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Merger Failures & Corporate Strategy: Change Management to Solve the Query

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Abstract

Business Mergers are the key for both big and small business corporations. This research paper determines the factors resulting into merger failures and considering “Strategic Change Management” as a solution to the query by doing comparison of corporate strategy and cultures of mergers between Europe and USA through statistics. Factors that lead to merger failures are misgauging strategic fit, cultural clash, communication gap, weak leadership and economic crisis by providing clear vision, putting together leadership team, focused management on success and winning the people’s commitment we can solve this query. The research has proved that cross-border mergers are highly influenced by cultural differences. The strategic change management led by new CEO can help in saving a new merger from a failure.

Keywords**:** Change management; Merger failures; corporate strategy

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1.0 Introduction

There are approximately 289,254 Merger & Acquisition deals that were announced and completed in the first 10 years of the 21st century, at a combined cost of $ 18,721,100,000,000 (or $ 18.72 Trillion). At its height, “the value of M&A averaged $ 10 billion a day” [4].

In late 20th Century, the culture of business mergers started flourishing in the business world. Mergers came into play in the world of business for different reasons. The most important one is, when you've decided it makes sense to join forces with another company to reap the rewards that come from your combined strengths. A smart business merger can help you enter a new market, reach more customers, freeze out a competitor or fill a gap in your company's abilities. Mergers can get you on the fast track to become more competitive. With a complementary partner, your business can acquire products, distribution channels, technical knowledge, infrastructure or cash to propel you to a new level of success. The flexibility and power boost they provide can be a key strategic tool for today's entrepreneurs. And the best part is that they can go wherever your ideas take them.

For those business owners who dream of building an even more successful company, merging with another company can present terrific opportunities. The key is doing your homework, knowing what the other business is worth, finding the right company to acquire company, and working with competent professionals. But sometimes, if you don’t take care about these key factors then these mergers can prove to be a disaster for the merged companies [1].

1.1 AIM

The aim of this research paper is to study about the factors resulting in to merger failures and considering “Change Management” as a solution to the problem.

1.2 IMPORTANT TERMINOLOGIES

There are few terminologies which are required to be understood before analyzing the subject:

1.2.1 Change Management

a. The systematic approach and application of knowledge, tools and resources to deal with change. Change management means defining and adopting corporate strategies, structures, procedures and technologies to deal with changes in external conditions and the business environment [2].

a. Change management is the process, tools and techniques to manage the people-side of business change to achieve the required business outcome [3].

1.2.2 Business Mergers

a. A Business Merger is the combination of one or more corporations or other business entities into a single business entity to achieve greater efficiencies of scale and productivity [1] [5].

a. The combining of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock [6]. Methods by which corporations legally unify ownership of assets formerly subject to separate controls [7].

Business Mergers: Types

a. Conglomerate

A merger between firms that are involve in totally unrelated business activities. There are two types of conglomerate mergers: pure and mixed. Pure conglomerate mergers involve firms with nothing in common, while mixed conglomerate mergers involve firms that are looking for product extensions or market extensions.

a. Horizontal Merger

A merger occurs between companies in the same industry. Horizontal merger is a business consolidation that occurs between firms who operate in the same space, often as competitors offering the same good or service. Horizontal mergers are common in industries with fewer firms, as competition tends to be higher and the synergies and potential gains in market share are much greater for merging firms in such an industry.

b. Market Extension Mergers

A market extension merger takes place between two companies that deal in the same products but in separate markets. The main purpose of the market extension merger is to make sure that the merging companies can get access to a bigger market and that ensures a bigger client base.

c. Product Extension Mergers

A product extension merger takes place between two business organizations that deal in products that are related to each other and operate in the same market. The product extension merger allows the merging companies to group together their products and get access to a bigger set of consumers. This ensures that they earn higher profits.

d. Vertical Merger

A merger between two companies producing different goods or services for one specific finished product. A vertical merger occurs when two or more firms, operating at different levels within an industry's supply chain, merge operations. Most often the logic behind the merger is to increase synergies created by merging firms that would be more efficient operating as one [8] [9].

1.2.3 Merger Failures

Merger Failure can be defined in two ways. Qualitatively, whatever the companies had in mind that caused them to merge in the first place doesn't work out that way in the end. Quantitatively, shareholders suffer because operating results deteriorate instead of improve [10].

1.2.4 Corporate Strategy

The need for companies to adapt to and anticipate changes in the business environment, i.e. a flexible strategy has focused by latest approaches. Establishing the purpose and scope of the organization's activities and the nature of the business involves in the development of a corporate strategy, taking the environment in which it operates, its position in the marketplace, and the competition it faces into consideration; most times analyzed through a SWOT analysis.

a. The direction an organization takes with the objective of achieving business success in the long term [11].

a. The overall scope and direction of a corporation and the way in which its various business operations work together to achieve particular goals [12].

2.0 key factors leading to merger failures

Mergers may seem to be beneficial, resulting in the amalgamation of two corporations. They have been found to lead to cost cuts and increased revenues. However, merger failures are not uncommon. Studies reveal that approximately 40% to 80% of mergers prove to be disappointing. These failures may harm the companies, tarnish their credibility in the market, and ruin the confidence of their shareholders. Some of the factors leads to the merger failure are as follows:

2.1: Misgauging Strategic Fit

If the merger is too far outside the parent company’s core competency, things aren’t likely to work. A company that sells to its business customers chiefly through catalog and Internet sales ought to be very cautious about acquiring a company that relies on direct sales – even if the products are, broadly-speaking, in the same industry [13].

2.2: Cultural Clash

Just because two companies are in the same industry doesn’t mean they got the same culture [13]. Mergers are like marriages. The right partner must be selected after an honest and meaningful courtship. There must be communication, flexibility and mutual respect. Organizational culture is a blend of an organization's values, traditions, beliefs and priorities. Also, it helps determine and legitimize what sort of behavior is rewarded in an organization.

The very minute that merger rumblings are heard in an organization, the work climate begins to change. Employees become emotionally confused and anxious, similar to how one might feel when a mate makes an abrupt announcement demanding a divorce. The initial feeling is one of betrayal. Employees begin to divert time and energy to wonder how their career, power and prestige will be impacted. Gossip within the organization competes with production and then the competition can gain a foothold [14].

2.3: Lack of Integration / Communication Gap

In the absence of information and clear communication, rumors start flying, and people at the acquiring company start assuming the worst. Most of the times, the problems are just communicated to the top executives and the entire team is not taken into confidence. This leads to a serious mistrust and confusion among the team members and affect their efficiency in solving the problems [13].

2.4: Weak Leadership

Integrating two organizations is like sailing through a storm: you need a strong captain, someone whom everyone can trust to bring the ship to its destination, someone who projects energy, enthusiasm, clarity, and who communicates that energy to everyone. If senior managers do not walk the talk, if their behaviors and ways of working do not match the vision and values the company aspires to, all credibility is lost and the merger's mission is reduced to meaningless words.

2.5: Mismanagement

Resource requirements are very often underestimated. It can take two or three months to release the best players from daily business to join the integration team. Moreover, Insufficiently detailed implementation plans and failure to identify key interdependencies between the many work streams brings the project to a halt, or requires costly rework, extends the integration timeline and causes frustration.

2.6: Economic Crisis

Sometimes, the time selected for the merger of corporations decides the outcome of that deal. If before even get going the new company is being exposed to the challenges of economic crises, it will be quite difficult for the new administration to coup up with that challenge [15].

3.0 Impact of corporate strategy/culture on merger failures

Corporate strategy is concerned with deploying the available resources to achieve the objectives. It will affect the overall direction of the organization and establish its future working environment. It also defines the markets and the businesses in which an organization chooses to operate.

Corporate strategy is based on knowing:

a. Where your organization is today.

a. Where you want it to be.

b. How you want to get there.

In business mergers, most of the times the corporations fail to understand the complexity of their corporate strategies and cultures. The corporate culture significantly affects the performance of the company and is especially beneficial in the employees' activity, commitment, initiative and also increases efficiency and quality [16].

Effective transfer of information and capabilities between the integrating partners and thus the use of synergies will only be successful if both partners show some understanding and respect of each other´s organizational structures, processes, corporate culture and emotions.The willingness to understand, to cooperate and to create a common and better whole is considered to be as important as the availability of material resources.

The corporate culture is deeply embedded within the organizational system. It cannot be taken out and dealt with in isolation. It is not amenable to being treated independently and attempts to do so will almost invariably result in failure.

The **failure of a merger** is often attributed to a lack of attention to cultural integration and human resource issues. Human resources are one of the most important factors in merger projects. Management of transforming companies usually focuses on economic indicators and do not pay enough attention on the corporate cultures integration. There can be numerous reasons for underestimating this factor.

a. **Lacks awareness of the existence of differences** - managers do not understand that the corporate culture exists.

a. **Lack of understanding** - although managers know that the corporate culture exists, they do not understand the issue, or they do not want to deal with it or are underestimating its threat.

b. **Lack of readiness** - a conscious decision not to deal with culture for such as the reasons as unattractiveness, fright of the unknown, or feeling that there is no real reason to care.

c. **Lack of competence** - management wants to do it appropriate, but do not know how [17].

4.0 Comparison between corporate strategies / cultures of mergers in europe and USA

We do the comparison of corporate strategies and cultures of mergers between Europe and USA with the presentation of statistical data through different factors which are as follows:

4.1: Corporate Culture [18].

Table. 1:

EUROPE	**USA**
Value quality	**Value success**
Implicitly communication	**Explicit communication**
Mistrust relationships	**Trust and transparency in relationships**
Do not discuss money	**Readily discuss money**
Liberally talk about sex	**unwilling to discuss sex**
More of a "we" mentality.	**More of an "I" mentality.**
Focus on profit and social benefit	**Focused more on profit**
Tall business structure	**Flat business structure,**
Distant and more expert-level managers	**Accessible and coordinated managers**
Subjective evaluations	**Objective evaluations**

4.2: ANNUAL LABOUR FORCE STATISTICS

4.2.1: Total population,(000)

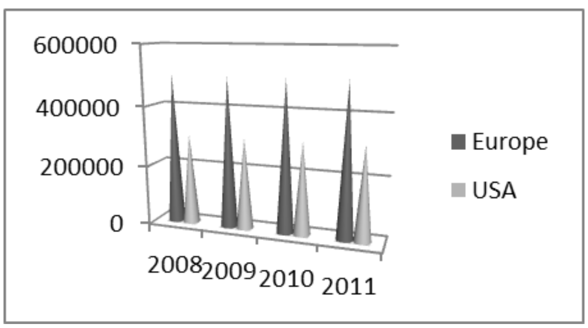

Fig: 1

The total population of both countries is increasing but graph shows that Europe population is rapidly increasing with the passage of time. In 2011, Population, (000) in Europe is 503149.7 and in USA it is 311587.8 which show that Europe total population is much more than USA.

4.2.2: Total labor force % of population

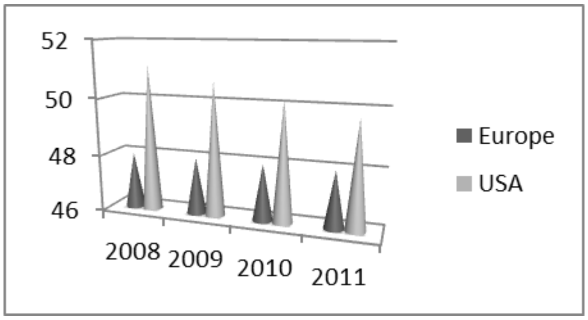

Fig: 2

The total labor force % of population in Europe is decreasing and in USA it is uniform with the passage of time. There is no significant difference of labor force in both countries.

4.2.3: Total employment,(000)

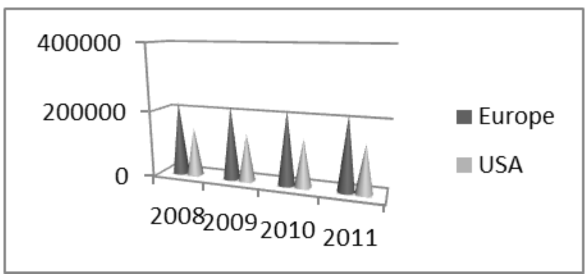

Fig: 3

The graph show the uniform trend of total employment in both countries but total employment in Europe is much more as compare to USA. In 2011 Total Employment, (000) in Europe is 217509.4 and in USA its 141201.9.

4.2.4: Total unemployment,(000)

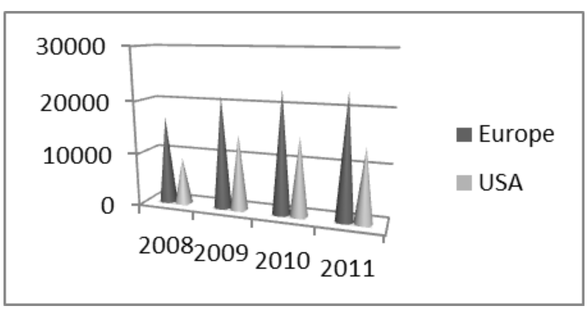

Fig: 4

The graph shows that the total unemployment in Europe is increasing but in USA there is a dramatic change in unemployment in 2009 from 2008 and after 2009 it is uniform. In 2011 Total Unemployment, (000) in Europe is 23028.7 and in USA its 13747.42 which shows that in Europe unemployment is much more as compare to USA.

4.2.5: Average annual Working hours

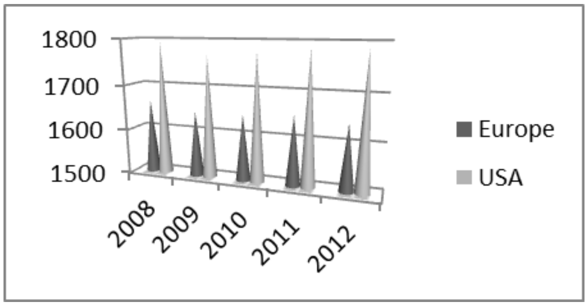

Fig: 5

Both countries are showing uniform average annual working hours with the passage of time. Average annual working hours in Europe is less than USA and there is no significant difference in both countries working hours.

4.2.6: Hourly Minimum Wages (USD)

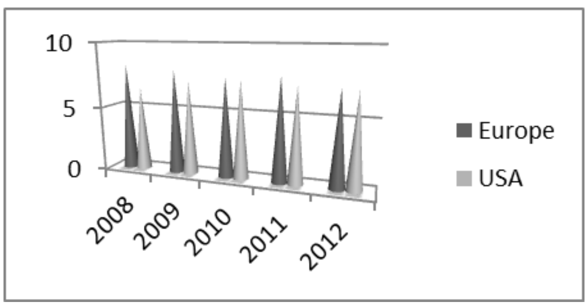

Fig: 6

Both countries have approximately equal hourly minimum wages (USD) but they are showing decreasing trend with the passage of time [19].

5.0 Strategic change management as a solution of merger failures

The top-level leadership determines to a larger extent that how the mergers respond to the worker's anxiety, uncertainty and stress; the key figure is the CEO. The combined company is going to become what the boss wants it to be. Leadership of a combination extends beyond the structural integration of the companies to the joining of people. Successful change is led by CEOs who put their personal imprint on people management. So, the change management led by a strong, innovative and pragmatic CEO can prove as a solution of merger failures. The CEO has to start dealing the problem in a systematic manner, which means creating a sense of human purpose and direction, putting together a leadership team, focusing management on success factors and wining the commitment of people.

5.1: Human Purpose and Direction

CEO can provide people a clear picture of his vision and values by three ways:

a. In person

a. On video

b. Through communiqués

Through his vision he can articulate principles which can infuse a new spirit to the failed merger and can again guide it towards the desired path of success and profitability.

5.2: Putting together a Leadership Team

Success of mergers depends on the CEO putting together a new leadership team that represents both sides. The executives of both the companies often have vital industry, customer connections, a better understanding of their respective organization and work force. The work force does not like a sudden change in their executives it because becomes difficult for them to show trust in the new executives. CEO needs to show his trust in the existing executives but at the same time kept on analyzing their role and efforts in bringing the merger successful. After getting a deep understanding of their strengths and weaknesses, CEO can put together a more effective leadership teams and replace the weak links by the new energetic and innovative executives.

5.3: Focusing Management on Success Factors

When an ideal team for the organization has been put together then the CEO is in a position to provide them the goals for bringing back the merger failure to the desired success. He needs to identify the success factors. These factors define what is important and has to be accomplished.

5.4: Winning the Commitment of the People

The work force is the base of any organization and the new success factors create a sizzle among them. The new CEO and his management must take the work force in confidence. Explain how the existing policies have resulted into a merger failure and how his new success factors can bring the profits back to the organization and benefit the work force. Winning their confidence, commitment and collective efforts guarantee merger's success [20].

6.0 Suggestions

6.1: Know your Business Goals

During the merger integration process, it is important to set goals and celebrate them. When all the cards are showing, and everyone knows what needs to be accomplished, it is much easier to achieve your goals. Ultimately, a team member's success is 100% aligned with the company's success, and that approach is often the most triumphant.

It is also appropriate to celebrate successes at many levels, such as the project team or program level, as well as the enterprise level. But, regardless of the milestone achieved, it is imperative to communicate that the ultimate achievement comes only when the integration itself is complete.

6.2: Analysis is Key, but Avoid Paralysis

The integration process can be overwhelming. With so many moving parts and different faces, it is essential to stop and take an audit of everything you have. You have to understand what you are dealing with – the scope, the complexity, the interfaces and needs of each business and its technology requirements.

6.3: Understand the Importance of Culture

When a merger occurs, many things can get lost in the shuffle. Three of the most important elements to consider are people, their perspectives and their drive for success. This can either become a leverage point or a stumbling block for team members. When two companies join forces, a lot of talent is inevitably lost. Understanding and acknowledging this is key, as is incorporating the new culture into an old practice.

6.4: Communicate the Big Picture

While it is important to understand your business goals during a merger, it also is imperative to communicate what the big picture is. Through great teamwork and collaboration, you can achieve your goals and even surpass them. It is paramount to let team members know this is a great opportunity to participate in something historic. It will be a proud moment for them to look back on the process and know they have reached the summit.

6.5: Minimize Decision-Making Complexity

The most valuable lesson is the importance of communicating to ensure that everyone "gets it." A lot of times information is shared in small bits. If everyone gets "it," fewer decisions need to be made. Being able to work together, communicate and collaborate across the enterprise is a significant advantage [21].

7.0 Conclusion

In the era of competitive industrial environment, Business Mergers are the key for both big and small business corporations. For one corporation if it is an opportunity to target a new market through a cross-border merger then for some other it can be a tactful deal to pose a threat to its competitor. The research has proved that cross-border mergers are highly influenced by cultural differences. The strategic change management led by new CEO can help in saving a new merger from a failure. Leaders involved in mergers can no longer confine their tasks and responsibilities to the four basic managerial roles: planning, leading, controlling and organizing. Instead, the four variants of cultural leadership should be added: leadership that creates, changes, embodies and integrates cultural elements which will allow the leaders to conduct an effective post-merger leadership cultural integration.

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