

Common Challenges in Mergers and Acquisitions

Mergers and acquisitions are increasingly becoming common in today's corporations. Deals in the U.S. are estimated to exceed \$1.3 trillion. Unfortunately, many of these integrations fail to meet expectations. With so many business processes and different sectors to align, it is not too surprising that many mergers and acquisitions fail to meet expectations.

During a merger or acquisition, the organization is in chaos. Roles and jobs are changed or outright eliminated. New supervisors take over, sometimes from the merging corporation. During this time, it is important to provide support to employees. It is especially important to attempt to retain high potentials and keep everyone performing at a high level – a tall order considering an enormous amount of emotional energy is being spent on “trying to figure out who is doing what now.”

Some issues faced during a merger or acquisition are:

- ◆ How can we retain key employees?
- ◆ How can we minimize disruptions?
- ◆ How can we meet merger objectives?
- ◆ How can we keep our team enthused about the upcoming integration?

There are three phases of any merger/acquisition. The first phase is the exploratory stage, in which target companies are named and contacted. Following an expression of intent, due diligence and negotiations take place, after which the deal is closed. The last phase, integration, is the most complicated and time-consuming. Too many merged companies develop an “us vs. you” mentality rather than fully integrating into an “us” culture. This stage of the process is where most companies fail. Organizations waste time on internal issues and, consequently, fail to meet the expectations of their customers and/or clients.

Unsuccessful M&A

- 61% fail to earn back equity capital invested within 3 years (McKinsey, 1987)
- 50% mergers erode shareholder value; 33% produce marginal returns (Mercer/Business Week, 1995)
- 66% are financially unsuccessful (Coopers & Lybrand, 1996)
- More than nine out of ten mergers fail to achieve their objectives (Hay, 2007)
- Fewer than 50% of mergers and acquisitions achieved their hoped-for cost savings and barely half deliver their expected revenue (Accenture)

"Cultural integration is ignored in the majority of business combinations. This is a major reason why 60 percent to 80 percent of all business combinations undergo a slow, painful demise."

~Journal of Property Management

"By some estimates, 85 percent of failed acquisitions are attributable to mismanagement of cultural issues."

~Industrial Management



The Role of EQmentor in Mergers and Acquisitions

During the **exploratory phase**, management should attempt to calculate how much impact the merger/acquisition will have on their workload. The danger of burnout is high and leaders need guidance in order to be effective during this stressful time. Furthermore, managers who have not experienced a merger/acquisition previously tend to focus so much on the evaluations and negotiations that they neglect to plan their management strategy for the newly merged corporation.



“The expected can be discounted, as they say in the commercial markets. Against the unexpected, there is confusion, denial, turmoil... the sense of being thrown. It is the slow translation of the unexpected into the expected that constitutes much of wisdom.”

~ **Leston Havens**
Harvard University
Medical School

A mentor can help. Expressing one’s frustrations to an anonymous, objective third-party can ease stress and help keep things in perspective. A mentor can help the manager find his place in the new organization. Management can even elect to be matched to a seasoned executive who has been through several mergers and acquisitions and is able to offer priceless advice. Most importantly, a mentor can facilitate the development of emotional intelligence skills that are sure to be helpful with adapting, dealing with change, and getting acclimated to a new set of co-workers.

During the **due diligence and negotiations phase**, retention is important. Employees need help transitioning to their new roles and possibly guidance and reflection on a new career. As previously mentioned, top managers planning the acquisition will benefit from a mentor’s advice on how to organize and staff the new company. The EQ Village contains a wealth of knowledge on best practices, leadership, and other organizational concerns.

During the **integration phase**, managers are tasked with not only contributing to the acceptance of the newly-merged organization, but also with completing their own work and projects. Interestingly, as managers acquire more projects and more responsibility, their time spent on productive tasks tends to *decrease* rather than increase. Strategic planning of the workday as well as a macro-level view of one’s responsibilities can help. EQmentor’s EQtoolkit contains numerous helpful time management exercises that can be completed and reviewed with a mentor. Not surprisingly, this is also a prime time for burnout. Connecting with a mentor can help sort out exactly what tasks need to be completed right away, what can be delegated, and some that can be reassigned.

"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."

~Academy of Management



Company Challenge – Impact to Business

In addition to personal and professional growth, the mentees at EQmentor also directly impact business by working on a Company Challenge. Mentees select a **M&A-specific business issue facing their department or company**, research and discuss it with their mentor, and bring back 3-5 action items to positively address the issue – all implementable within 6 months.