viewpoint
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CRACKING THE CODE ON FAILED M&A LEADERSHIP

What Disney, Amazon and Exxon did that Omnicom, Lehman and Lucent didn't

M&A activity is heating up, but are these deals also destined to fail?

In 2014, M&A activity was rampant with almost $1 trillion in deal value through the first three quarters. A recent KPMG survey indicated 82% of firms were targeting at least one acquisition in 2015. The increase is driven by continued favorable market and economic conditions, the belief in M&A as a key element to achieving growth and the return of what experts call the "strategic acquiror". Yet, reports by Booz &Co. and KPMG plus studies published in the Harvard Business Review and the Financial Times put the failure rate of M&A activity between 50%-90%. The question is, will the high profile companies involved in increased M&A activity enjoy greater success than historical levels, or will they be doomed to repeat the lessons of history? Will Sprint learn from its mistakes with the Nextel acquisition if it acquires T-Mobile?

Omnicom/Publicis was the highest profile failure in 2014. The advertising industry mega-deal was supposed to address the challenges of industry transformation brought about by the digital revolution.

What killed this deal? It wasn't the business case. Failed leadership driven by egotism and pride spelled the Omnicom/ Publicis demise. In published reports, clashing personalities and an attempt to create a "merger of equals" brought the house down. Hindsight is 20/20, but this is just another example of all-too-common red flags that signal failure ahead. (see sidebar: Warning Signs of Failed M&A Leadership)

Cracking the Code: Transformational Integration Leadership

In most cases, M&A by its sheer nature is a transformational event for both companies involved. However, many companies continue to treat it as a transaction, not a transformation. The "terror of the deal" and deadlines forced by regulators, lawyers and bankers lead even the smartest of leaders to forego what they probably know already – that leadership is needed even more after the announcement than before it.

Leaders involved in the most successful acquisitions in the history of M&A exercised transformational leadership to drive success. They used vision to drive strategy and organization design, struck the right tone of communications within their organizations and were savvy in their treatment of talent (see sidebar overleaf: Leadership Lessons from Successful Acquisitions).

WARNING SIGNS OF FAILED M&A LEADERSHIP

RED FLAG	EXAMPLES
THE "MERGER OF EQUALS" FALLACY	The inability to decide fundamental leadership questions such as who is buying who and who will lead the company contributed to the demise of the Omnicom/ Publicis merger. Jürgen Schrempp called the DaimlerChrysler a "merger of equals", and this deal lost shareholders billions of dollars.
THE "CULTURE GAP"	The enormous gap in the Lehman Bros. and Nomura corporate cultures created a feeling of "suffocation" and drove defections. Vastly different cultures with respect to quality and safety reduce value of the BP/ Amoco acquisition.
SUPERFICIAL LEADERSHIP	"Ultimately I think it suffered from lack of leadership, including from me," Steven Case, former CEO of AOL and Chairman of AOL Time Warner, wrote in 2005. Saying something is different than doing it – and that's where leadership and execution comes in."
COMMUNICATION BREAKDOWN	The Pfizer/Astra Zeneca talks were discontinued after disagreements over a press release and sniping over management style during negotiations. Failure to acknowledge national cultural differences contributed to value destruction during the Alcatel/ Lucent integration.

Codebreaking Across All Phases of M&A

CEOs and management teams of both the acquirer and acquired can crack the code on successful integration by paying attention to three critical areas: Communication, Organization and Talent. These three areas have different application during each of the critical phases of integration: Announcement/Pre-Close, the First 100 Days and NewCo Implementation.

The result of applying transformational leadership in the three areas across the three phases of integration is a new "9-box" of sorts (see below).

LEADERSHIP FOCUS	PRE-CLOSE	FIRST 100 DAYS	AFTER 100 DAYS
ORGANIZATION	Open the Organizational Kimono	Name Your Starting Lineup	Set the Cultural Tone
TALENT	Take a Dip in the Talent Pool	Leadership "Feet on the Street"	Scale up NewCo
COMMUNICATION	Engage Your Employee Activitists	Get to Know the Extended Family	Fill the Leadership Pipeline

ACQUISITION TIMELINE

Codebreaking during Pre-Close: Engage and Learn

Open the Organizational Kimono. Companies spend millions on external M&A advisors for due diligence on the legal, accounting, technology and financial implications of a proposed combination. However, they rarely dedicate the same level of internal and external resources on organizational due diligence to determine similarities and differences for how decisions are made, what defines the corporate cultures, how leaders behave and how talent is attracted, developed and retained. With rigorous organizational due diligence, the cultural issues that have killed many a merger can be easily uncovered – if you look hard enough.

Take a Dip in the Talent Pool. While there is rarely an opportunity to formally and thoroughly assess talent before the deal is closed, there's plenty to be learned about the quality of the combined talent pool. Leaders from both companies learn a lot abut each other through the due diligence, negotiations and integration team startup phase. The executive committee governing the integration process can discuss what they are learning about the leaders of both companies, particularly background and skills, leadership potential and "first impressions".

LEADERSHIP LESSONS FROM SUCCESSFUL ACQUISITIONS AND CONTRIBUTING FACTORS

Vision-driven Organization Design

At the time (1999), Exxon's acquisition of Mobil was the largest deal in history and viewed with skepticism. Even with sizeable employee reductions, different cultures and mandated divestitures, the combined company rallied around a common vision and adopted best practices from both companies to create the leading company in its industry. Today, it is viewed as one the best M&A deals in history.

Recognizing the Value of Talent and Culture

Having been acquired as part of ABC, Disney CEO Bob Iger learned from experience and actively retained Pixar's unique culture and spirit of innovation to re-invigorate Disney. Retention of Pixar's key leaders helped set this acquisition on the right path.

Communicate, Communicate, Communicate

Zappos CEO Tony Hsieh wrote an open letter to employees, explaining that both the management team is staying and that their jobs are secure: "A big part of the reason why Amazon is interested in us is because they recognize the value of our culture, our people, and our brand. Their desire is for us to continue to grow and develop our culture (and perhaps even a little bit of our culture may rub off on them)."

Engage Your Employee Activists. According to a study by Weber Shandwick and KRC Research, we are in an age of "employee activism" fueled by the powerful combination of rising employee mistrust in all institutions and the 24/7 availability of social media outlets. Communications about the integration will be forwarded and critiqued on blogs, tweets, Instagramms and Facebook. Don't fear the trend. Leverage social media to engage employees in frequent, authentic and courageous discussions of the integration. Speak to a credible vision of what's possible and the benefits to customers, employees and other stakeholders. But avoid "hype" and corporate speak. Seek honest exchange and use postings on social media outlets to obtain real-time feedback on the credibility of communications.

Codebreaking during the First 100 Days: Clarify and Collaborate

Name Your Starting Lineup. From Day 1 of NewCo, the leadership team, Board composition and initial organization design should be in place. There should be no lingering questions about who is in charge. A merger of equals model doesn't work. Employees see through it and they want clear leadership. Announcing leadership changes quickly avoids people guessing about their future and assuming the worst. Putting a transitional NewCo organization in place quickly provides stability. A more thorough, considered "v2.0" can be designed by NewCo leaders during and after the First 100 Days.

Leadership "Feet on the Street". The CEO and NewCo executive Team should be the leading voice in communications, from Day 1 town hall meetings across locations to announcements of key decisions to details about the integration process. The NewCo CEO should dedicate significant time to building an aligned leadership team that speaks with one voice and is "present and accounted for" during important events.

Get to Know the Extended Family. Even companies with proven talent management and development processes tend to assess people for their ability to fill the company's current jobs, not for the future work of a bigger combined NewCo. After a transformational M&A, these jobs will get bigger and the skills needed may change markedly. During the First 100 Days, NewCo leaders will need to objectively, consistently and rigorously assess talent for future performance, identifying the experts who can scale up in expanded functional roles and those who can succeed in new and different situations. It is a tough call to elevate people with potential for tomorrow over solid performers of the past. But proper "talent due diligence" will guard against brain drain and simultaneously identify the hidden gems who can rise to the occasion over time.

Codebreaking Post 100 Days: Build to Last

Set the Cultural Tone. After the honeymoon period, it is important for leaders to stay focused on modeling the desired culture of NewCo. Treat errors as learning opportunities rather than a chance to lay blame or say "this isn't working". Face into conflict and show a steady hand while tempers flare. Take tough decisions in a timely manner. Encourage an environment where people can speak up and provide constructive challenge. Remain open to criticism and show dedication to your own and others' development as NewCo leaders.

Scale up NewCo. Now is the time for NewCo leaders to finalize "NewCo v2.0". The focus would be on creating a scalable organizational model that the company can grow into, based on strategy. There is proven value in engaging multiple design teams (upwards of 30 key leaders in total) on the task of redesigning the organization. Having multiple design teams work within a facilitated process ensures breadth of divergent, creative thinking and alignment of leaders on the recommended model.

Fill the Leadership Pipeline. Coincident with the organization design process, work should be done to develop a cadre of leaders who will fill key roles and lead the organization in the future. From the CEO to C-Suite roles to key line and staff positions, provide leadership development experiences that create meaningful change and accelerate readiness for leaders to take on new roles. Where appropriate, external hiring can be used to fill key roles where the time to develop internal tale does not meet the organization's needs.

What to Watch For: The River Group M&A Leadership Success Meter

High profile M&A deals are looming or recently completed: The AT&T/Direct TV media consolidation, the Pfizer/Astra Zeneca negotiations, Apple's acquisition of Beats and Comcast's purchase of Time Warner Cable. We suggest that the Boards of these companies and the investors that follow them look not only for the red flags signaling doom but also the M&A leadership practices that will crack the code on successful integration. In general, what to look for is **strong M&A leadership**. As Omnicom/Publicis, Daimler/Chrysler and Sprint/Nextel can tell you, 70+ integration teams and dozens of advisors don't guarantee success. Nothing beats good leadership.

Like the strength meter of a website password, Boards and investors can assess the strength of M&A leadership using the scale below:

THE RIVER STRENGTH METER

WEAK – Sell		MODERATE – Hold		STRONG – Buy	
Hubris and Greed Prevail	Engineered: for Failure	Engagement 101	Change Leadership	Enlightened Integration	Cracking the Code
The case for the combination is made solely on high-level strategic, industry and financial benefits. Superficial reference to "cultural compatibility."	Integration process delegated to the "Program Office" to configure and implement. Q&A is defensive and conveys little insight into known issues.	Proactive, engaging communication. Organizational issues made explicit and addressed.	Leadership questions addressed quickly. Collaborative integration process clearly led by NewCo CEO and executive team.	Strong change leadership plus evidence of expanded organizational due diligence. Key social issues are addressed in a transparent way.	Enlightened integration plus clear retention of key executives on both sides. Consistent talent management framework applied across both organizations.

MERGER INTEGRATION

The River Group was formed by clients for clients. The founders met over 15 years ago as CEO client and consultant. Over the years, we have worked on many successful transformations together.

This track record of success and fruitful collaboration led us to form The River Group as specialist leadership advisors.

With the client/consultant perspective, The River Group is a different kind of consulting firm. We combine years of experience leading change ourselves or advising others on leading change.

We have the behavioral know-how of consultants and the focus and pragmatism of the CEO.

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