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Achieving the Promise of Acquisition Success:

Designing in the Human Factor

Darnell Lattal, Ph.D.

In January 2000, a leading Internet company, AOL, and the media giant Time Warner announced a merger/acquisition, heralding it as "a coming of age for the Internet and the triumph of the New Economy." Many of the two companies' top executives learned of the M&A—valued at $350 billion—via conference call on the morning of the announcement. Some heard the news on the radio as they made their way into work.

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– Darnell Lattal

Economists warned that the deal made no financial sense, but as one executive stated in a subsequent *New York Times* article, "The companies had another problem: both sides seemed to hate each other." Infighting, ranging from clashing business strategies to which company's talent should relocate, began immediately. Richard D. Parsons, Time Warner's president at the time, later stated, "I remember saying at a vital board meeting where we approved this, that life was going to be different going forward because they're very different cultures, but I have to tell you, I underestimated how different."

After accounting scandals, executive departures (voluntary and otherwise), and billion dollar losses, the AOL-Time Warner affair became known as the largest merger in American history and also the largest M&A failure. "The enduring debate is whether the deal collapsed because the concept was flawed at the start or because the cultures were too different and the execution of the merger was a failure," Jerry L. Bewkes, chief of Time Warner told Tim Arango, author of the NYT article "How the AOL-Time Warner Merger Went So Wrong."

Why do companies continue to acquire other companies when evidence indicates that even with the best of planning, acquisitions far too often fail to meet their promise? The obvious answer is that the acquiring company's leadership strongly believes that the acquisition will make a significant contribution to the financial well-being, market share, or importance of their organization. Yet, approximately 70 percent of U.S. acquisitions in the United States negatively impact the acquiring company's results, sometimes immediately, and often continuing many years after purchase. Approximately 40 percent of the acquisitions of the last 10 years brought devastating business results. In about 80 percent of such cases, product or service, market share, and cultural impact are far below the goals anticipated in the beginning.

Weigh those realities with clear-eyed knowledge of the failure rates. Consider the tremendous effort involved before acquiring a company. Conduct a careful examination of strategy, fiscal issues, and legal considerations; provide detailed evaluation of the synergies of market share, machinery or materials, and other resources, including human capital; and undertake strenuous analysis of the advantages anticipated by this joining of operational excellence and/or reduction of competitive threat. Such efforts require huge outlays of money, time, and human effort to ensure that the merger goes well. Many of these things are done—and done well. Almost all decision-makers believe that they 'know' what makes for a good M&A vs. a flawed one when they decide to buy (NOTE: Faulty decision-making criteria [openness to information, prior history, etc.] among leaders at all levels are very common but most individuals do not understand their blind spots in this

regard; see Fantino and Lattal, *Wiser Decisions Using Science of Behavior Analysis*, for more detail on this critical dimension of acquisition management).

However there is one very important reason companies fail to optimize otherwise excellent opportunities: in the decision criteria to buy or not to buy, *financial considerations* trump *people considerations* in almost all cases. This focus on lagging indicators of success such as costs incurred, while certainly important, ignores the vital reason companies acquire a company in the first place. While they may be buying equity and history, most companies expect to achieve current and future gains. They want the relative near-term advantages of the company they acquire, including qualities attributed to the company cultures they are acquiring—great research arm, novel strategies of innovation, first to market, customer satisfaction, and so on. All of those things are produced by people. What people say and do in any business culture is really what a company is acquiring. Aside from the machinery, real estate, or other tangibles produced by acquired companies, people are the prize. Rarely do the acquirers (or even the acquired) act as if they fully understand this point, and therefore they do not act in a way that is to their advantage.

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A very small portion of all mergers meet or exceed original business objectives. Why do so many fail to meet these anticipated and desired performance targets? The answer lies in a simple-sounding term: behavior. Even with the wisdom involved in today's acquisition management, little understanding of the complexity of sustaining desired practices exists. Even when changes are anticipated, the buyer may think that the company being acquired will only gain from the strength of leadership or management practices already embedded in the buyer's company. Rarely does the acquiring company conduct a thorough analysis of workplace practices, current cultures, and environmental support needed to continue the outcomes that are part of the asset being purchased. A behavior-based path for success created at the start by the executive leadership of both companies seldom makes the acquisition roadmap.

People issues are considered by most companies sometimes in very sensitive but insufficient ways. Much effort is spent modifying

policies, procedures and benefits, identifying training needs, and providing emotional support to employees anticipating the changes brought by an upcoming acquisition. Often, senior leaders communicate openly about the changes, but such communication, while important, has little immediate and certain impact on the actions of performers. In many mergers, a post-acquisition period occurs during which little business activity is asked of employees who are waiting to know what will be expected of them.

These employees may serve on internal committees to design better practices, but they often report feeling secondary to the "real business" of the acquiring company.

As Dennis Sadlowski, former president and CEO of Siemens AG who has held leadership positions during many merger/acquisitions points out, this post-acquisition lag is exactly the time that leadership should be creating positive momentum via proactive behaviors rather than allowing uncertainty, anxiety, and even resentment to grow. This is the time to communicate with the employees of the newly acquired company, particularly those field personnel who have face-to-face contact with the customers and to act on their suggestions. This is also the time to demonstrate that the acquired company's employees will be placed in pivotal positions and not put out to pasture.

Usually, however, the real business is defined in terms of plans, fiscal targets, new culture and mission designs, large-scale communication with stakeholders and stockholders, outward investor focus, and engagement with suppliers and customers. The impact of the acquisition on employees is often viewed as beyond the actions of any one individual. Let the chips fall where they may! (And they do.) This hands-off approach ignores the company's potential richest resource—discretionary effort—provided by highly reinforced employees who see themselves as central to the success of the new organization. Leaders need to understand where discretionary effort comes from, what they can do to generate more of it, and how to do so quickly after completing an acquisition.

The mapping of necessary behaviors to maintain or increase impact provides the path to a successful merger. Such an analysis reveals clearly that not only will the acquired employees face new expectations and new operational contingencies, but the employees of the acquiring company will be faced with the same. Understanding the implications of this most important and fundamental truth is the key to effective acquisition management.

UNDERSTANDING THE ISSUE: THE BEHAVIOR OF EVERY EMPLOYEE

Like a river, behavior is affected by the currents of reinforcement around it. Setting up the expectations for an acquired company takes detailed understanding of how to elicit and sustain the behavior you want. Making

an acquisition successful requires a thorough analysis of what is worth keeping and what should be changed. Such an assessment is not casual and requires care in the initial stages of preparation that go well beyond a plan to recognize and support individual employees through HR policies and assurances; rather, this effort requires a strategic commitment to keep the human asset performing at or above the levels that lead to merger success.

The laws of behavior impact mergers in measurable and predictable ways. Beyond bad markets and economic news, the number-one reason that mergers fail is the absence of a well-understood human performance plan—not a benefits and employment stability plan, but a plan to bring out the best in your human capital to achieve market share and design and produce products and services in highly effective ways.

Business is behavior. There is no business without behavior (choice, decisions, direction, and actions) at each employee level: behavior designed to achieve core outcomes in the right direction. Nothing about blending cultures is easy, but if taken seriously, a tremendous amount of energy flows from those actively included in the success of the merger. From the beginning, leadership at every level must understand the energy and impact of the front line on overall success. Involve them!

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— Industrial Management Magazine

Edward A. Kazemek refers to the people element of mergers and acquisitions as "soft issues" but unlike many leaders, he doesn't dismiss such issues as barely relevant. In his column "Why mergers and acquisitions fail" he states, ". . . These soft issues are like the part of an iceberg that is below the waterline—not readily visible but much larger (and more dangerous) than the part that is above the water." Ignoring such dangers ultimately results in a failed merger/acquisition. In fact, according to *Industrial Management* magazine, "By some estimates, 85 percent of failed acquisitions are attributable to mismanagement of cultural issues."

MOTIVATING BEHAVIOR

Setting up the expectations for an acquired company while valuing the benefits desired, requires detailed understanding of how to sustain the behavior you want.

The leadership of the two companies must understand the histories of performer reinforcement that both parties' current cultures bring to the table. Determining the consequences that will support or impede

performance due to shifts in cultural reinforcement history is rarely done, but this omission will not stop behavior from impacting the effectiveness of the merger in measurable and predictable ways.

Four areas critical to performance excellence, if implemented, will ensure a more successful outcome for any acquisition. Each of these areas includes essential behaviors for detailed activation but, for now, a list of the general areas are as follows:

- Assess cultural conditions to promote human performance success.
- Develop a behavioral roadmap.
- Train the senior leadership of both companies in behavioral science.
- Coach for success.

THE ROLE OF LEADERSHIP

During any merger/acquisition, every leader will have new behaviors to learn as will the front line, and learning those new behaviors requires dedication and education.

Aubrey Daniels, in his book *Oops!: 13 Management Practices that Waste Time and Money (and what to do instead)*, advised leaders to take an active role. Here is an extended list, including his thoughts.

AT THE START (EVEN BEFORE FORMAL MERGING):

1. Develop knowledge about and enthusiasm for employees in both companies. Learn about individual accomplishments and demonstrate interest in those accomplishments. Be specific when possible.
2. Ensure that the acquired com-pany can talk about its accom-plishments, tell its story. Detail the story in newsletters and other communication but allow the acquired company time to review and celebrate their histo-ry in formal and informal ways.
3. Begin to build '*our* history' early and get the word out about what is coming – resources, materials, methods, person power or other gains.
4. Consider that the most im-portant gains are often in the world of 'ideas'—be generous with attribution—give away to others and back to all where ideas came from, ensuring that the acquired team and its individuals are recognized for good ideas.
5. Meet early on with those who have produced regular as well as extraordinary impact and ask them to tell you what they did. Promise to consider strategies to maintain that success and give people a part in designing the new company: from the vi-sion and mission to tactics of daily performance.
6. Do not completely dismantle the acquiring company. Evaluate how to make all of the systems, processes, and procedures as easy, effective, and safe as possible.
7. Communicate the vision to all, and have them respond in con-crete terms about how it will af-fect their daily work life.
8. Communicate that while much may change, much will remain the same; that the two compa-nies were successful in

many ways before will continue the good work of individual employees will be replicated across the blended company.

AS A 'NEW CULTURE' EMERGES:

9. Spend time listening and acting on issues important to the ac-quiring team, but also remain sensitive to those in the acquir-ing company. Be alert that no matter the circumstances, it is still more difficult to be acquired than to be the acquirer.
10. Form functional teams to dis-cover and use best practices from both organizations. Agree to remove bad practices and commit to good ones, and then do it. Follow up!
11. Remove overly burdensome regulation; lighten the daily load by reducing bureaucratic obsta-cles to being heard.
12. Try not to cut jobs from one company only. Look closely at the talent you have and develop it for the future.
13. Involve all in a visual tracking system of progress to goal. Encourage feedback, both informal and formal, as to how it's going. Ask "How did you did that?" when positive changes are made or were done in the past.
14. Set short-term targets for suc-cess. Make it easy to get a win and see the benefits of the new working teams that you create. Break up old teams. Encourage all to "try anew" and to share ideas within and up the organi-zation. Make this easy to do.

SUSTAINING YOUR GAINS:

15. Help all employees with ways of talking about the new company while borrowing good stories from both histories. Weave useful acronyms in from new and old. Language is among the least understood but a most powerful mediator of change.

16. Conduct real celebrations of success by special events, but also in the daily words and deeds of leadership. No one should feel like the company being acquired has failed in some way.
17. Treat the acquired company like a new family member: delight-ing in learning new habits, demonstrating new skills, and celebrating success often and visibly.
18. Ensure that such actions are 'just the way we work here'—with no differentiating talk about who is new and who was first–and it will be.

If the above actions are taken, you and your organization are on the path to merger success. It may appear to be a rough road, but ignoring the pitfalls won't make it any smoother, and in the long run, may prove disastrous.

As one Academy of Management Executive states, "In acquisitions that do fulfill their promise—that really make two and two equal five—leaders paid a great deal of attention to the integration process and, not surprisingly, involved people at all levels of the process."

[About the Author]

DARNELL LATTAL, PH.D.

For more than 30 years, Darnell has been dedicated to supporting clients in areas such as strategy implementation, behavioral systems redesign, and leadership development. Her expertise lies in coaching individuals and organizations towards effective behavior change and is currently working to help advance the mission of The Aubrey Daniels Institute. Darnell's greatest joy is in furthering the incredible power for bringing out the best that behavior analysis provides to others, including to her seven grandchildren.

[About ADI]

Regardless of your industry or expertise, one thing remains constant: People power your business. Since 1978 Aubrey Daniels International (ADI) has been dedicated to accelerating the business and safety performance of companies worldwide by using positive, practical approaches grounded in the science of behavior and engineered to ensure long-term sustainability. ADI provides clients with the tools and methodologies to help move people toward positive, results-driven accomplishments. Our clients accelerate strategy execution while fostering employee engagement and positive accountability at all levels of their organization.

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