



## **Corporate Mergers and Acquisitions: A Guide to Leading Through Transition**

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### **Introduction**

If you have ever been involved in a corporate merger or acquisition, you've probably recognized that the success of the merger depends, to a great degree, on how well the human factors are understood and managed during the merger transition period – after the lawyers, investment bankers, and accountants have wrapped up their work and the merger has become official. Even brilliantly conceived business ventures can fall short of their objectives if leaders are unaware of how these factors influence their ability to keep performance stable while combining two separate groups of people – each with its own beliefs, values, and ways of doing business – into one unified organization.

In order to successfully realize the business benefits inherent in the merger, leaders have to understand and attend to:

- How people react to change and the unknown;
- How cultures combine with and react to contact with other cultures; and
- How leaders behave when they share and transfer power.

When leaders fail to incorporate the human factors during the planning stage of a merger, they often end up focusing on these issues reactively, attempting to address them half-heartedly after derailments have already occurred. *“Just get over it and move on”* is often the message sent to the workforce by frustrated senior managers whose focus is on organizational restructuring, production and service issues, and day-to-day operations.

To ensure success in a transition environment, planning for the merger should include identifying in advance the issues that are likely to hinder the performance of the combined workforce, the success of the new leadership team, and the integration of the two cultures into the desired one. Leading during transition implies being prepared to react quickly and effectively to any “people” issues that might impede implementing the new business plan. It means putting in place a transitional action plan that answers the questions, *“How are the two previously separate companies to work together in combination? What issues need to be addressed, and what impediments have to be removed?”* It also means allocating resources and providing help to people, both leaders and members of the workforce, to accomplish the tasks of creating a new, integrated, and unified company.

## How do people react to change and the unknown?

The first of the “human factors” affecting mergers and acquisitions is the impact of extensive workplace change on the individual. Leaders need to understand that people rely on their jobs not just to satisfy their monetary needs, but also to reinforce their sense of security and self-worth. They fulfill these fundamental life goals in the workplace by being productive and by demonstrating their competence and value to the organization. They seek validation of their worth through formal acknowledgements, rewards and promotions.

The upheaval engendered by mergers jeopardizes employees’ ability to continue working towards these goals in a stable fashion. When organizational transitions are not well managed, employees are left feeling anxious, threatened, and preoccupied with their own safety. The floor shifts; their sense of predictability vanishes. They are left wondering: “*What are my immediate and long-term objectives? How are we expected to work together? How do I demonstrate productivity and competence? Will my job be here tomorrow?*” All of this is uncertain and, for a time, unknown.

During transition, employees may lose focus and energy, feeling isolated and displaced. They may resent the need to learn new things forced upon them by the change. They may actively resist the change, or they may respond to management’s efforts and plans in a lackluster fashion. They may identify actions management takes as threatening them rather than improving the environment. They may see themselves as controlled by the decisions of others, excluded from the process that is taking place all around them.

The individuals leading the change may enjoy a greater sense of control over the process, but they bear enormous responsibility for achieving critical objectives that impact the lives of many people. When facing these challenges, it is most important that leaders recognize the nature of the transition environment and their responsibilities to lead the transition. During unstable times, people want to get back to “normal” as quickly as possible; their needs for protection, predictability, and control are amplified. They look to their leaders to provide a framework for reaching the new improved environment. They respond well to visible, accessible, engaged leaders who recognize the transitional needs of employees, and address the issues that undermine their reengagement. These leaders quickly earn their respect and loyalty.

William Bridges, author of *Managing Transitions: Making the Most of Change*, uses a three-phase model to clarify what takes place during an organizational transition and what leaders can do to facilitate the process: “*Whenever an organization makes a change, its people have to deal with, first an ending or letting go of what was; then a time between the old and the new when the person is a drift called the neutral zone, and then a new beginning or reintegration.*” Leaders must identify, recognize, and manage each stage of the process for a transition to be successful. And, if transition is managed well, it can offer unique opportunities for growth, the resolving of old issues, and the creation of new, improved ways of working and of structuring organizations (Bridges, 1991).

## How do cultures combine and react to contact with other cultures?

The second “human factor” that leaders must attend to is how culture manifests in organizations and how it impacts the merger of two companies. Culture refers to those elements of an organization – the strongly held, shared truths and habits of behavior and thinking – that are most stable and give shared meaning to organizational life. Edgar Schein, a founder in the field of organizational psychology, defines organizational culture as “... *a pattern of shared basic assumptions that a group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems*” (Schein, 1985). According to Schein, a company’s culture includes:

- *Implicit standards and values* that evolve about how to work.
- *Espoused values, broad policies, and guiding principles* that are articulated and guide actions toward employees, customers, and other stakeholders.
- *Implicit rules* for getting along in the organization; what a newcomer must learn to become an accepted member.
- *Shared meaning, habits of thinking, and mental models*, that guide the perceptions, thought, and language of members and are taught to new members.

An alternate model of organizational culture has been proposed by Daniel Dennison, who defines it as “... *a set of observable behaviors manifested by beliefs and assumptions made by the business about customers, competitors, employees, suppliers, shareholders, and others*” (Fisher & Alford, 2000). Dennison examined the link between culture and hard bottom line results – e.g., profitability, market share, sales growth - and softer factors such as innovation and development, product quality, and employee satisfaction. The model measures four basic business culture traits. They are:

- *Mission*: the degree to which the company knows why it exists and what its direction is.
- *Involvement*: the degree to which individuals at all levels of the company are engaged in and hold that direction as their own.
- *Adaptability*: the ability of the company to know what customers want and the degree to which it can respond to external market forces and demands.
- *Consistency*: the ability of the company's systems and processes to support efficiency and effectiveness in reaching goals.

In Dennison’s model, there are significant relationships between individual culture traits and specific performance measures. High performing companies show strength in all four traits. Mission, as a single cultural factor, affects the greatest number of bottom-line performance measures in a company. Involvement is the second most important culture trait.

Understanding culture and the force it exerts on people affords leaders a much better chance of effecting changes in themselves and their organization during transition. In fact, one

could consider the creation and management of the new company's culture a leader's primary responsibility. However, when companies combine, it isn't always clear what the cultural realities are, even if the economic realities have been spelled out in very clear terms

Because people cling to what they know during times of stress and uncertainty, leaders, managers, and members of the work force rely on their culture to determine their reactions and choices during transition. Introducing new elements of culture without sufficient awareness and sensitivity to existing cultural factors challenges the basic assumptions of the workforce and demands the replacement of long held beliefs with new ones. This is likely to create anxiety, defensiveness, self-protectiveness, and rejection – not the hoped-for response of new management.

It is understandable that attempts to change culture are commonly met with resistance. Without an understanding of culture, resistance appears irrational in its persistence. Resistance is evidenced when employees continue to behave in obviously ineffective ways, threatening the survival of the organization and their membership in the company. Resistance is also evidenced when leaders disappoint employees by continuing down a path that appears doomed to failure, ignoring obvious opportunities and avoiding necessary actions.

When members of two cultures meet, each perceives the members of the other culture as foreign and intrinsically mistrusts them. Regardless of how much lip service is paid to welcoming the new group on board, working with them leads to a natural tendency to be critical of "their" values and the way "they" work, especially since "we" now share ownership and influence at the table and behind the scenes with "newcomers" whose attitudes, priorities, and methodologies impact our security.

The ability to work well together – to manage conflict, negotiate resistance, and make decisions – may be significantly compromised when our tried-and-true techniques suddenly don't work. Sometimes people resort to simplistic solutions or self-delusions that make matters worse in an attempt to make the task at hand appear less challenging:

*"We do things the right way and they don't ... there is nothing worth saving here ... the answer is to change them to our way;"* or,

*"We understand each other; everything will work fine ... we shouldn't acknowledge our differences and discuss them because it will just create conflict and slow things down."*

When companies merge, there are a number of options for how they will work together. Either the two cultures remain *separate*, i.e. when a large company seeks to "align" its component companies, but allows each company to retain its individual culture; one culture becomes *dominant* over the other, i.e. when a company acquires another and seeks to assimilate or replace the old culture with its own; or the two are *blended*, selectively taking the best practices of both companies. The last choice is the preferred goal for most mergers. But in order to accomplish a successful blend, leaders must have sufficient knowledge of both cultures and a plan to achieve the desired integration outcome. Numerous examples in the history of mergers demonstrate the negative impact on the bottom line when leaders ignore or are unaware of differences between the two cultures they are attempting to unite.

## **How do leaders behave when they transfer power and influence?**

Even when both senior management teams involved in a merger have agreed to collaborate in order to achieve shared goals and to transfer leadership in an orderly way, their actual behavior may be influenced by a host of unacknowledged psychological factors related to the changes in their roles, power, and influence. Leaders need to understand how their own behavior is affected by the anxieties and uncertainties of the transition.

Like other members of the work force, leaders are susceptible to the stress of attempting to work in a “foreign” culture during transition. Similar to culture shock encountered in foreign travel, no degree of preparation can protect travelers from reacting with frustration when they find themselves in a new culture where things are done very differently. Sharing power and accepting a different (possibly diminished) place at the table may be very difficult for some leaders to accept. Political and business situations may become a stage for playing out unresolved transfer-of-leadership issues. Resistance to new ways of doing business and conflict with others may surface under the pressure of making tough decisions.

When executives at the top become threatened and defensive, they are limited in their capacity to bring the company through the transition. They need a transition process that helps them to identify the forces at work and to develop a strategy that will guide them – and help them guide their subordinates – during this precarious period.

## **What can leaders do to facilitate successful merger transitions?**

### **I: Lead the Workforce Through the Change**

Those at the helm of a transition must acknowledge the impact of change on the workforce and take responsibility for leading people through a period of uncertainty and anxiety. William Bridges’ three-part framework (1991) is helpful in guiding leaders to ease the anxiety of change and loss for the workforce, reducing insecurity and ambiguity, and increasing predictability. According to Bridges, during the initial phase, when people are letting go of old identities and ways of doing things, leaders should:

- Deliver accurate and timely information on a regular basis; remain visible and accessible; try to solicit input from as many people as possible
- Demonstrate and communicate why the change is occurring and what is being protected and continued by the change; Identify who is losing what; what will change; and what will be different going forward.
- Acknowledge losses openly without denial; pay attention to how people are coping; listen and react with sympathy to the impact of endings on people; be prepared to encounter some degree of anger, anxiety, sadness, and disorientation.
- Announce and mark the ending with concrete actions and activities; follow through and deliver on all promises

The *neutral zone* is the most threatening phase of transition, a virtual no-man's land between the old and the new organizations, where members of the workforce are unsure of what is expected, in limbo without a clear sense of what to commit to. To provide stability during this insecure period, leaders should:

- Normalize the experience of disorientation and confusion as part of the process of reintegration, but provide timely information to diminish confusion.
- Create temporary structures, procedures, and roles; establish short-term goals and realistic objectives for this period of time.
- Actively strengthen connections between team members and teams, building new team identities to renew a sense of security.
- Use a transition monitoring team to facilitate communication and monitor change throughout the organization.

The *reintegration phase* starts at the point at which people begin to emotionally commit to do things in new ways. They connect to new roles and objectives, begin to understand what is expected of them and how they are to work together, and become stable and directed in the new organization. Yet fears and anxieties persist during this time. Leaders should:

- Include the entire organization in the reintegration process so that employees feel part of the process rather than resisting and resenting changes “forced” on them.
- Continue to communicate and clarify the purpose of changes; make sure that everyone in the new organization knows what is expected of them.
- Create a plan for the future; explain how the transition is to be managed and what steps will be taken to get to the new organization.
- Support new ways of working, values, and organizational structures by modeling these in their own behavior and recognizing and rewarding them in the behavior of employees.

## **II: Create and Manage Company Culture**

The post-merger period is a critical time to address the destabilizing forces that develop when two separate cultures blend. The entire workforce is challenged to understand why they exist and where they are going (mission), and to have a line of sight from each of their jobs to company goals so that they can bring the full complement of their skills to their new objectives (involvement).

The success of the business plan depends on leadership's ability to embrace and communicate a unified culture. Understanding what members of a culture experience when they have to change their basic assumptions, values, and behaviors gives leaders the ability to communicate with employees, respond to resistance, and thus manage change effectively in a mixed culture environment. To accomplish this, it is critical for leaders to have sufficient knowledge of both cultures and the history of the merge, acquisition, or takeover to determine:

- Aspects of culture that are shared; aspects that differ; aspects that conflict.

- Ways the two cultures might interact and react to being brought together.
- Desired outcome of cultural integration; what should the combined culture be.
- Issues to be addressed in the transition plan.

The exact nature of the task leaders face in bringing together the two workforces, cultures, and companies – often with two different sets of work standards, processes, organizational structures, and values – is usually discovered only *after* the acquisition or merger occurs. Regardless what plans leaders of the acquiring company have for the “other” environment – nurturing it or replacing it – they have to know who and what they are working with. Therefore, while learning about the “other” company should continue throughout the transition phase, it is during the initial 90-day period that reliable and complete information about the company is critical. A cultural assessment is a useful tool to help accelerate this learning process (see appendix A, The Cultural Assessment).

Senior management’s attitude towards the new company and its culture sets the tone during transition. For this reason, attitude has to be deliberate, managed, and communicated by actions – both formal and informal – and words – both written and spoken. A respectful attitude that recognizes the “people realities” at play and engages the critical issues eases transition, while a devaluing attitude that is expressed carelessly and defensively can seriously derail transition efforts. A flexible approach on the part of leaders – remaining open to new information and prepared to change course when feedback suggests that a course correction is needed – will also facilitate cultural integration. Finally, identifying potentially damaging forces early, before they grow to a level that is unwieldy, helps focus transition efforts in the right direction.

Because culture becomes entrenched in an organization, it is normally very hard to instill new ways of working, leading, and managing. Transition, because it destabilizes, offers the opportunity to address long-standing issues and introduce new values and standards of working. That is, if leadership takes the opportunity by incorporating cultural objectives and specific processes to accomplish these objectives into the business plan. If not, the pressure for people to reach stable times will lead to a more haphazard, reactive creation of a new culture – one that may not fit the vision of senior management and may not create the environment necessary to reap the benefits of the merge.

### **III. Attend to Leadership Issues**

While executives at the top are responsible for ameliorating the strain of anxiety and uncertainty on the workforce, they too are subject to the same destabilizing forces, as well as additional pressures unique to their own personal and professional needs. Leaders themselves need a transition process that engages the participants on both sides of the merger in focusing their energies on accomplishing their shared objectives – a process that:

- Details how the executives are to work together - allocate responsibilities, collaborate, make decisions, resolve problems, and communicate to the rest of the organization.
- Provides a forum to address impediments that arise so that executives provide a stable, conflict-free leadership presence in the company.

- Teaches transition management skills and offers experiences that can be communicated to other groups participating in the reintegration process.

It is often helpful to involve a third party – either in-house or external – trained in organizational development to help leaders formulate a plan that facilitates a smooth transfer of authority. Depending on the specific requirements of the situation, a transfer-of-leadership process can provide for executive coaching and/or a facilitated collaborative process to help executives attend to their personal and professional needs and attain their transfer objectives productively. An effective process also helps avoid the entanglement of personal issues in how the participating executives conduct themselves, collaborate, and facilitate the transition. It insures that the combined objectives of the company are reached according to predetermined target dates, and that the involved executives will be credited with a successful transition that benefits the company.

### **Putting it All Together: The Transitional Action Plan**

In conclusion, leading during transition means being prepared to react quickly and effectively to issues and challenges. To ensure that leaders have a road map for acting under stress, they should develop a transitional action plan prior to the completion of the merger – one that includes all the components discussed in this article:

- Cultural assessment for both companies involved in the merger or acquisition
- Transition monitoring team(s) comprised of employees of each company
- A strategic communication plan to guide all communication throughout transition
- A leadership process that guides and supports top executives through the transition period

The transitional action plan spells out what actions have to be taken and which processes put in place to create a unified, invigorated, committed work force, consistent with a work environment required to accomplish the business objectives of the new company.

### **References**

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## **Appendix A: The Cultural Assessment**

- To get ahead of the game, and give “the deal” an advantage, each company should know its own culture before the merge or acquisition. Conducting a cultural assessment gives you a perspective on how the two cultures will react to each other, what their synergies are, and the distance between them. “How different are we and where should we meet?” are important questions to answer.
- Since the entire company and the entire workforce are “part of the deal,” the assessment should include input from the entire workforce, or at least a representative sample of all components of the “new” business environment.
- A targeted survey can provide reliable and representative information from the entire organization regarding how the workforce and executive leaders of both companies experienced the company before and during the acquisition.
- A transitional team composed of equal numbers of each company can use dialogue to discover those aspects of each culture that are more difficult to grasp. This team should be set up right from Day One and may be duplicated throughout the new organization.