

A CEO's guide to the new challenges of M&A leadership

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Every merger and acquisition deal presents a different goal and a different mix of critical issues to manage. Leaders of successful M&A deals tend to excel at one of the toughest challenges – articulating the promise of the merged corporation and leading employees, customers, and investors to fulfill it. These leaders focus on the critical elements that drive the merger or acquisition. To improve their chances for success, they study models that others have adopted to handle similar transactions. Today making, consummating, and integrating a deal puts pressure as never before on chief executives to play multiple leadership roles and switch quickly from one role to another throughout the merger process. The roles employed – and hence the leadership time invested – vary dramatically with the type of deal.

New types of deals

Traditionally, the strategic rationales behind mergers and acquisitions ranged from simple diversification to squeezing value out of poorly managed companies through “active investing” and exploiting economies of scale. But now many deals have an even more ambitious strategy.

Since the early 1990s, companies have increasingly used mergers and acquisitions to change the scope and/or competitive environment of their business. For example, some strategic acquisitions provide companies with stepping-stones into businesses or customer segments related to the buyer's core activities. In other cases, acquisitions may broaden the scope of the acquirer's business by adding new capabilities. The most complex acquisitions can fundamentally redefine the business of the combined companies or change the rules of industry competition in favor of the new entity. As the rationales for

transactions have changed, new challenges have evolved, especially for those leading the deals. (See Exhibit 1: Strategic rationales for merging: major opportunities and risks.)

Five essential roles: visionary, cheerleader, closer, captain, and crusader

In all mergers and acquisitions, leaders play five essential roles. First, they must establish and communicate the strategic vision for the merger. This means clearly articulating “why we are doing this” and “what we plan to achieve,” both externally and internally. Typically, leaders need to explain the top four or five sources of value in the deal. Often, they must dispel potential antitrust concerns, both through the media and through legal channels. Additionally, the leader determines what the core values and culture of the new organization should be. What are the golden rules people should live by? To bring the vision to life, the leader needs to explain and demonstrate these values from the outset.

The leader's second job is to cheer on the troops – initially his own and eventually both companies' – to generate enthusiasm for the merger or acquisition, and to confront fear and uncertainty in its various forms. Challenges here include combating investors' fear of stock-price falloff, regulator concerns about unfair competition, executives' fear



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Exhibit 1 — Strategic rationales for merging: major opportunities and risks

Strategic Rationale	Efficiency-driven Deals		Industry Transformers			
	Buyouts/ Private Equity	Corporations				
	Active Investing	Scale	Adjacency Expansion	Scope	Redefining Business Models	Redefining Industries
Major Source of Increased Value	<ul style="list-style-type: none"> Operating costs per unit are reduced 		<ul style="list-style-type: none"> Revenues increase through <ul style="list-style-type: none"> improved asset utilization new capabilities 		<ul style="list-style-type: none"> Business or industry economics improve Merging coordinates the efforts and resources between the two companies 	
Major Risks	<ul style="list-style-type: none"> Employees' fears lead to <ul style="list-style-type: none"> reduced effectiveness stifled innovation 		<ul style="list-style-type: none"> Customer defect Employee leave Competitors attack during transition to new organisation 		<ul style="list-style-type: none"> Market undervalues opportunities Vision proves flawed 	

of losing status to counterparts from the merging company (often a former rival), employees' concerns over job losses, and customers' and suppliers' worries about potential disruptions in service.

Third, leaders must close the deal, and this is not a given. One in five deals falls through after it is announced, sometimes because of regulatory issues, other times because of the failure of leaders to resolve outstanding disagreements. When Glaxo Wellcome and SmithKline Beecham first announced their intention to merge in 1998, the markets welcomed the news, sending the combined companies' value up 18 percent within two days. But prices fell a few weeks later when the companies announced that the merger was off – Glaxo's Richard Sykes and SmithKline's Jan Leschly could not agree on who should get the top jobs. Glaxo and SmithKline only resolved their differences after Jan Leschly retired. Jean-Pierre Garnier, formerly of SmithKline, became chief executive of the combined company when the merger finally closed in December 2000.

A leader's fourth task is to captain change by managing the integration of the two entities. He or she owns the action plan that outlines milestones and deliverables for the teams responsible for integration. Further, the captain defines the "rules of engagement" – the basis on which the two companies will start to work together.

Finally, the most challenging call is to crusade for the new entity. Crusading roots itself in the second task – building enthusiasm in both companies – and develops momentum as the deal closes and integration progresses. Generating momentum means dispelling inertia and encouraging people into actions consistent with the overall strategic vision. The crusader needs to give guidance on how to behave and to

set both hard and soft targets for performance. And, when crusading for changes in behavior, he or she needs to lead by example.

Customizing the leadership approach

These five roles are essential to all transactions, but leaders need to employ each at different times. The strategic rationale behind the deal, and the inherent risks and opportunities that it presents, determine which roles a leader needs to play and when.

“As the rationales for transactions have changed, new challenges have evolved, especially for those leading the deals.”

The leader's challenges, and the effort appropriate to the five roles, alter significantly as the strategic rationale shifts to the right on the continuum shown in Exhibit 1. This continuum moves from efficiency-driven deals on the left to revenue-enhancing deals in the middle to industry transformers on the right. For example, in efficiency-driven deals, the communications challenge tends to center on managing employee, supplier, and distributor fears surrounding initiatives to lower cost and raise productivity. In more complex deals, shown on the right-hand side of the continuum, the focus is on communicating the vision to senior management, investors, and regulators. The

differences between these challenges advocate different leadership and communication approaches.

Efficiency-driven deals: act swiftly to dispel fears

Martin Broughton, Chairman of British American Tobacco (BAT), emphasizes, “The worst thing you can do is put off decisions.” Broughton led BAT’s acquisition of Rothmans in 1999. Merging the two companies involved weathering three major antitrust enquiries and combining operations in more than 70 countries. Despite this complexity, integration was largely completed within a year. “You need absolute clarity . . . and you must stick to your strategy or you’ll lose the troops,” Broughton maintains.

Broughton’s approach aims to lower a key source of risk in efficiency-driven mergers – fears within the organization that threaten productivity. Some companies have seen productivity drop more than 50 percent from the merger’s announcement to the day when each employee knows whether he or she still has a role in the merged company. These distractions leave the organization vulnerable to competitive attack, and the fear spurs employee defections.

Broughton’s approach also aims to dispel investors’ fears. When a company announces a merger to grow scale, investors look for a clear message on where savings will come and when, as well as what savings initiatives will cost in restructuring charges. To gain the confidence of external audiences, a leader needs a strong track record, clarity, certainty of purpose, and a credible plan.

Broughton’s openness with stakeholders from the outset set the transaction’s strategic vision. His openness throughout the merger process made him an effective captain of change, and a believable cheerleader. “A marriage won’t work if it’s based on broken promises,” he explains; “It’s the same in business.” Broughton worked to ensure he had a clear message to give employees early on by preparing for merger integration well ahead of the deal’s closing. In fact, BAT used the delay caused by antitrust investigations to firm up details of its cost-cutting plans.

Broughton acknowledges a tension between the need for speed and the desire for absolute confidence in every decision. In one of the leader’s most important tasks – allocating top jobs in the new company – he cautions against lengthy processes. He says, “It’s highly laudable and above board to interview everyone, but it takes forever.” Instead, Broughton picked his team early, so that integration could progress with senior management already in place. He also took steps to remove individuals likely to block progress. He insisted that people should “Align behind the leadership, or get out.”

At the end of the period of most intense change, a leader can boost morale by signaling completion of layoffs for redundancy, and reporting positive results achieved. Since scale-driven mergers involve joining essentially similar companies, the leader can delegate the details of merger integration, provided those who take on the task are held

strictly accountable for reaching milestones. Broughton explains that his role as captain was to put integration teams in place and give them authority to make decisions. Then he was free to focus on continuing communication with investors and employees. (See sidebar: “Merging for scale: Browne’s leadership at BP”.)

Merging for scale: Browne’s leadership at BP

Between mid-1998 and the spring of 2000, Sir John Browne, chief executive of BP, closed a series of transactions totaling \$120 billion that brought together BP, Amoco, Arco and Burmah Castrol into a single company with a market capitalization of around \$200 billion and daily production of three million barrels per day of oil and gas. BP was first mover in what became a series of transactions in the industry, as competitors Exxon and Total followed suit with their own acquisitions.

Browne explained the logic and vision behind the mergers and acquisitions. “In different ways each of the steps we took helped us to fill a strategic gap that we had identified in the mid-1990s. These steps took us into natural gas and into the Far East, where we were traditionally weak, and into some of the best retail markets in the world. Our goal is to be a global player – with the capacity and the reach to capture the real economies of scale that exist in this business.” Put succinctly: “We want big fields, giant fields, that we can develop at low cost,” says Browne.

Browne also explained his approach as captain of the integration and crusader for a common culture in the new organization. “Of course the benefit from transactions comes partly through cutting costs – and we’ve done that by taking 20 percent out of the combined cost base. But it is also about the economies of scale in terms of intellectual capacity, technology and learning. To do that you have to create a single organization – with common processes and standards, common values and a way of working that encourage people to look forward rather than to dwell in the past.”

Browne moved swiftly to achieve this goal. Within 100 days of closing the Amoco deal, he had filled all the top management jobs and completed most of the cuts – including some 10,000 layoffs. During this period, BP-Amoco’s stock price rose by nearly 11 percent. He startled some Amoco executives by imposing BP’s structure and management style on the new company, an approach that ultimately resulted in the resignation of some senior figures at Amoco. Browne set the course for continued efficiency improvements through tough target setting. “We set strong goals and our people innovate to get the right answer,” he said.

The result? BP achieved the projected \$2 billion in cost savings within the first year, a full 12 months ahead of schedule. After observing earlier, costly mistakes BP made through adopting a hands-off approach to one of its investments, Browne set his path. He stated, “I’ve learned you have to have clarity with an acquisition. You can’t let these things just work themselves out.”

Revenue-enhancing mergers: show people how to create value

In a revenue-enhancing merger, a leader needs to spend much more time in face-to-face contact with people than he would in a simple scale transaction. The leader needs to listen to employees' concerns and to explain the individual roles required to make the new company successful. In short, the leader needs to cheer on each move and crusade for more. Such contact serves to reinforce changes in culture and values. For example, in 2000, engineering and construction company Morrison Knudsen merged with RE&C, an engineering and construction division of its competitor Raytheon. Knudsen aimed to combine its project execution strengths with RE&C's engineering expertise to offer a better and broader service to both companies' customers.

“The strategic rationale behind the deal, and the inherent risks and opportunities that it presents, determine which roles a leader needs to play and when.”

President Steve Hanks placed a high priority on direct communications – contributing weekly updates to an Intranet Web site, answering questions from thousands of employees, and providing progress reports on the integration.

Maintaining a high profile in the early days is critical, as is remaining involved in integration. In the early days post deal, the leader needs to set up task forces that will drive the necessary changes. He or she should expect to chair those that are most difficult or critical to corporate strategy.

Throughout the process of integrating Morrison Knudsen and RE&C, Steve Hanks chaired the steering committee to which each integration task force reported. He held regular meetings with all the task force leaders and highlighted progress in reducing costs on a flip chart, so that all could see where the most urgent challenges lay.

As integration progresses, the leader must also ensure that both entities continue with day-to-day business. It helps to make a clear distinction between those leading the integration task forces and those managing operations. Steve Hanks told his business unit heads that their primary task was to run their businesses. Therefore, each unit head in turn appointed a trusted subordinate to lead the integration teams. (For details of a revenue-enhancing deal that has run into trouble, see sidebar: “Broadening scope: revising the vision for DaimlerChrysler”.)

Broadening scope: revising the vision for DaimlerChrysler

When Daimler-Benz and Chrysler announced their intention to merge as “equals,” Chairman Jürgen Schrempp captured the imagination of journalists and analysts alike with his vision: “This is much more than a merger,” he proclaimed. “Today we are creating the world’s leading automotive company for the twenty-first century.” The deal won great acclaim throughout the business press, and the combined companies’ stock price shot up by more than 10 percent.

As implementation plans unfolded it became clear that DaimlerChrysler would not be a merger of equals, as announced, but would be dominated by Daimler. Schrempp explains his initially articulated vision served as a closing tactic: he and Chrysler chief Bob Eaton described the deal as a “merger of equals” in order to win the approval of senior Chrysler executives. Two years later, after some disappointing profit announcements from Chrysler, and a 50 percent tumble in DaimlerChrysler’s stock price, the media changed its tune, also. Schrempp’s tactics have been heavily criticized, particularly in the USA, where the loss of a major automotive flagship to a foreign competitor and the departure of many of Chrysler’s key executives hurt the national psyche as well as pocketbooks.

Schrempp believes his more fully disclosed strategy is right, and is campaigning hard to convince investors of this. But his reversal of the originally articulated vision has hurt his credibility as cheerleader and crusader. He expresses frustration at the markets’ extreme reactions – both positive and negative. The jury is still out on whether the deal will be deemed a success in the long run, and the story so far raises some interesting questions. Did Schrempp have a clear vision for the combined company? We believe he did. Was the rationale for merger based on sound economics? We think so. Can Schrempp succeed in generating the momentum needed to realize the value in the deal? We don’t yet know.

Schrempp’s rationale for this merger was not unlike that of Sir John Browne at BP. However, Browne got what he most needed, oil fields and other hard assets, while Schrempp needed an innovative team of people that understood the US market, which he lost as key executives left the company. In November 2000, Schrempp made an important step towards solving DaimlerChrysler’s problems: he appointed a new captain, Dieter Zetsche, as the new head of Chrysler. As a German and a long-serving Daimler-Benz executive with deep knowledge of the US market, Zetsche is bridging the gap between the two companies and winning the confidence of people at Chrysler. He effectively gets a fresh shot at appropriating the roles of merger leader. According to the *Los Angeles Times*, Zetsche is “quickly winning skeptics over to his plan to rebuild the company” (Jones, 2001). Internally, DaimlerChrysler is leaving the bitterness of the merger behind and beginning to rally those people who remain around a common goal. As healing progresses, Schrempp may yet have a chance to make his true vision a reality.

Manage customer expectations

Deals that presume a company will grow market share by transforming or broadening its offering need to keep a close eye on customer retention throughout the merger process. Morrison Knudsen worked hard to ensure that its customers received a clear, consistent message during and following the RE&C merger. It even took the risk of sacrificing its own strong brand in order to eliminate any confusion among its customers and to demonstrate its commitment to building one company with a complete set of skills. Soon after the deal closed, the company became The Washington Group, and the Morrison Knudsen brand was gone.

The integration of Morrison Knudsen and RE&C garnered initial results. Washington's stock outperformed the Standard and Poor 500 index by 55 percent from one month before the merger was announced until February 2001. Unfortunately, in March 2001, Washington met trouble. It filed a lawsuit against RE&C's former parent, Raytheon Company, alleging that Raytheon refused to honor contract guarantees that limited Washington's exposure to nondisclosed liabilities. The outcome of this action will ultimately determine whether the Morrison Knudsen-RE&C merger can be judged a success.

Transformational mergers: use the vision to inspire innovation

When the rationale behind a merger or acquisition involves fundamental change in the way a company does business, it is hard to establish a precise integration plan. At Canadian telecom equipment supplier Nortel, CEO John Roth led a "right-angle turn" towards the Internet. When Roth announced the new direction in 1997, he could not tell his employees precisely what their jobs would look like in two, or even one year's time, but he did set a course and gave them new rules to navigate by. (See sidebar: "Transforming the organization: Nortel's CEO spreads the word.")

Sometimes, it takes a series of acquisitions to transform a company. The leader must be able to guide the organization through each step, while keeping a clear eye on the final destination. Rolf Börjesson, of packaging multinational Rexam, has overseen both scale- and revenue-driven mergers in pursuit of his goal – to transform Rexam into a leading international packaging player. (See sidebar: "Two-stage transformation: Rolf Börjesson leads Rexam towards long- and short-term goals.")

AOL Time Warner lessons in leading transformation

Get concrete

AOL Time Warner inspired shareholder confidence by investing time upfront developing and articulating detailed examples of how the two companies could combine their potential for greater reward. Case and Levine described a series of opportunities that AOL Time Warner would be uniquely positioned to exploit, such as a cable-based

Transforming the organization: Nortel's CEO spreads the word

In 1997, Nortel's CEO, John Roth, sent an e-mail to employees articulating a vision. He wrote, "The future success of Nortel will depend, to a large extent, on our ability to do for Internet protocol networks what we've done for voice networks." With these words he also set the stage for a series of acquisitions – including California's Bay Networks in 1998 – that would transform his organization. What was a slow moving, bureaucratic telecom switch supplier became an innovative, high-tech Internet infrastructure provider, perfectly positioned to capitalize on the growth of the World Wide Web as a communications channel.

When Roth set out, expanding research and product development through acquisition was deplored at Nortel, and many middle and senior executives resisted the change. Roth overcame these obstacles by crusading. He communicated his vision broadly, deeply and directly throughout the company. He created a "CEO Forum" in which influential people from all levels shared ideas and made plans for the future. Participants left that meeting prepared to take action to help achieve Roth's vision – and to lead others in doing so. To guide them, Roth set out five "rules for staying competitive." One of these explained his acquisition strategy, stating: "It doesn't matter whether you develop or acquire leading technology. Our job is to provide the technology and products our customers need."

Roth replaced one-third of Nortel's executive team during this period of change, and the company emerged successful, with its clunky product development process streamlined. The stock price tracked the Internet economy, peaking in July 2000 at more than seven times its price at the time of Roth's 1997 e-mail. Like other Internet infrastructure companies, Nortel suffered a substantial downturn in its stock price in early 2001, and posted a loss when growth fell well short of forecasts. Now, Roth is facing another tough challenge: to lead this transformed organization through the slow phase of the industry's economic cycle.

Internet service, an online music business, and an interactive TV service. Case and Levine cannot say which of these initiatives will deliver the most value. But the list of possibilities is long and the parameters for some sufficiently clear that teams can begin working right away.

Fix the terms of engagement

Case and Levine asked AOL Time Warner's new Vice Chairman, Ken Novack, to bring together senior executives from both companies to hammer out a mission statement and operating principles that would provide guidance for all employees as they work to implement change. Such guidelines for working together help free people from anxiety over power struggles, or arguments about which company's approach should take precedence. In another step, AOL Time Warner created a common, corporate approach to employee compensation. The merged company has

Two-stage transformation: Rolf Börjesson leads Rexam towards long- and short-term goals

Rolf Börjesson, chief executive of UK packaging company Rexam, needs to have his mind in two places at once. On one hand, he is executing a series of acquisitions that build scale and grow revenue internationally. On the other hand, he is pursuing a long-term vision that will transform his company and perhaps change the nature of competition in the packaging industry. Given the complexity of this challenge, it is no wonder he believes leadership is about "Communication, communication, communication."

In recent years, Rexam has shed many of its diverse businesses in order to focus on its core – packaging. With this focus in mind Rexam first acquired PLM, a Swedish packaging company, and then quickly bought US-based packager American National Can. Each of these acquisitions brought economic benefits. PLM provided opportunities for cost reduction through shared European manufacturing facilities, while American National Can brought further cost savings in Europe and opened up the US market for Rexam.

These additions also contributed to Börjesson's longer-term vision. He plans to create a packaging conglomerate of sufficient scale to attract investors' attention (currently no company in the sector is listed in the S&P 500). Börjesson and his team are building a position from which Rexam can trade business units with other parent companies in pursuit of the most efficient global configuration of packaging businesses, both in costs and revenue. This bold strategy aims to transform Rexam into an international leader in the packaging industry.

In pursuit of this dual vision, Börjesson focuses on making a success of each individual acquisition, rather than trumpeting his long-term strategy to the market. He believes in winning shareholders' support through results, stating: "Give them some detail before the deal, and lots after." He has picked acquisitions where he believes he can show results quickly. "I ask," he says "Can we have all the savings on the bottom line in three years?" To help achieve these rapid results, Börjesson invests heavily in building goodwill and enthusiasm for change by cheering and crusading. He communicates directly with employees, customers, and suppliers, and identifies quick wins to stoke momentum. Following Rexam's purchase of American National Can, Börjesson chartered a plane so he could visit every site personally and host question and answer sessions. During the integration process, Börjesson guided his team towards the easiest cost-reduction opportunities first. He recalls, "We used these early results to show the benefits of the merger – that really worked for us."

Börjesson is part way through his quest to change the industry he competes in. His long-term vision guides his choice of acquisition and priorities for his integration teams. Day to day, the short-term goals – reducing costs and growing revenues in a new market – determine the way he spends his time.

Roth and Börjesson's leadership tasks were tough, but they had help in explaining their vision. Roth could point to Cisco and other high-tech competitors and say, "We need to be more like them." And Börjesson could point to other consolidating industries to explain his end goal. But other transformers, like CEO Steve Case of Internet pioneer AOL and Gerald Levine of media magnate Time Warner, had the difficult tasks of creating a roadmap for merging their companies and describing the new entity's destination. At the time of this writing, these two media giants had just begun to integrate, but they'd already forged three rules for success in a merger that transforms an industry.

adopted the AOL system, which rewards people through salary plus stock options (with significant emphasis on the stock element), replacing Time Warner's predominantly salary-based system, where bonuses were based on business-unit profitability. The result: individuals now have an incentive to work together for the good of the whole company.

Manage for today and tomorrow

AOL and Time Warner cannot possibly create a united company in a simple 100-day effort. They have to manage a tension between pursuing tomorrow's goals as visionaries and successfully executing today's business as captains. The organization cannot afford for all of its people to be distracted by the merger. At the same time, the integration task cannot be delegated to multiple people, so a leader needs to stay engaged in the process. Case and Levine handled this dual problem by appointing experienced right-hand men, Bob Pittman and Dick Parsons, to captain implementation.

Pittman and Parsons signed up to cut costs and improve efficiency across the organization and to make sure the

divisions communicate with one another. In turn, the chief executives of each division pledged to meet their respective cost and revenue targets. Delegating in this way frees Case and Levine to continue running the two companies, and to focus on more strategic opportunities that fulfill their vision. Meanwhile, Pittman, Parsons, and the divisional chiefs will captain the integration process for as long as it takes.

There are as many approaches to leading a merger as executives who attempt the task. But one cannot assume that any one approach will do. Would-be deal leaders should consider carefully the major risks inherent in the transaction and craft leadership styles to manage those risks most effectively, invoking different roles at different times to make the most of the opportunities their deal presents. ■

Reference

Jones, T.Y. (2001), "Smoothing the bumps at Chrysler with his unpretentious manner and solid grasp of the problems confronting the troubled automaker, new CEO Dieter Zetsche is quickly winning skeptics over to his plan to rebuild the company", *Los Angeles Times*, 25 February, Section C, p. 1.