areas because of the transaction.

Whether a company's strategy is to grow its existing markets, introduce new products, gain access to new customers, or expand its distribution systems, an M&A

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provides the means of executing this strategy quickly and effectively. Therefore, recent deals tend to stress such characteristics as compatibility, fit, and

complementarity of core areas of competence. But, even these favorable traits are not enough to guarantee smooth integration. To assume that a good fit on paper will ensure an easy integration is to take a great risk, one that may be exacerbated by the fact that focused acquisitions increase pressure on management to deliver on strategic promises within a shorter time.

In short, M&A integration presents a change-management challenge unlike any other. What is surprising, however, is that many executives who are responsible for making mergers and acquisitions work fail to see the link between M&As and the fundamentals of effective change-management.

Organizational Dynamics Created by Mergers and Acquisitions

Table 1 lists twelve critical organizational dynamics that only occasionally come into play during other kinds of change efforts (such as a reorganization or a downsizing) but, that all show up in a merger or an acquisition. However, these change dynamics are often overlooked during the due-diligence process and are further ignored, as integration gets under way. These dynamics are inevitable, however, and they tend to hit merging companies with full force once the deal has closed.

Poor handling of the change dynamics during post merger integration is a principal reason why many mergers and acquisitions fail (Marks and Mirvis, 2011; Schroeder, 2012). Often these dynamics are displayed in both organizations, a situation that can come as a total surprise to senior managers. The surprise is often not that these issues needed to be addressed in the acquired company but that they also needed to be addressed in the acquiring company. For example, in a recent transaction, many managers and employees in the acquiring company began to feel threatened by the seemingly more efficient processes and high level of talent in the acquired company, where they also saw a younger, more lively workforce.

These change dynamics actually created the need for more communication, and for more attention to politics and positioning in the acquiring company, than top managers ever would have realized had these dynamics not begun to appear. Top managers should have been better prepared for these reactions in the acquiring company's workforce, and they should have initiated action to address these reactions through, at a minimum, earlier, more frequent communication with the acquiring company's managers and employees.

TABLE 1: CHANGE-MANAGEMENT DYNAMICS BROUGHT ABOUT BY A MERGER OR AN ACQUISITION

1. Aggressive financial targets	2. Growth-related challenges
3. Short timelines	4. Restructuring
5. Intense public scrutiny	6. Reengineering
7. Culture clashes	8. Questions about where to downsize
9. Politics and positioning	10. Problems with retention of personnel
11. Communication-related issues	11. Issues related to employees' motivation

Seven Fundamentals of M&A Change Management

Because M&As create immense change-management issues, actions aimed at integration should help mitigate the risks and stack the odds in favor of making the deal work. Here are seven fundamentals of change management that personify the lessons of change management during M&A transactions:

1. Address "me" issues quickly
2. Apply defined, clear leadership
3. Provide extensive communication
4. Ensure a focus on customers

5. Make tough decisions
6. Create focused initiatives
7. Manage resistance at every level

These seven principles have proved to be facilitators of any successful organizational change initiative, and they should also be applied to M&A integration. In future posts, I will address each of the seven principles, one-by-one, in more detail. Watch this space…

References:

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