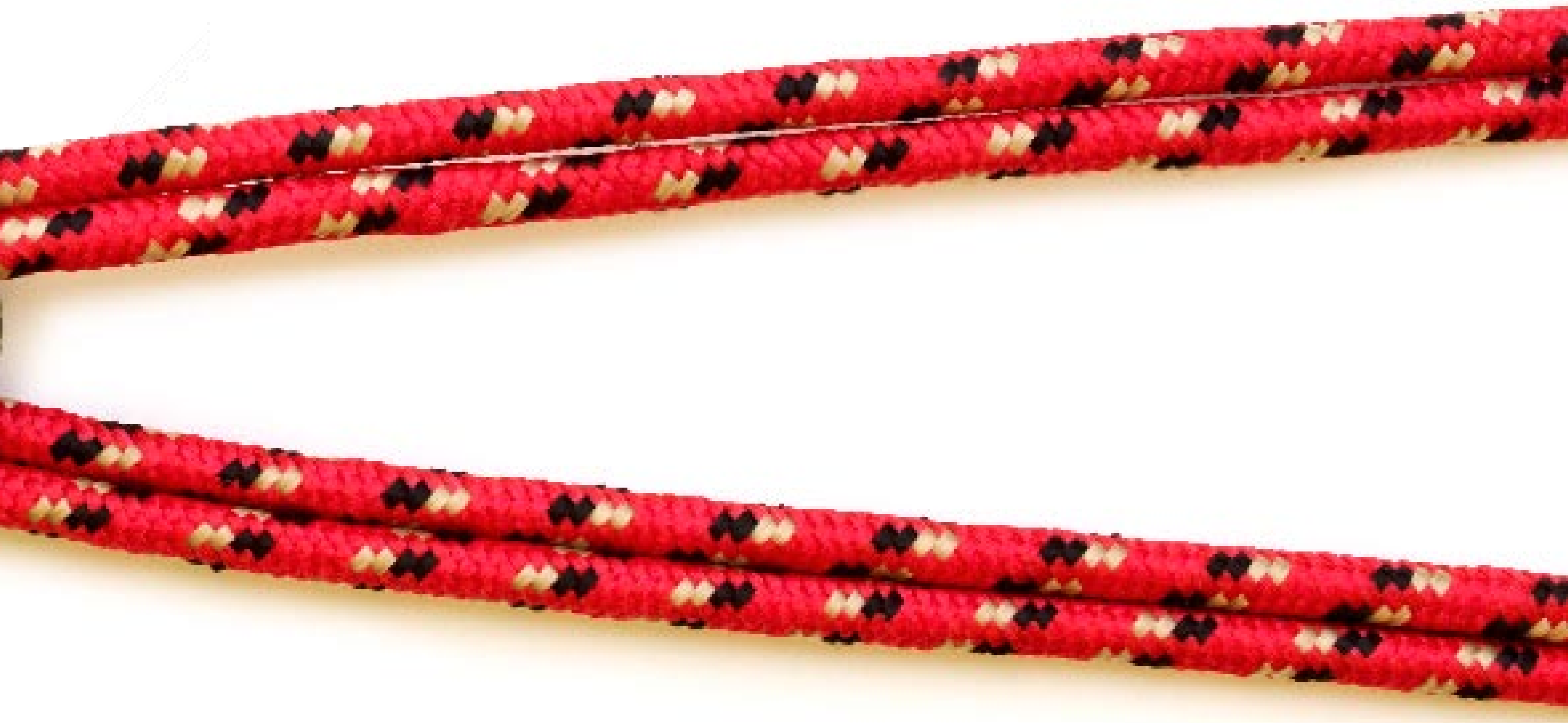
THE MERGER DIVIDEND

If you play it right, an acquisition can help you develop your top talent. *by Ron Ashkenas, Suzanne Francis, and Rick Heinick*

MERGERS AND acquisitions are high-stakes moves, and most executives are acutely aware of the potential downsides of a failed integration. But companies routinely overlook one key opportunity embedded in the integration process: the chance to develop both the current and the next generation of leaders.

Mergers and acquisitions are driven by strategy, and to ensure their success, it's tempting to either make the crucial decisions from on high or offload much of the integration work to a small cadre of trusted lieutenants or hired guns. But doing so robs your leaders of opportunities for learning and growth and prevents you from seeing how people from both sides cope under pressure. More important, working with leaders already in place lets you build a team



with the capacity to take full advantage of the new organization that emerges from the deal.

In the following pages we'll explain how three leadership areas can be intentionally developed during the integration process: Getting everyone on the same page, executing with discipline, and building an A-team. Using examples from our consulting work, we'll illustrate this process and identify some challenges.

PHOTOGRAPHY: ELIE HONEIN

Getting Everyone on the Same Page

Managers from different segments often have their own interpretations of company strategies, so their operational plans and priorities don't necessarily match. That's true in the course of normal business and even more so during a time of significant change. A large-scale integration—where there's extra urgency to show results and jobs are at stake—can be a living laboratory for clarifying how leaders with disparate backgrounds and views can collaborate.

At one insurance company we worked with, a stated strategy through a merger was to "preserve the unique products and platforms of each institution to give customers a broader range of support." That wording left lots of room for interpretation. Some managers (who wanted to keep things the way they were before the deal) inferred that each organization would continue to operate independently and, at most, would cross-refer customers. Others (who wanted to run larger units) thought the goal was to fully combine the product portfolios. Still others (mostly from sales) expected tailored menus of products from the two companies that would give customers more choices. All of them were pursuing the same strategic agenda.

Given these conflicting interpretations, the team charged with creating integrated marketing collateral was paralyzed. It didn't know whether to simply change the logo or fundamentally rethink how the products should be positioned. Without clear direction or the authority to resolve differences, it did nothing, leaving the sales force high and dry, without any new materials. This scenario should have been fertile ground for improving managers' capacity to align vision and priorities quickly and effectively; instead it was a missed opportunity that hindered the integration in the short term and reinforced a dysfunctional management pattern that persisted long after.

A better choice would have been to involve leaders within the newly combined company in developing a specific picture of what the enterprise would look like one year after the close of the deal—strategically, operationally, financially, and organizationally. This means creating what we call a "merger intent" document that outlines expectations for the deal and holds people accountable for meeting them.

Integration provides a chance for senior leaders from both sides of a deal to build their skills in creating strategic alignment. In 2007, when ING's U.S. retirement services business announced the purchase of CitiStreet, then-CEO Kathy Murphy (now the president of personal investing at Fidelity Investments) knew that she'd need an especially strong team of managers to run the business, which would almost double in size. Nearly every manager who stayed, from both ING and CitiStreet, would be given what amounted to an "invisible promotion": a job with more scale and scope but not necessarily a new title.

An integration can be a living laboratory for showing how leaders with disparate backgrounds can collaborate.

Murphy decided to use the integration not only to bring the companies together but also to accelerate her managers' development. A starting point for doing that was to help all of them get comfortable with the kind of dialogue necessary to create and own the merger intent.

Murphy started by conducting a session with her ING direct reports. First she asked each person to write down his or her views on what should go into each of four categories: financial, strategic, operational, and organizational. (See the exhibit "Put Your Team to Work on Planning" for a sample merger intent document; the specifics have been altered to protect the company's privacy.) The participants then shared their results and spent several hours debating the statements until they felt they had a reasonable working draft. The next week Murphy led a similar session with the combined leadership team from ING and CitiStreet, using the first draft as a starting point and refining it based on additional input and debate. Those leaders took the document back to their own teams for input and then regrouped to further sharpen the focus. By the time Murphy presented the results at the integration launch, her managers—both old and new—had gotten a real-time lesson in creating alignment.

Merck took a different approach when it integrated Schering-Plough, in 2009. Then-CEO Richard Clark (now Merck's chairman) and integration leader Adam Schechter wanted not only to create alignment around the merger intent but also to use the process to develop greater "courage and candor" within the senior team. They wanted to discourage people from holding back their ideas for fear of conflict or agree to something that they might not actually support.

Clark and Schechter commissioned an outside firm to engage team members in confidential conversations about the strategy and consolidate views into a merger intent document, highlighting the areas of consensus as well as points of disagreement about specific financial and operational goals and pace. (As it happened, one of the authors of this article was among the consultants.) Clark and Schechter then led an executive committee session to debate and resolve the disagreements and make the statements more specific. The resulting merger intent document

Idea in Brief

Mergers and acquisitions present an often-overlooked opportunity for leadership development during the integration process. Working with managers already in place offers room for leadership growth and gives senior executives the best insight into the new organization that will emerge.

Firms that don't take advantage of a deal as a way to challenge and develop their talent are leaving money on the table.

To make the most of their M&As, companies can develop leadership in three areas. They can help managers learn to:

Get people on the same page. Involving leaders in implementation planning helps build their skills in creating strategic alignment.

Strengthen execution capability. Mergers are large, complex projects that require fast results, innovative thinking, and collaboration with relative strangers. The skills needed are relevant to many other complex undertakings.

Build a strong team. Putting two companies together is a lot of work and creates opportunities to test managers by giving them stretch assignments and rotating them through new and challenging roles.

was shared with the integration teams and used as a basis for their planning. Two years after the close of the deal, it continues to serve as a guidepost for tracking the benefits of the merger.

Executing with Discipline

Merger and acquisitions integrations create temporary hothouses for growing execution capacity. There are lots of tasks—on top of the existing workload—many of which have to be done in collaboration with relative strangers in an emotionally charged, high-pressure, and time-constrained atmosphere where getting results is an absolute necessity. Teams must quickly mobilize, develop work plans, and prioritize tasks and time, among other execution skills.

To compensate for a deficit in execution expertise, senior executives often hire large consulting firms to organize and run the project management office during the integration. This approach may get the job done for a given deal but at the cost of building staff execution capacity for the long term—or even getting that capacity to emerge in the first place. This was the case when two large health care companies merged. Senior management, thinking that the execution was beyond its people's capability, essentially turned over the integration to a large consulting firm. The firm did an excellent job of bringing the companies together—but never left. Years after the deal was closed, the consulting firm was embedded in the organization, and managers at all levels were dependent on it for almost every complicated project (and many simple ones). When a new CEO took over, he found that consulting fees were costing the company hundreds of millions of dollars a year and that most of his managers struggled with execution.

Consultant dollars can instead be used to invest in your own people. When manufacturing company Timken bought the Torrington group of businesses from Ingersoll Rand in 2003, both companies considered their managers to be skilled at execution, but they decided to bring in consultants to help create common expectations regarding implementation and communication. Because Timken's chief operating officer (and now CEO) Jim Griffith insisted that a key deliverable from the consultants would be knowledge within the company about how to integrate new acquisitions, this short-term assistance led to a new, repeatable capability. "We've done a dozen deals since then," Griffith says. "We just did a review of those acquisitions, and only two, with very small dollars, fell short of expectations."

There are two ways to use integration to develop execution capacity. The first is to select high-potential people and put them into critical temporary positions during the transition, with the explicit goal of strengthening their ability to get things done. The second is to set particularly challenging short-term goals with direct accountability for rapid execution, increasing the pressure on teams to try something new.

Let new leaders shine. The chance to put your leaders in the hot seat begins when the parties agree to a deal (even before any announcements are made). Company heads need to define an integration planning and governance structure immediately that is distinct from the usual mechanisms for running the business. For the managers assigned to this struc-

ture, these jobs are testing grounds for big jobs in the new enterprise.

For example, when paper company Westvaco merged with Mead Corp. in 2002, Westvaco CEO John Luke appointed executive vice president Jim Buzzard as the full-time integration leader. Having spent most of his career in manufacturing and supply chain, Buzzard was now forced to learn newr aspects of the business, bring together multiple functions, and take a broader, more strategic view. After two years helping create MeadWestvaco, he was named president. Similarly, when Timken bought Torrington, leadership of the integration process was given to Ward J. "Tim" Timken, Jr., as a developmental step toward becoming chairman.

Merck CEO Clark put Schechter, his head of global pharmaceutical marketing and the U.S. pharmaceutical business, in charge of the integration of Schering-Plough instead of giving the job to a specialist, which would have been a more traditional move. He offloaded some of Schechter's duties to regional business heads to give him the chance to develop the skills for a broader role. For Schechter, the new assignment was a stretch. He told us, "I remember going home that night and taking out a blank sheet of paper and saying, 'What do I do tomorrow?' "

Over the course of the next year Schechter, who had excelled in a career spent in sales and marketing, got a crash course in being an enterprise-wide senior Merck executive. He had to deal with every part of the company, from the supply chain to the research labs to regulatory areas. He reported to the board of directors, met with external analysts and shareholders, organized the integration office, managed consultants, created a framework and timeline for integration plans, and worked closely with the Merck and Schering-Plough executives.

Some of this came naturally to Schechter, and some did not. For example, he initially struggled with the idea that not all of the plans needed to be perfect before they were set in motion—that sometimes it was better to proceed with speed than demand perfection. But as the volume of plans and actions accumulated and the time frames accelerated, he learned that such trade-offs were not only acceptable but often preferable. Similarly, Schechter learned that he needed to trust the experts in their own segments to do the right things, particularly when he was in unfamiliar territory. Because he had previously run areas where he himself was the expert, this was not easy. Clark pushed him hard but also provided direct support, both personally and organizationally. And when the integraion was complete, Schechter was even better prepared for a bigger role as president of the considerably expanded global human health business.

Put Your Team to Work on Planning

One way top leaders can use the integration of two companies as a development tool is to have teams from both sides work together to create a "merger intent" document that specifies the expected outcomes of the deal. Managers write down their own views on what should go into four categories: financial, strategic, operational, and organizational. **Here's an example of how the merger intent might look.**

Financial

- Produce $4.1 billion in revenue
- Gain $535 million EBITDA
- Reduce $340 million in annualized costs
- Expect 25% of revenues from new products

Strategic

- Divest four of six non-strategic businesses
- Jointly develop five new product platforms
- Increase emerging marketing business by 15%
- Cross-sell services into process industries
- Increase customer base and profitability in Europe

Operational

- Shut down headquarters in Europe
- Optimize production; close eight redundant plants
- Establish best-in-industry cost structures (such as supply chain, IT, and operations)
- Consider value of sales offices in the U.S., Asia, and Europe
- Integrate crossover product lines and brands
- Combine research centers

Organizational

- Reduce workforce by 1,560 salaried and 425 hourly employees
- Integrate management structure and define all reporting relationships four months post close
- Set up a new talent-management process across the company
- Establish a unified set of policies, procedures, and benefits, with full integration across sites and divisions

SOURCE SCHAFFER CONSULTING

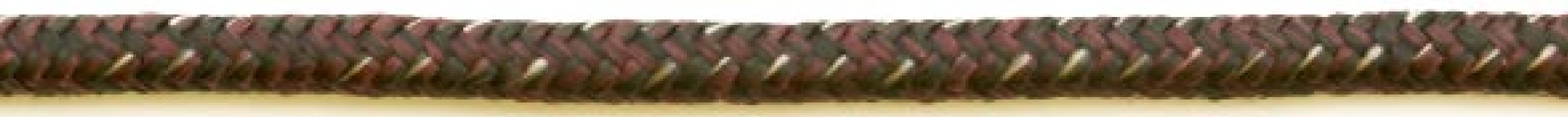
Other promising managers from Merck and Schering-Plough were assigned to the integration office as well, selected not only for their existing skills but also for their potential to grow as leaders. Schering CEO Fred Hassan made his president of the consumer business, Brent Saunders, Schechter's counterpart on the Schering side so that Saunders could contribute (and build on) the experience he gained leading the $16 billion integration of Organon BioSciences two years earlier. The process increased Saunders's ability to manage complexity and led to his becoming CEO at Bausch + Lomb a year later.

Challenge your team to innovate in a crunch. Setting distinct, ambitious short-term goals for your team during an integration—and holding people immediately accountable for outcomes—is the other way to use mergers and acquisitions as teaching tools. This often prompts teams to push themselves to try something new and achieve more than any one member would have thought possible. When JLG Industries, a manufacturer of vertical lifts, bought OmniQuip, in 2003, it was a make-or-break deal for the company. Then-CEO Bill Lasky recalls, "Because of the size of the loan and because of the decline in the construction industry after September 11, JLG was in the crosshairs. So my job was to insist on flawless execution—on time, on budget, and preferably ahead of schedule."

One of the keys to making the deal work was to transfer the manufacture of a few of OmniQuip's nonmilitary products (heavy construction vehicles with sophisticated engineering and hundreds of parts) to JLG's McConnellsburg, Pennsylvania, facilities within 60 days of closing the deal. Lasky made it clear that failure was not an option, and because of that, the key managers and their people put considerable discipline into the execution. Failure would be costly and might lead to lost contracts, which in turn would most likely lead to lost jobs. The project involved multiple functions and locations, but the integration leaders designated a single accountable manager. The team developed contingencies to account for parts of the plan that were high risk, and Lasky himself reviewed progress every week. As a result of these efforts, JLG hit its date, and everyone celebrated when the first units rolled off the production line as planned. "Not only was it a great business accomplishment," says Lasky, "it also was a great learning experience for everyone."

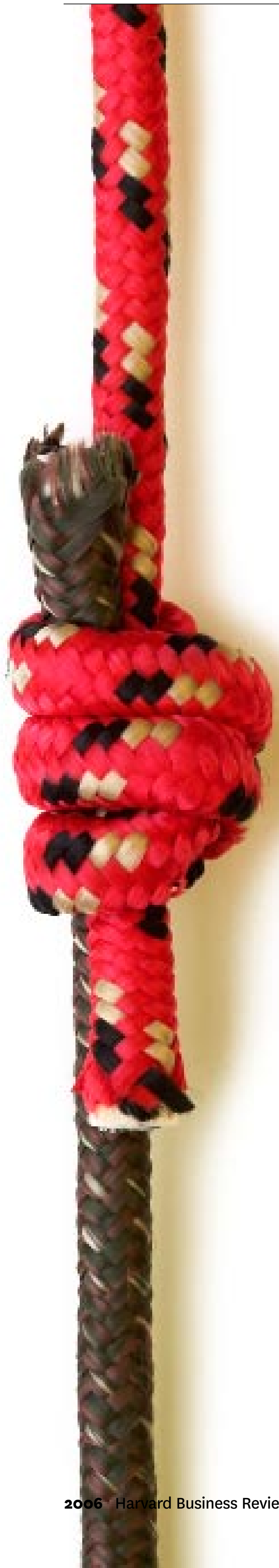
Westvaco anticipated significant early procurement savings when it bought Mead. But the pre-close planning hit a major stumbling block. Information about pricing and suppliers' terms and conditions couldn't be shared between the two companies until the deal was closed. Under normal circumstances, a team would have just said that it had gone as far as it could for now and it would have to wait until the deal closed to finish. But as the senior executive in charge of the integration, Jim Buzzard was unwilling to let the planning come to a halt. He was counting on the projected savings—and he also recognized a good opportunity to teach managers in action how to push through execution barriers. He told the procurement-planning team that it didn't have a choice: It needed to find a solution that would not postpone the implementation of changes in procurement. After much deliberation, the team solved the problem by hiring a group of retired employees who worked in a clean room to examine the information, do the analysis, and come up with a ready-to-execute plan before close—something it would not have done without Buzzard's demand.

Setting ambitious goals for your team during a merger can push it to achieve more than any one member would have thought possible.



Building an A-Team

Mergers and acquisitions increase the pool of available talent. In most cases there are more people than positions, and managers need to make choices about who will be on their team. The process is fraught with emotion, yet it has to be done quickly so that



teams can get to work and individuals can get on with their lives. But most managers have limited experience selecting talent. Many inherit their teams or are promoted to head a team they already know; openings are often filled through existing succession processes. Even when managers do need to add or replace a person, HR often does the heavy lifting of finding candidates and developing selection criteria and will even help make the decision, particularly when it is a painful or emotional one.

Selecting talent during a merger is an opportunity to assess the whole team, not just one position at a time. But the manager in charge may be unfamiliar with some candidates, especially those coming from the other company. Many firms take the easy way out. Instead of driving themselves to create a winning team for the long term, they resort to political formulas or compromises: This many positions for people from one company, and this many for the other—or, in some cases, a default to the acquiring company whenever there is a choice. In other cases, they outsource the process to a third-party HR firm, with the rationale that outsiders will be more objective. This saves managers the work of interviewing, vetting, comparing, and having to make difficult decisions. That may get the job done for the short term, but it doesn't engage managers in building their own teams, and it certainly doesn't develop their abilities to size up talent.

Putting people into stretch assignments is not only a chance to develop their execution capacity; it's also a chance to see whether they can step up to a new challenge. When Clark and his team moved people into integration roles at Merck, for instance, they were able to make more-informed decisions later about permanent positions. (See the sidebar "How Merck Made a a Merger Work.")

Talent selection can also be a formative teaching and learning experience about building a top-notch team. During ING's acquisition of CitiStreet, CEO Murphy worked with her top human resources executive to create a structured process that could cascade through multiple levels. The idea was to have the vast majority of managerial positions settled before day one, while meeting the cost synergy targets specified in the merger intent.

First Murphy created what she called a "blank box" structure that specified roles and responsibilities (but no names) for her direct reports. Then she and the HR head identified possible candidates for each role from both ING and CitiStreet, including incumbents (if the role already existed) and other employees who seemed to have the appropriate skills. Whenever there was more than one candidate for a job, they conducted a side-by-side comparison, listing such factors as education, experience, skills, and past performance ratings. Murphy used these comparisons, along with her personal knowledge of the candidates, to make her selections, factoring in the need for diversity and some balance between the two legacy organizations.

Once Murphy had her top team in place (and had informed people about who had gotten the top jobs and who had not), she brought everyone together to jointly create a blank-box structure for the next level down. Her new direct reports sketched out views of how their functions or business units should be structured, and their ideas were posted on the wall of a conference room. Murphy then held a working session in which she challenged the team to create flatter and more-efficient organizational designs, eliminate overlaps between units, and rethink basic processes. Many team members started by replicating existing structures, which would have protected some of their most trusted lieutenants. Murphy pushed them to put aside their loyalties and think first about what was needed to achieve the merger intent.

After a couple of tough working sessions, an acceptable overall structure for the next level of management emerged. Murphy, with support from HR, brought her team together again to identify candidates for the approximately 100 roles. Working from existing organization charts from ING and CitiStreet and their own knowledge of the individuals, members put sticky notes with suggested names next to the jobs in their area.

If managers don't develop leadership skills during an integration, they're unlikely to when things return to normal.

How Merck Made a Merger Work by Richard Clark

If ever there were two pharma companies that should merge, they'd be Merck and Schering-Plough.

We had complementary products, research pipelines, regional strength, and global diversification. I knew the deal presented major business potential. What I didn't know was what an incredible leadership development opportunity it would be for the combined organization.

When I returned from signing papers, my first job was to energize the senior leadership team members, to make sure they understood that this merger was as much about the science as the synergies. We had a responsibility to patients, physicians, shareholders, and our employees. The team members, in turn, had the job of leading their own units through the process. I wanted all of our 100,000 employees across the globe to have the same enthusiasm for this that I did. At the same time, I needed to make sure leadership stayed focused on current performance, especially the late-stage pipeline.

I asked one of my most respected senior executives, Adam Schechter (currently Merck's president of global human health), to temporarily put aside his responsibilities to become the full-time integration leader. This move sent a strong signal to our employees that the merger integration process would be taken extremely seriously. It was also a great opportunity for Adam to lead areas of the business that did not report to him day-to-day. He had to direct, experiment, and learn what it took to achieve real results from the integration.

I view the integration as a laboratory for developing our top leaders. We emphasized that our success would require leaders who were determined and who could persevere during serious challenges—those who could learn from both their successes and mistakes.

A good merger starts with strategy, but when it comes to integration, I'm fond of saying that "culture eats strategy for lunch." This integration required managers to develop skills to navigate and simultaneously develop a high-performance culture. The merger significantly strengthened the Merck leadership team at all levels.

Richard Clark is the former CEO of Merck.

Everyone then walked through each function or business unit, debating candidates, moving sticky notes around, and identifying people who were nominated for more than one position. They also made lists of managers who were not nominated for any position—and who would either have to take a demotion or be laid off.

After hours of hard work, the team had a clear preferred candidate for many of the positions. Where there was more than one candidate, HR used the side-by-side comparison to help make a choice. In a few cases, where the comparisons were inconclusive, a consultant was hired to conduct an objective assessment of the candidates and make a recommendation. Once all the decisions had been reached, the team took a comprehensive look to make sure that the overall selections met diversity criteria and synergy targets and had sufficient balance between the legacy organizations. People were then informed about their job (or their lack of one) and the process was replicated at succeeding levels.

This exercise took countless hours of Kathy Murphy's time—not just for meetings but also for iterative one-on-one coaching sessions with each of her direct reports to help them break through their natural biases and loyalties and learn how to build a solid team. It was often painful, especially when Murphy had to tell long-serving managers that they couldn't have the job they wanted, or, in some cases, any job. Getting the best of the best on the field of play is hard work—and it's work that is never really finished. This became clear a few months after the deal had closed, when it was apparent that some of the selected managers weren't performing as expected. Although it would have been easy to let them slide or give them more time, Murphy insisted that her senior leaders either create plans to help them do better within a month or replace them.

The integration process is an unparalleled opportunity to learn how to build a top team: There are more people than available positions, time is of the essence, and the future of the organization is at stake. Yes, it's difficult and emotional. But if managers don't develop leadership skills during an integration, when the pressure is on, they're unlikely to when things return to normal.

COMPANIES ENTER into mergers and acquisitions for many reasons: to increase volume and margins, diversify revenue streams, enter new markets, expand global reach, gain access to new products and technologies, and so on. Achieving measurable results in these areas is a major accomplishment. But unless executives also explicitly focus on using the deal as a leadership development opportunity, they are leaving money on the table. Leadership capability is a major dividend from an effectively run integration—one that will provide returns for many years to come.

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