

WHY MERGERS FAIL

Quite simply, short range thinking is rarely compatible with long range planning, and the short range objectives of most merger scenarios blur any practical vision of a dynamic corporate marriage. Think of the authors, actors, and producers of the “merger play” . . . Board of Directors, top executives and intermediaries coming together with one purpose: to deliver immediate return to shareholder parties. Any lofty view of an exciting new player in the marketplace becomes rationale for more “realistic” purposes. And so, too many mergers fail the longer range test.

Even those deals which make a lot of market sense must make the most sense to shareholders. Accordingly, too little diligence is given to post-merger vision and action. Too often, there is the façade of a brief honeymoon marked by platitudes and prognostications of PR staffs. Natural culture shock is either left untreated or manipulated for patently ulterior motives. Cut off from their anchor to the past, and without a clear vision of the future, employees of the merged institution become frustrated, uncertain, and under-productive. Senior management itself is uncomfortable grappling with a new organization chart and its stress-laden lines of responsibility. The new company, which is supposed to consolidate markets and uncover fresh opportunities, becomes so internally focused that it cannot deliver in the marketplace.

When so much attention is focused on “doing the deal” that the means become the end . . . the “what” overwhelms the “why.” Excitement for new opportunities presented by the merger are lost in the deal itself with unfortunate carryover into the transition.

What does it take to create a successful merger?

- From the start, pay special attention to post-merger scenarios . . . where a fresh culture is envisioned for a welcoming marketplace. Concede the financial motives of the proposition, but do not allow them to overwhelm market driven reasons for a timely marriage of resources.
- Involve the cultural dimension in early dialogue . . . sharing concepts and concerns about the changing as well as sustaining characteristics of corporate and consumer behavior. The extent of mutuality in perspective will establish the quality of strategic discussions to follow. Insist that such discussions address market assessment with the same concern as corporate valuation.
- Paint for shareholders an exciting portrait of a merger which uniquely responds to the challenge of competitive forces and enhances the longer term quality of their investment. Recognize that shareholder value, which is a function of “the deal,” does not necessarily respond to an aftermath which is essentially a function of the marketplace.

In summary, “deal making” and business building are distinct, and not always compatible disciplines. Often, they appear in conflict with one another, introducing into merger transactions a frustrating sense of cross purposes. Mutuality of objectives must be established at the outset as owners and intermediaries discuss reasons for a proposed sale or purchase which focuses on exciting post-merger opportunities to create shareholder value with the same vigor as pre-merger dialogue.