

LEADERSHIP – The critical component of successful mergers

Irwin Stelzer, writing in the Sunday Times once said *“When it comes to mergers, hope triumphs over experience”* and this is borne out by the well-documented facts about commercial mergers.

In the progressively challenging economic climate and the growing recognition that major change is required to deal effectively with the massive Budget deficit, it is an inescapable conclusion that merger activity will be much higher on the agenda and will affect many aspects of our lives in the years ahead. Historically, merger and acquisition activity has been focussed on the commercial world, driven in the main by commercial logic and the desire to create improved shareholder value. In the public sector, inertia and a perceived lack of need has restricted merger activity, however this is now beginning to change and evidence is being reported of merger activity and organisational simplification in local authorities, schools, hospitals, police and ambulance services. This activity is being driven by very real political pressures and much of it is destined to fail as the ownership for the strategic logic, planning and implementation is not properly embedded in the leadership teams accountable for the merger activity. In addition, there is often no clear strategy to harmonise and get the best out of sometimes very differing cultures.

In the US merger failure rates are as high as 80% and in the UK at least 50% of mergers fail to achieve financial and key stakeholder

expectations. To add further fuel to these shocking statistics, a well-quoted McKinsey study concludes that most organisations would have received a better return on their investment if they had merely banked their money instead of buying another company.



Post factum explanation of merger failure tends to be based on a re-examination of the factors that prompted the merger in the first place, and covers other issues such as over-inflated prices, poor strategic fit, savings targets not implemented and changes in market conditions. This form of analysis, however, ignores the potential of effective human collaboration in ensuring that mergers have every chance of success. A study of pre- and post-merger planning very often reveals that insufficient time and resource is devoted to the merging of two different cultures, the retention and motivation of key personnel and the effective management of individuals' concerns throughout the organisation.

Studies reveal that people are normally productive for 5.7 hours in an 8 hour business day and that this falls to 1 hour during merger implementation as everyone becomes concerned about their personal situation. This lack of focus on the vital adaptive agenda of cultural change,

human capital deployment and skills transfer rather than the easier and more measurable technical issues such as overhead simplification, supply chain integration and elimination of duplication, adds considerably to the likelihood of merger failures.

At Sensei we work with leaders and senior teams in a range of organisations throughout the world, engaging human performance to deliver strategic results, and never is this work more critical than supporting our clients in the planning and implementing of merger activity. Our experience indicates that success rates are considerably improved by the extension of the due diligence process to incorporate issues of cultural fit and the careful selection and rapid appointment of effective leaders to critical roles in the merged organisation.

Based on my personal experience, the agenda for



Sensei is an international consulting firm that helps their clients deliver business results by improving human performance and optimising the value of team and leadership interactions.

We focus on areas where companies can raise the bar on performance, productivity and profit. We ensure that any work we do has clear line of sight to specific business outcomes of value to the organisation, so that a solid return on time, energy and investment is realised.

We are experts in the process of unlocking potential and focusing this in the right ways on the right aims; and we excel at emotionally engaging leaders and teams to own the change, take accountability for it and deliver it. In short ...
'We do the really hard part of the soft stuff.'

success has to include, among many other issues:-

- Visible, frequent and consistent communication throughout the organisation
- Articulation and progressive ownership of a vision to help unify work efforts.
- Involvement by selected team members at all levels in the planning and execution
- Fair, visible and objective role selection processes
- Coaching and support for managers involved in the redundancy process
- A clear strategy to define and embed the desired culture
- Maintaining the focus on customers, the market place and external issues

In summary, sufficient skill and resource invested in the 'adaptive' agenda as well as the 'technical' agenda, both at the pre-planning and the implementation phase, will have a substantial impact on the achievement of merger objectives.

If the forthcoming mergers within the public sector are to succeed then strong and dynamic leadership will be the difference that makes the difference. Smooth and effective integration requires a unified and passionate team going the extra mile in pursuit of excellence for the new combined organisation, where failure is simply not an option.

If you would like to hear how Sensei can help you with the challenges in this area then please get in touch.

Tim Vernon, Chairman, Sensei UKE – October 2010