Accelerating Corporate Growth:

Eight Communication Strategies for Driving Successful Mergers and Acquisitions

Special Report by

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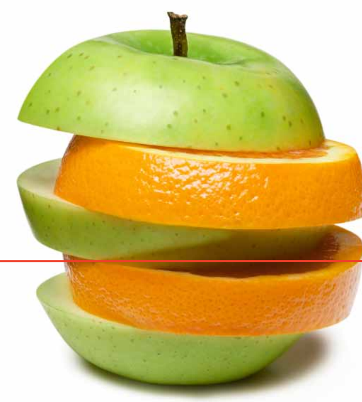

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Mergers, acquisitions, business consolidations, and strategic partnerships create opportunities for rapid growth, financial rewards, and enterprise expansion. Why do so many go wrong?

One of our clients is a well-known manufacturer and retailer that started as a small family-owned business, closely tied, economically and culturally, to its home region. Quality, innovation, and utility were long-standing hallmarks of the company's brand. As the company evolved and ownership changed, its leaders recognized a terrific market opportunity to significantly expand, and aggressive growth became a key tenet of their business strategy. Despite a difficult market environment, the company has met or exceeded its aggressive growth targets for the past four or five years. They created a high-energy, fast-paced culture, with strong alignment around their vision, mission, and values.

Surprisingly, they managed to increase their margins during this high-growth period and thus had the resources to consider implementing an acquisition strategy. They identified a terrific candidate, a company that was similar to them but that had strengths in different, but closely related, categories that would clearly bolster and support the brand. By acquiring this competitor, they nearly doubled the size of the company.

On paper, the acquisition looks terrific, and we believe it will prove to be a very successful transaction. But that does not mean it is without challenges. Although both companies started from very similar positions as family-owned businesses with strong corporate values and commitment to corporate citizenship, there are now striking differences in how each company operates. Although still strongly committed to its founding principles, the acquirer has become accustomed to high growth and an incredibly fast-paced work environment. In contrast, their newly acquired partner, despite having created an impressive global footprint, still operates with its original "down-home" values and more laid-back style.

Changing this culture, and finding a successful operating middle ground that works for both parties, will be a continuing challenge. To achieve this, the new entity must have a clear and comprehensive communications plan to reinforce the vision for the combined companies, mission statements that all can understand and own, and a clear understanding of expectations, new operating procedures and policies, and accountabilities.

Despite the many clear and apparent advantages of this acquisition, failure to address these cultural realities will make it extremely difficult to capture the business opportunity and realize the financial and commercial gains this merger should create.

The Growth Challenge

One of the key responsibilities of any business executive is to lead their company or organization on a path that will deliver solid, sustainable, and dynamic growth. Every business faces many challenges, both internal and external, but despite all of the variables involved, a leader must chart a clear course that leads to accelerating corporate growth. The failure to realize solid growth, creating a robust business model and a culture of success, is perhaps the single most important factor in an executive's being moved aside.

Growth can result from internal combustion—taking full advantage of an existing market, customer base, and an established line of products and services. For many companies, this "organic" growth is sufficient to carry them forward, for a while. For companies that want to expand more rapidly or to aggressively capture a larger market share—creating broader and deeper business relationships with their most important clients—organic growth can seem too slow and methodical.

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Thus, a leader looking for more rapid growth will often turn to an M&A strategy to jumpstart their expansion and create a competitive advantage. The allure of a merger or acquisition can be most enticing. After all, just think of the incredible synergy that can be created by merging with a competitor. You might gain market share by absorbing an acquired competitor’s customers. Or, a transaction could quickly expand your product line or service capabilities without the R&D expense and long lead time often required to do this on your own. One of the compelling reasons for M&A is the expense savings that can come from a successful combination. These might include eliminating overlapping positions, centralizing shared services, and rationalizing supply chains and manufacturing facilities, all of which drive significant margin improvement.

Sounds pretty easy, doesn't it?

The stark fact is that “a majority of all mergers or acquisitions fail to reach the value goals set by top management,” according to the 2006 Global CEO Study conducted by IBM. This finding came before the financial meltdown of 2008 and is true despite the tremendous potential for advantages and opportunities in M&A transactions.

How can this be? Very few M&A transactions are even contemplated, much less completed, without extensive financial analysis. The due diligence process is meant to turn over every stone, examine every wart and imperfection in the target, and help acquirers avoid becoming mesmerized by the glowing promise of the strengths and opportunities that the combination could produce. So what goes wrong? And more importantly, what can leaders do about it?

First, understand that no merger or acquisition will automatically yield positive results. There is no inherent value in size alone, in reducing the number of players competing in the marketplace, or in being more diversified. If size were everything, why would analysts talk about breaking up organizations to create value?

Second, understand the most common gaps and failings in the successful integration process of two organizations. Detailed financial analysis, a tactical execution plan, and a comprehensive human resources strategy are all necessary components of any successful M & A or business consolidation initiative. Because of deep-seated cultural differences, employees from the two companies will be looking at the present and future state of the combined entity through very different filters. Leaders must be prepared to work through those differences over an extended period of time, or the likelihood of a true integration of the merging companies is not high.

One of the classic examples of the breakdown that can occur during an attempted business integration was the acquisition of Columbia Pictures by Japan's Sony Corporation in 1989. The transaction seemed to make sense because it would allow Sony to control the production of content that would then be distributed through their network and ultimately viewed on their equipment.

Yet, Sony quickly discovered that the dramatic cultural differences between a company making movies in Southern California and a more bureaucratic engineering, manufacturing, and distribution company based in Japan required the management team have a new and different set of skills to pull this merger off. Despite tremendous efforts and significant cash outlays, Sony struggled to make the acquisition successful and its earnings were negatively impacted for years. Columbia was a $2.7 billion write-off in 1994—one of the largest write-offs in the corporate history of Japan. It took many more years and a series of additional mergers before Sony enjoyed consistent results from its acquisition.

This example demonstrates that leadership is about more than having financial acumen or knowing how to execute against a tactical plan. Leadership also requires an understanding and appreciation of the "softer" aspects of building an organization based on vision and values. That's because vision and values are what encourage employees to become and remain passionate about what they do and to consistently work toward achieving the organization's higher purpose.

What are the M&A Derailers?

Because so many mergers and acquisitions fail to pay off as anticipated, leaders must be aware of the most common pitfalls that derail successful business integration, and how a communications plan can help avoid or mitigate these problems. The top five "derailers" are as follows.

1. Not talking to all stakeholders consistently.

Senior leaders' intense concentration and focus on execution and business tactics can limit their interaction with the wide array of stakeholder groups that need to be kept informed. Obviously, it's important to talk to analysts and to keep "the Street" updated on plans and progress as well as the merger's financial implications. However, it is just as important—or perhaps even more important—to communicate regularly with customers and employees with the same rigor, thoughtfulness, and openness.

2. Developing your "people plans" without focusing on achieving the right mix of people.

Herb Brooks coached the 1980 US Olympic hockey team that upset the powerful USSR team that previously had won four gold medals in ice hockey. Add in the fact that the contest featured a bunch of US college kids against de facto professionals from the Soviet Union, and you'll understand why Sports Illustrated described the upset as the top sports moment of the 20th century. Brooks once said, "I'm not looking for the best players; I'm looking for the right ones." Reach out to a broad range of employees so that you motivate and engage the strong cross-section of people needed to make an enterprise operate effectively. Think about what's important to them as employees and also what's important to them as individuals, so they know their roles and can commit themselves to the success of their teams and the company as a whole.

3. Allowing top talent erosion.

At the same time, you must also work to retain your best talent. Financial incentives alone are not sufficient to achieve this goal. Failure to communicate a clear strategy leaves your best people, the ones who consistently add real commercial value to the business, worrying about their futures. They are the ones who will be much more tempted to look outside of the organization if they perceive that leadership does not have a firm hand on the rudder and is not constantly articulating the company's future game plan.

4. Forgetting the competitive marketplace.

Don't allow yourself and your management team to become so absorbed with the challenges and tasks of completing the business integration that you lose track of what's going on with your customers and your markets. You must stay in regular communication with your most important client groups and the employees who frequently interact with them. There is no honeymoon period following a business union, because your competitors will seek every opportunity to exploit your lack of communication and involvement with key accounts and market sectors. Arm your salespeople and customer relations specialists with as much information as possible on an ongoing basis so they can keep your clients abreast of developments and talk to them with enthusiasm and confidence about the company's future.

5. Lacking a clear post-M&A vision of the enterprise.

As Warren Buffet has said, "In the business world, the rearview mirror is always clearer than the windshield." As a senior leader, you must look forward, keep your eye on the horizon, and have a clear view of how you want this new combined organization to look, how you want it to act, and how it will change the

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world in which it operates. We’re not talking about moving the earth or realigning the planets; it’s more about having a bigger and grander view of what this new entity can achieve—how it will, as Steve Jobs said, “… put a ding in the universe.”

Eight Communication Strategies for Driving Successful Mergers and Acquisitions

Every business leader wants and needs any new business alliance, merger, or acquisition to be as painless as possible and to produce outstanding and sustainable business results. Here are eight communication strategies for driving successful mergers and acquisitions—keys to ensuring that your organization is addressing the important communications, cultural identity, employee engagement, and morale issues inherent in any type of business consolidation.

1. Communicate constantly.

Have a carefully prepared and readily executable communication strategy and do not deviate from the plan, regardless of how long successful business integration takes. Make sure that the entire leadership team, going down several layers into the organization, is fully briefed and aware of the communication strategy and is able to execute it with consistency and enthusiasm.

2. Develop a new language.

As the two entities come together, develop some new key phrases or terminology that describe the future state and the anticipated result, capturing the synergies possible within the new entity. This can be done around a single theme or around a series of themes that are rolled out over the life of the integration exercise. Using some new language will help break down the "us versus them" mentality that can readily develop and derail cooperation and synergy.

3. Take the pulse of your employees on a regular basis.

Get honest and candid feedback about how the integration is going, what the challenges and obstacles are, and how people are actually feeling about the process. Reach down into the organization to be sure that you are getting a clear picture from a broad spectrum of employees. Don't make the mistake of talking only to those closest to you who may have more of a vested interest in the new alliance and thus might be more likely to let their optimism influence their perceptions of what's really happening in the broader organization.

4. Tell stories that highlight success and encourage behavioral change.

Collect and develop stories that highlight the behavior and the type of collaboration and cooperation that you want to see permeating the new organization. Also make sure that you have a mechanism to capture success stories from multiple sources within the company—from customers, from collaborative teams, or from select individuals who are embracing the new identity. Ensure that these stories are disseminated throughout the organization, encouraging people to add their own anecdotes and experiences to a growing "story anthology" that becomes a vital part of the new company's new history.

5. Walk the talk.

As a leader, set the standard and model the behavior that you expect throughout the entire organization. Every communication event and interaction will reflect your leadership and your expectations. Put your time and energy into the highest-priority actions and decisions that will mold the new company's identity and business conduct.

6. Be patient.

Successful business integration often takes far longer than originally planned, so don't underestimate the amount of time and effort the consolidation project will demand. If you want real results, you and your leadership team must remain patient, optimistic, and positive to sustain morale and to encourage cooperation and collaboration.

7. Talk about the future state.

A leader needs to talk, repeatedly, about the overarching value proposition and the "Big Idea" that drove the decision to pursue a merger, acquisition, or business consolidation. Consistently and clearly articulate what the organization can achieve and what it can look like in the years ahead. As Jack Welch, the iconic General Electric CEO has said, "Good business leaders create a vision, articulate the vision, passionately own the vision, and relentlessly drive it to completion." Make that vision real to your organization by helping employees and key stakeholders see the opportunity and promise of the future as well as their place in it.

8. Keep the dream alive.

While you will face numerous challenges and undoubtedly suffer a few disappointments along the way as you lead the integration process, remember that your leadership will be critical to creating a vibrant and profitable enterprise. Consistently reinforce the idea that what you envision is a possible dream, an achievable endpoint, and keep this dream alive and well until that dream becomes a reality. With honesty, sincerity, and enthusiasm, you must energize your leadership team and all your colleagues by finding and capitalizing on your authentic voice of leadership.

Final Thoughts

Legendary American automotive entrepreneur Henry Ford once said, "Coming together is a beginning; keeping together is progress; working together is success." To avoid the derailers and be successful in the M&A integration process, you need to use persistent and powerful communication to get beyond the promising beginning and achieve lasting success.

Even when a merger or acquisition seems to be a sensible route to real synergy, success is purely hypothetical until you roll up your sleeves and devise a strategic communication plan that will address the hopes and fears of your shareholders. If you sweat those details and execute effectively, your joining of forces will look just as good on the income statement as it did in theory.

Communications Consulting for M&A

A business plan is just words on paper until people take action. If you're implementing a merger or acquisition, you need a solid communications plan to align people around your vision, get them in-sync with your strategy, and motivate teams to convert the vision and strategy into action.

Our process involves a comprehensive audit of the current "communication state" of your team. Our differentiator is that we not only make recommendations around solutions, but we execute through coaching, training, and facilitating. We help your key players develop strategic messaging and a plan for communicating the messages down and across the organization. Your senior leaders will learn critical skills to help them influence people, encourage collaboration, and break down silos to move enterprise-wide strategies forward.

Contact us at 800-908-8239 or info@bates-communications.com to talk with us about consulting.

About the Author

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Craig Bentley is an executive coach and senior communications consultant with Bates Communications. Craig's strong business and financial background enables him to help executives communicate effectively and drive business results. His thirty years of experience in domestic and international financial markets, banking, business development, and strategic planning provide his clients with a diverse, strategic perspective to leadership communications. He has coached and consulted with numerous CEO's, CFO's, and other executives at major national and international companies.

Prior to joining Bates Communications, Craig was a principal at a Boston-area management consulting firm, working closely with CEOs and business owners on strategy development and implementation. Earlier in his career, Craig served as a Senior Officer and a Managing Director in Treasury at Bank of Boston, where he directed three operating divisions and played an active role in strategic and financial planning, management of risk trading and capital markets product distribution, development and implementation of technology strategies, and new product development.

Craig also previously held management positions at Citibank (Amsterdam) and Harris Bank (Chicago and Paris). He lived in Europe and Asia for over 10 years and has conducted business and traveled extensively in over 65 countries.

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