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Lessons of Scale

Large Deals by Large Companies

By Suzanne Francis
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Organization development issues are rarely top of mind for dealmakers. Yet, minimizing the inherent risks and delivering on executive aspirations requires an attention to matters that go far beyond the numbers. From early targeting and due diligence through closing and on to the integration planning and implementation, management of organization development issues plays a critical role in increasing the odds for long-term success in large companies making major deals.

This article suggests ways you can improve M&A evaluation and integration in your organizations. We believe that these best practices are particularly relevant to the challenges of large-scale deals. Much of the experience reflected in this article comes from the accumulated knowledge gained in our work as consultants to leaders of large organizations who have laid out growth strategies that relied on planning for and carrying out mergers and acquisitions. Without doubt, more attention to bringing OD perspective and expertise to bear on M&A activity would have been beneficial for all concerned.

We hope the future of M&A will include greater attention to creating tools and processes to support the integration, aligning stakeholders around a clear, specific set of short-term performance targets, developing mechanisms for evaluating talent, and finding ways to inject skill building training at the teachable moments in the overall deal process.

Three Success Factors—Lessons from Scale

After nearly 20 years of work with dozens of companies, we have found three areas that are key to the success of big deals in large organizations. Through examples and lessons learned—some of them the hard way—we will suggest battle-tested ways to improve the outcomes of large-scale deals.

1. Getting the Methodology Right and Using It

Some years ago, we wrote about GE Capital's experience in honing and refining a methodology to a point where they had distilled the basic structure, tools, and events that could be used for any M&A integration (Ashkenas, Francis, & Demonaco, 1998). Although each deal is unique, there are rough stages around which an integration methodology can be constructed. Moreover, there are issues that can be anticipated and prepared for long before a deal is even initiated. Having a well-tested process for managing an acquisition is particularly critical in deals of scale because it helps mitigate the outsized risks that accompany these large deals. The process of building that methodology develops the capabilities and confidence that the organization will need to succeed in a big deal.

Although there is something to be said about the oft-cited claim that a small deal can be just as difficult to successfully implement as a large one, truly large deals bring greater risks along with big expectations for material shifts in strategy, performance, and business culture. With large deals, there is greater visibility and increased pressure—top executives' reputations are on the line. At the same time, the organizational complexity and the well-established systems that make up the business culture of most large corporations add to the difficulty of taking disciplined, unified action. Successful M&A deals require collaboration between two businesses—often with thousands of employees—across functions, management levels, divisions, and geographies. Providing a consistent view of what must be accomplished and agreeing on disciplines, methods, and tools can expand an organization's capacity for growth and the capability to successfully take on large deals.

Develop the Methodology Before You Need It.

The world of business development in most large corporations is not flush with people who have OD expertise. When high-level strategies are crafted and expectations for long-term growth are set, senior leaders are intently focused on the business potential: what competitive advantage can be gained; how will product lines or new product platforms be enhanced; will the bottom line be strengthened? And, as the focus narrows to selecting target companies or deciding on advantageous opportunities presented by investment bankers or other advisors, the efforts turn to negotiating attractive terms for exploring a deal.

As such, the value of reducing risk by using a disciplined methodology is often underestimated or overlooked. Such methodology may include: a management structure and process, governance, tools, templates, training, and consultation to equip integration leaders. Hindalco, an Indian company has become one of the world's largest manufacturers of aluminum by leveraging mergers and acquisitions. In the space of seven years, Hindalco turned a national commodities business into a global player, boosting revenues from $500 million to $15 billion. In pursuit of growth, leadership made the conscious decision to develop its M&A capabilities, using a series of deals to build industry skills and refine its integration methodology. They took this progressive approach to create the M&A competency that allowed them to buy Novelis, an American company nearly twice the size of Hindalco (Kumar, 2009).

Start Early

Early in the implementation of strategic growth plans that result in mergers and acquisitions of significant scale there are opportunities to influence deal outcomes, which, if capitalized on, will make a huge difference in the success of the integration work that follows:

» Gain agreement among the top leaders and business development colleagues on how mergers and acquisitions are to be carried out as part of the growth strategy. The process that a company adopts to plan, manage, and combine two businesses will not happen magically when a deal is ready to close and the need arises. Insisting ahead of time on the need for a methodology, committing resources to develop it and applying it with discipline in the course of integrating a deal must come from senior leadership.
» Expand due diligence to include initial assessment of leadership talent, essential skills, and critical capabilities and competencies. Learning about executive talent during due diligence facilitates the selection of the leadership team for the combined business. Identifying individuals or groups with scarce or unique skills early on can provide precious time to develop more effective retention strategies and reduce flight risk when the deal is announced.
» Be creative about applying different integration models to achieve different outcomes within a large-scale merger or acquisition. Too often the assumption is that integration means across the board "assimilation." In most mergers of any scale, not all parts of the organization will fit that mental model. Close inspection of most large acquisitions will uncover a variety of integration models tailored to the expected outcomes for a given function or division.

For example, combining corporate staff functions often means assimilating the finance and human resource functions into the systems and policies of the acquiring business to ensure common processes and reduce costs. Yet in the same deal, emphasis on sales growth and customer retention could lead to maintaining two separate sales forces to achieve revenue targets and support key customers. Some large deals necessitate divestitures of product lines or divisions, which means they may be isolated from the integration entirely.

What unites these parallel efforts are common integration goals, organization structure, governance, and reporting on progress and results. The Program Management Office and/or integration team leaders can accelerate the planning by helping leaders to think through the integration requirements in their areas and to adapt the appropriate models and tools to their needs.

When high-level strategies are crafted and expectations for long-term growth are set, senior leaders are intently focused on the business potential: what competitive advantage can be gained; how will product lines or new product platforms be enhanced; will the bottom line be strengthened? And, as the focus narrows to selecting target companies or deciding on advantageous opportunities presented by investment bankers or other advisors, the efforts turn to negotiating attractive terms for exploring a deal.

Table 1: Merger Intent Template (with examples)

Strategic	Financial
Consider new business platforms, new markets, changes in product lines; additional acquisitions or divestitures; changes in go-to-market strategy, market penetration, etc. For example: » Accelerate new product from acquired company to selected markets in first quarter of 2013.	**Consider the targets for key financial and performance indicators by which your business measures success, such as: revenue, EBIT, cash flow, costs, etc. For example:** » Increase sales revenues from new products by 30%. » Reduce supply chain costs by $xx million through renegotiation of contracts.
Operational	**Organizational**
Consider changes in operations such as: number and size of manufacturing facilities; sales office locations; headquarters staff functions; additions or deletions from product lines. For example: » Consolidate all staff functions in new HQ location by year end. » Combine all European research operations to UK and Swiss locations.	**Consider reductions in work force; retention of key talent; major changes in reporting relationships; new management structures; outsourcing/ in-sourcing of functions; etc. For example:** » In-source sales support to regional shared service centers. » Reduce voluntary turnover in call centers by 25%.

For large deals, an established methodology increases the organization's ability to set priorities and make strategic decisions, create effective communications campaigns to engage stakeholders, and mobilize the integration army to execute the plans. Ultimately, reaching the expectations that are envisioned in the deal will depend on being able to accelerate the planning and implementation. Demonstrating that work is underway and progress is being made on the promises of the deal is critical; investors know that most mergers fail to deliver on their promises. A ready-to-hand methodology, agreed on by the senior leaders, makes it possible to shrink the time it takes to show meaningful results.

As Jim Buzzard, the Integration Leader for the Mead and Westvaco merger said, "Coming to agreement on standard processes was key to moving ahead quickly. In a matter of a few weeks, the Office of Integration laid out the planning templates and deliverables each team would be asked to produce . . . . While it might sound rigid, it kept the thinking organized and the work focused on the deadlines without inhibiting creativity" (2005, p. 147).

2. Aligning Leaders on "Value Drivers"

Much is made of the vision that senior leaders have for a merged organization. When a big deal is announced, executives eagerly trumpet the potential synergies to their Boards, the media, and employees. They might tout new geographic presence, increased access to customers, complementary products or services, and opportunities for efficiencies, among other benefits. Because of the scale of large deals, the advantages of a combination may seem particularly obvious and alluring. Unfortunately, leaders sometimes fail to go beyond a high-level articulation of these benefits, which leaves room for interpretation (and confusion) about the direction the organization must take during integration. To ensure a successful merger, executives must create a very specific set of outcomes and major goals to be accomplished during the first year or two post-close—we refer to this as the "merger intent" (see *Table 1*). The merger intent is vital to translating vision into reality for the combined organization.

Create a Shared View of Success

Creating and getting up-front agreement on the merger intent among the top leadership is important to effective integration planning, execution, and results. There are multiple ways to create this agreement; however, regardless of method, it is important to find a way to engage the executives from both organizations who will be critical to the success of the deal. Further, the merger intent serves as a high-level guidepost for communicating to employees, the media, and other key stakeholders. Given the level of scrutiny that large transactions receive, the importance of speaking with one voice is essential. Leaders can easily develop sophisticated communication campaigns using the merger intent to gain broad support for the integration that will successfully combine the two businesses.

Let's look at two large-scale integrations in the financial services industry to demonstrate the value of a merger intent. In the first, insurance executives acquiring a competitor of equal size declared that they would, "preserve the unique products and platforms of each institution to give customers a broader range of support." What did this mean? It was unclear, so managers decided for themselves and began to take action accordingly.

Some product managers, who aspired to larger responsibilities, assumed that the company would move to a single portfolio of products. Several managers in Sales declared that multiple, customized menus of products would be created to give customers more choices. Finally, others who preferred the status quo said that the businesses would stay largely independent, perhaps simply referring customers to each other. All thought they were in line with strategy.

The lack of clarity meant that groups were working at cross-purposes which stalled progress. For example, the team responsible for developing integrated marketing materials received different direction from the various stakeholders. They did not know whether to simply change a logo or communicate more significant changes to the product portfolio. As a result, it did nothing, and the sales force received no new materials (Ashkenas, Francis, & Heinick, 2011).

ING's purchase of CitiStreet—a deal that doubled their retirement services business in the U.S.—offers a helpful contrast. The CEO, Kathy Murphy, personally led her team in the creation of a merger intent that expressed a clear and tangible vision of the results the merger would deliver.

As Kathy gathered her direct reports at ING, she asked them to capture their individual expectations for the combined business by outlining financial, strategic, operational, and organizational goals. Team members then reported out and worked together to reconcile the different perspectives until they had a single, representative version.

The next step was to bring together her combined ING and CitiStreet leadership team. They made changes in the initial strawman based on new input and discussion. Then the participants brought the new version to their own teams for feedback. By the time the leadership team reconvened to further refine the focus, they had achieved strong alignment on their intended outcomes before the kick-off of the integration effort.

This merger intent was the basis of specific action plans, laying out tangible results to be achieved on a monthly basis. As the integration work progressed, they gained insights from experience and periodically revisited and refined the agreement (Ashkenas, Francis, & Heinick, 2011).

Merck took an equally successful, but different, approach when it acquired Schering Plough in 2009. Leadership engaged a consulting firm to meet with team members to discuss strategy and then synthesize views into a merger intent document, drawing attention to areas of agreement as well as disagreement about specific targets and timeframes for achievement. A work session was held to discuss and resolve the points of conflict and make the goals more specific. At the integration launch, the CEO and integration leader shared the recorded merger intent with the integration teams, establishing it as a basis for planning as well as a reference point for tracking the benefits of the merger.

In our experience, although the process may vary, the active engagement of executives from both organizations is vital. This means not only getting input from both sides, but also having a work session where key leaders can have the experience of collaborating side by side. This experience provides an opportunity to align around a clear and common vision of success, establishing shared accountability on the most important issues to the combined business (Francis & Stearn, 2011).

It is worth noting that the merger intent can be used as the starting point for a communication campaign to gain broad support for the deal among large numbers of employees and other stakeholders. Given the extraordinary attention that large-scale deals receive—both from the media and, sometimes, government/regulatory attention—the creation of the merger intent is useful in getting leaders on the same page to communicate externally. Starting with the merger intent, the integration team can begin to spell out the most important messages to be communicated to key internal and external stakeholders.

3. Preparing Leaders and Managers; Helping the Best Get Better

The merger of two companies presents an incredible array of opportunities to test, identify, and develop talent, and build a winning team for the combined business. Those opportunities are even greater in large deals, where the scale creates advantages in the form of plentiful resources to tackle critical issues.

Mobilizing the leadership horsepower to run the business and carry out the integration—a major change initiative all by itself—is too often seen as a problem. Finding the right people to drive the changes needed for a successful business combination and lead the company should be viewed as one of the most exciting opportunities provided by the deal. The wealth of capable, creative, and experienced people makes the candidate pool far richer than ever before. When Pfizer acquired Warner Lambert, then-CEO Hank McKinnell, pointed out that the acquisition and the selection of the leadership for the new organization was all about "helping the best get better" (Ashkenas, 2001).

Build a Winning Team

Getting the politics out of the way and creating a selection process for fielding an "A-team" to run the new company is never easy. It is vital to establish clear guidelines to ensure the selection of the most competent, best-qualified person for each open position. Two CEOs or HR leaders cannot make the decisions in a vacuum; similarly, managers and supervisors should not be left to their own devices. Too often, leaders look to simply supplement the people they had before with the personnel from the acquired company to fill in any perceived gaps. Without a disciplined process, the negotiations and horse-trading common to many deals spill over into the decisions about who will fill what positions. Since the process will be used over and over again as several levels of management across the business are selected, it becomes one of the most visible demonstrations of "how things get done" in the new business. It is essential that it be perceived as transparent, firm, and friendly to candidates from both corporations.

The selection process is usually put to the test as soon as the first decisions are announced. In the case of the Mead-Westvaco merger, the top tier of leadership was announced at the same time the deal was made public. People immediately noticed that the same number of senior executives had been chosen from Mead and from Westvaco. Billed as a merger of equals, the leadership selection passed the first test. Later, under the direction of the newly selected head of Human Resources, a team translated the performance reviews historically used by each company into a common framework. This provided an easily used means of comparing performance when considering candidates from both companies and helped to simplify what is typically a time-consuming and extremely political process. Quickly implementing the process for the new company's top 3–4 levels meant that positions were filled and managers could attend to making the business succeed at delivering on their goals.

Take Advantage of Development Opportunities

Filling top leadership positions rightly commands the greatest attention as a deal is announced and closed. However, prior to close, the CEO and deal team should staff another key leadership position: the Integration Manager. For large scale deals, leading the integration over a period of 1–2 years comes with significant development challenges, no matter how seasoned, savvy, and skilled the executive. Prescient leaders tap their best talent for this critical role. Richard Clark, Merck's CEO, asked one of his most respected executives, Adam Schechter, to put aside his job as head of Global Pharmaceutical Marketing to dedicate himself to full-time leadership of the Merck-Schering Plough integration. Similarly, when Timken bought Torrington, Ward Timken, Jr. took on the leadership role as a developmental step toward becoming the company chairman a few years later (Ashkenas, Francis, & Heinick, 2011).

Despite their years of experience, career accomplishments and knowledge of the business, most successful integration leaders would describe managing a large-scale integration as a stretch assignment. In addition, they would tell you that they developed new skills, learned about different aspects of the business, built relationships with leaders at all levels of the newly combined business and gained organizational savvy that prepared them to take on bigger leadership roles when the integration was complete.

Large scale M&A integration is rife with opportunities for people to develop new skills—some as leaders of integration teams in functional areas; others as leaders of major projects to deliver synergies from revenue growth or major cost reductions. People who are selected to take key integration management roles are engaged in a cross-functional, cross-business change effort that sometimes takes the definition of a developmental experience to new levels. Like the integration managers, they will have opportunities to build skills, acquire greater business knowledge, and expand their network of contacts in the larger organization created by the acquisition. They will learn something about the discipline required to run a major initiative, becoming part of the expanding integration capability that is developed inside the new business. Most important of all, they will learn what it takes to accomplish significant financial and performance goals for the combined business.

During one large deal, the acquiring organization reached into the target company to select the new leader for a staff function of the combined business. While this person had been clearly identified as the best candidate for the job, with the greatest potential for growth, the scale of that job more than doubled when the deal closed. Despite having the technical skills to do the job, the abruptness and magnitude of the organizational change made it a huge developmental leap and within six months, a replacement had been found from outside the organization to fill the position.

Support the "Invisible Promotions"

Another sizable challenge is created when the largest corporations merge: the "invisible promotions" received by mid- and senior-level managers as the result of having a much larger span of control than before. These "promotions" do not come with new titles or increased compensation; they do come with tough assignments and steep learning curves for many individuals. In some large deals, this can apply to entire groups of managers, especially in sales organizations. In the name of cost reduction, sales executives and managers frequently find themselves responsible for bigger territories, more people, and larger arrays of products.

On an individual level, there are many leaders who find themselves ill-equipped to fill the assignments they have been handed. During one large deal, the acquiring organization reached into the target company to select the new leader for a staff function of the combined business. While this person had been clearly identified as the best candidate for the job, with the greatest potential for growth, the scale of that job more than doubled when the deal closed. Despite having the technical skills to do the job, the abruptness and magnitude of the organizational change made it a huge developmental leap and within six months, a replacement had been found from outside the organization to fill the position.

When invisible promotions occur, whether for individuals or whole groups, companies need to find creative ways to provide support and increase the odds of success in these developmental assignments. Returning to the sales example, we have seen large corporations hold orientation sessions for their sales leaders from around the globe to help them understand and plan for the roles they would play. They have also made follow-up support available over the subsequent few months. In other deals, internal consultants who were part of the integration management office provided coaching support to individuals who had major changes in their responsibilities. And, following one merger of two large pharmaceutical companies, a wide array of internal and external consulting resources and tools were made available to new leaders to be customized to fit their individual needs.

So, whether their day jobs are new or expanded, or they are playing a role as part of the integration effort, hundreds of senior managers will have new and expanded responsibilities. In this sense, a large-scale integration becomes a proving ground for

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talent at all levels of the organization. It is an opportunity to develop individuals and management teams—to help the best get better—as the newly combined business gets up and running.

Conclusion

We have focused here on best practices and lessons learned to help companies manage the opportunities and challenges presented by large-scale deals. With more and different pieces in play, the needs for integration coordination and speed are greater, at the same time as globalization and organizational complexity likely make them more difficult. The bright spotlight of media attention on the biggest mergers brings increased pressure along with the visibility. Top executives, with their reputations on the line, run a risk of focusing on the numbers (their comfort zone) to the exclusion of more holistic considerations of organizational performance and capacity. These issues cannot be effectively delegated to HR, or outsourced to consultants.

In our view, all mergers and acquisitions are exercises in organizational development; and the executives involved in those deals, from the CEO on down, need to be practitioners. Accordingly, this focus needs to be cultivated broadly within an acquiring company's C-suite, business development, and integration professionals, as well as incorporated into the evaluation and integration processes themselves.

It's either courageous or foolhardy to suggest that the most important M&A learning about large-scale deals can be distilled into three simple headings. The lessons of methodology, clear merger intent, and focus on talent may not be sufficient to make every deal successful; however, applied with discipline and creativity, they will go a long way toward improving the outcomes of large-scale M&A deals.

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