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Successful mergers start at the top

A cohesive top-management team is essential for integrating acquisitions successfully.

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To integrate companies following a merger, arguably the most important challenges involve the top of the organization—appointing the right top team, structuring it appropriately, defining its agenda, and building the trust that enables its members to work well together. Executives who fail to overcome these challenges are responsible for the ego clashes and politics that are often the root cause of spectacular failed mergers.

Unfortunately, recent thinking about change management no longer emphasizes the pivotal role of the top team. The consensus on how to manage change has shifted to a dispersed approach because too many initiatives designed to cascade down the hierarchy have delivered disappointing results. The usual interpretation is that top-down change fails because at every step messages get diluted, so that each succeeding one seems less compelling and less authentic.

While this may be true in certain circumstances, a merger requires direction from the top because that is the only way to initiate change throughout an organization. The change required to integrate companies cannot be driven from an entrepreneurial business unit, an innovative functional unit, or the front line. Too much coordinated, programmatic change must be achieved in too short a time for such approaches to succeed. The spirit of the project is determined at the top, where the conditions are set for the whole integration effort.

But the top team must do more than just talk about the new company, adopt its language and trappings, and act according to its norms. The team must *become* the new company in the full sense (see sidebar, "Who's on the top team?"). Its messages, processes, and targets must deeply incorporate the aspirations of the new company in a way that is visible to managers, employees, and even outside observers. As the top team goes on to integrate the company down the line, it in effect re-creates itself. The

Who's on the top team?

Loosely speaking, the top team includes senior managers at the relevant level—generally the corporation as a whole, but in some cases a group, a division, or a business unit that engages in mergers. The team shares general responsibility for the organization's future. The number of people in the top team and the organizational levels represented on it are highly context specific. In some cases, the top team may be the dozen (or fewer) people who will interact regularly with the CEO, but we have seen teams with 40 or more members.

A handful of our interviewees provocatively insisted that the boards of the merging companies should be counted as part of the top team. After all, the board's performance could have a major impact on the creation of value during the integration period and beyond. One CEO observed, "Very few companies actually change their boards as a result of a merger, but in the same way that the management team needs to be tested for whether it has the right skill set, so should the board be. The capabilities of incumbent directors should also be tested and the best chosen. After all, if the board members strike deals among themselves, what signal does this send to the management team? And if the board is polarized, it cannot provide the required leadership and support to the CEO." The people who should serve on the board are those who can best help the new company create value.

company is not just rolling out messages, processes, and a set of targets; it is rolling out itself.

In the best cases, members of the top team signal the kind of company they are creating and their commitment to that new company. In other cases, the team visibly lacks the requisite quality, and its weaknesses inevitably spread throughout the merging companies. The power of the signals emanating from the top team reflects the fact that they are not just signals: they create concrete realities. The important signals fall into three categories: senior appointments, the top team's alignment, and clarity about roles.

Senior appointments

One of the most memorable things during an integration effort is the way managers, employees, and even other stakeholders closely watch to see who ends up on the top team. This attentiveness represents much more than a voyeuristic interest in the human drama taking place. The appointments provide strong clues about the new company's direction and, more subtly, about the degree of its commitment to its proclaimed course. Managers and employees will, of course, also interpret appointments to the top team as signals about their own future.

Timing is crucial: in general, the earlier the decision-making process begins and ends, the better. In our study of 161 mergers, the early appointment of a top team was a strong predictor of the long-term performance of the combined organization.

Understanding the impact of these signals on each side of the boundary between the merging companies is critical because the signals may depart from expectations in very different ways. In the case of LSG Sky Chefs' 1995 acquisition of Cater Air, former CEO Michael Kay told us that early decisions signaled to employees and managers of both companies that they were deeply committed to high performance. Cater Air managers faced a moment of truth when they encountered Sky Chefs' stringent performance standards. The Sky Chefs managers faced a similar moment when they realized that their position as the acquiring company would not give them an edge in the competition for appointments. Indeed, managers on both teams, at both companies, were surprised when a number of Cater Air managers were selected for senior leadership roles in the combined company.

Appointing managers to the top team for the wrong reasons can have disastrous effects. Consider, for example, the aborted three-way merger of equals among Alcan, Algroup, and Pechiney in 1999. During early negotiations, the need to achieve at least the appearance of balance among the three partners drove the decision making. Two of their six business groups were allocated to each of them, irrespective of whether the resulting six appointees were best positioned to carry the new company forward. Had the deal gone through, Alcan CEO Dick Evans believes the same goal of political balance would have had a host of deleterious effects on decision making. “That’s probably the way we would have allocated capital and a lot of other things,” he told us. Thus, the poor handling of a standard people issue—the strongly felt need to signal inclusiveness by appointing senior managers in an equitable fashion—could have compromised the merged company’s value creation efforts long after integration was complete. In the end, the deal fell through because the three companies could not agree about which operations should be divested to meet EU conditions for antitrust approval. (After the deal fell through, Alcan acquired Algroup in 2000 and then separately acquired Pechiney in 2003, completing the original three-way merger plan of 1999.)

Creating a new company at the top is particularly problematic in a merger of equals because managers are sorely tempted to maintain the identities of the predecessor organizations. To be sure, the proclaimed strategy usually calls for their full integration. Yet compromises on people issues may fatally obstruct this effort and ultimately undermine the merged company’s pursuit of value. The resulting mess will often be attributed to “incompatible cultures,” as if the failure of integration was the inevitable result of trying to mix oil and water.

Another source of failure at the top is an unwillingness to face the prospect of job losses among close colleagues who have performed well for years—even though many more job losses are likely among people further down the line. John McGrath, the CEO of Grand Metropolitan during its 1997 combination with Guinness to form Diageo (and afterward CEO of the combined company), emphasized the importance of quickly reaching dispassionate decisions about who remains in the top team in a merger while dealing humanely with the people involved: “Just be completely ruthless in your decisions on people. If you’ve got your right people in place, I think it’s very difficult for it [a merger] *not* to work. Make those decisions quickly, and then treat the people decently.”

New appointments and the treatment of those who fail to get them speak volumes about the combined company’s business focus and values. One example involves a conversation McGrath had with a colleague after the integration of Grand Metropolitan and Guinness. The colleague told McGrath that people who had been let go seemed, strangely, not to feel resentful. He speculated that they didn’t, because they felt they had been treated fairly and decently. “It’s not always the size of the check; sometimes it’s how people are handled emotionally. You need to explain to them why they lost out. I must have seen 100 or 120 people on exit interviews. I cannot tell you how many references I wrote. And I still get Christmas cards from them! Although we were viewed as a fairly rough bunch at Grand Met, it was all done in quite a caring way."

Alignment of the top team

Although appointment decisions can be difficult, at least in the end it is clear to all what has been decided. Top-team alignment, by contrast, is a rather nebulous outcome of many diverse activities. People know when a company really has it, but at various stages along the way they ask, "Are we aligned yet?"

To secure genuine alignment, many CEOs demand open debate. Kevin Sharer of Amgen, for example, insisted that each of his eight executive-committee members take a position on the planned acquisition of Immunex (a deal that closed in 2002). Amgen's culture fostered independent thinking, but in the end every committee member felt able to support the deal publicly. That support held up throughout the integration process. "There has never been a minute of recrimination about *whose* deal this is," Sharer told us. When a new company has been created at the top, senior managers become strongly aligned. It is never "my deal" or "your deal" but always "*our* deal."

In a merger, the top team must fashion its own identity vis-à-vis the external world of business partners, competitors, customers, and regulators to reach this level of agreement. Our research shows that when top teams turn their attention to the external environment, they often experience a catalytic effect, which carries them past the usual internal frictions much more quickly. Compared with the pressing need to thrive in the marketplace, these frictions simply do not matter very much. As Michael Kay told us, "Whenever there were any tensions on the team, I would change the subject to customers. They got the message after a while."

This effect is particularly striking when an external crisis suddenly emerges. At one merging company, for example, the integration of the top team had been superficial. After a period of polite behavior, open politicking broke out—a phenomenon that had undermined other mergers in the same industry. However, when a financial scandal that seriously threatened the company erupted, the team finally closed ranks. A senior manager noted that in the wake of the scandal, "Everybody knew that there was just no room anymore for internal turf battles."

Getting to that level of agreement without a crisis is mostly a matter of discipline. A carefully limited dose of team-building exercises can also help, but with two important caveats. First, managers on both sides may have very different perspectives on what constitutes a constructive, business-like exercise. If one side perceives an activity to be a touchy-feely distraction, it is not worth doing and could be counter-productive. Second, senior managers the world over have very limited patience for time spent on anything other than "real work." This is all the more true under the intense pressure of integration. It is best to focus on outputs whose value is clear even if they are intangible (for example, a set of behavioral norms for the new company).

Role clarity

The members of the top team share responsibility for the merging companies' future as a whole, but they also have distinct individual responsibilities. They must work together in a complementary way not only to help the companies integrate successfully but also to lead the combined one through its other concurrent and future challenges. To do so, the team must define roles very clearly and quickly—particularly roles directly involved in the integration effort. At Diageo, that explains why McGrath accelerated the appointment process: "We had to put the center together incredibly rapidly because we needed absolute clarity on the people who were going to run the business in each of the functions and below. These people had an awful lot of involvement in the integration."

From the perspective of a company's long-term corporate health, the future needs of the business are an equally strong factor in defining roles. Creating the top echelon of the new company is as important for its long-term performance as for the near-term success of the integration effort.

As we saw in the case of the aborted Alcan-Algroup-Pechiney merger of 1999, it was clear that the top team could not even integrate the companies, much less lead a merged one into the future. So when Alcan acquired Algroup (2000) and Pechiney (2003), Dick Evans and his colleagues at Alcan wanted to make sure the top team could play both roles. The roles of its members were therefore defined in the clearest possible way before the company turned to identifying synergies and planning the transitions. As Evans explained, "We needed to know where the 'ownership' was. This meant naming the top couple of layers of management, defining the organizational structure, and settling boundary issues, such as which assets go into which business groups. That way, there is some certainty as to who is going to own any future action that needs to be taken. We felt that until you have made those decisions, it is useless to try to form an integration team."

This example illustrates the rationale for firming up the new company at the top. Although the top team may be heavily involved in the integration effort, it is far more than a project team. It carries the responsibility for leading the company in the indefinite future and must therefore be set up with this larger responsibility in mind.

Establishing the top team poses a critical and immediate challenge for merging companies. The new company's leaders must appoint the best possible top team for achieving its goals, and the top team's members must be aligned around them. To collaborate effectively, its members must be clear about their individual roles. All this is sensible enough and easy to say, but in practice that degree of leadership can be hard to achieve during the hectic period leading up to a merger or even in its immediate aftermath. **MoF**

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