

# MERGER SUCCESS

What's communication got to do with it?

Is your company's merger destined for greatness, or for gradual disintegration? According to an IABC Research Foundation study sponsored by Johnston Smith International on "How Communication Drives Merger Success," your communication strategy may be the deciding factor. To follow up on these findings, the IABC Research Foundation convened a distinguished panel of merger and acquisition (M&A) experts from around the globe during this year's IABC international conference to examine how M&A communication does—and doesn't—work in actual practice. Highlights from this conversation follow.

## BEAT THE ODDS WITH STRATEGIC COMMUNICATION

**Dr. Patricia Whalen:** Here is a brief overview of three findings from the "How Communication Drives Merger Success" study:

1. Although mergers and acquisitions have been the number one growth strategy for corporations worldwide for the past 35 years, the majority of the deals will not live up to their expectations. For instance:
  - 50 percent of all deals today will destroy shareholder wealth.
  - 60 percent of the deals will see their stock price lag behind their peers in the first two years.
  - In two-thirds of these deals, the par-

ent firm or the acquiring firm would actually have earned more had they taken the same money they invested in a merger and put it in a bank certificate of deposit.

- One-third of all deals today will be sold off in the first five years.

2. The norm is that poor integration and the lack of good consistent information within the merging organizations hurt the deals. But not all mergers and acquisitions require the same level of integration. Among the deals taking place today, 15 to 25 percent don't require a lot of integration, because the merging units are dissimilar and there is no strategic value in consolidating them. Firms in this situation sometimes err by over-communicating to their employees. But the greater error occurs when a fairly high level of consolidation is needed among merging firms, yet there isn't any one single, strong source of information about the deal.
3. Informal, face-to-face communication plays a bigger role in the outcome of the deals than the number of formal communications in such tools as newsletters, intranets and letters to employees. In addition, for those firms that have a high degree of informal, face-to-face communication taking place in and around merger implementation, the formal materials become far more credible and more useful among employees.

## SIZE UP THE SITUATION

**Wendy Kouba:** My two most interesting merger and acquisition experiences were at Allied Signal in the late 1990s, when the business unit that I worked in acquired a very small business, and the merger that combined Pharmacia & Upjohn with the Monsanto Co. Long-term, acquiring and integrating that small business was a success story for Allied, and it was the informal channels that were most effective. But when a large company acquires a US\$400 million business with 1,200 employees, there's a whole different structure and level of scrutiny. We set up very formal communication processes—messages from the chairman, publications, focus groups—to help drive the initial understanding that was desperately needed. We thought it was going well, until some of the culture surveys came back and showed us how dramatically different in thinking, work style and philosophy these companies were. It wasn't until we got to that point that the merger really started to take off from an internal integration standpoint.

**Louise Denver:** At the Commonwealth Bank of Australia, we had a AU\$10 billion merger between our conservative retail bank, with 120,000 outlets, 10 million customers and 33,000 employees, and the Colonial Limited Bank, a



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Lead researcher **Patricia Whalen, Ph.D., APR**, assistant professor at Northwestern University's Medill Integrated Marketing Communication program in Evanston, Ill., USA, summarized her findings from the IABC Research Foundation study and moderated this panel, featuring the expertise of:



**Louise Denver**, who has served as strategic counsel on Australia's largest merger as head of communication for the Technology, Operation and Procurement division of the Commonwealth Bank Group, Sydney, Australia.



**Ruth Hunt**, principal and leader of the Chicago, Ill., USA, regional practice for Buck Consultants, who specializes in strategic internal communication programs, including merger and acquisitions communication.




**Wendy A. Kouba**, leader of the global internal communication team at Pharmacia Corp., Peapack, N.J., USA, who headed the communication effort behind the "Pharmaceutical M&A Deal of the Year" between Pharmacia & Upjohn and Monsanto.



**Paul Sanchez, APR**, practice leader for the communication consulting group of William M. Mercer Ltd. in London, England, and longtime management consultant with specific expertise in merger communication.

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much more nimble online bank. It was regarded as a "merger of equals," but there was not a win-win situation in any environment. We engaged all the communication professionals about retention of customers, retention of key staff and managing the shareholders through minimizing uncertainty. In a merger the size of the Commonwealth Bank and Colonial, this meant telling people that things were going to take quite a long time.

#### MAKE NICE WITH THE LAWYERS

**Paul Sanchez:** The larger, the more complex the merger, the more difficulty there will be around understanding the legal role. As communicators, if you can get close to the legal team and win its confidence, your life will be a lot easier. Taking your lawyer to lunch is not a bad idea, because you've got to understand what they're doing, appreciate the timing constraints that you're going to be operating under, and consider the financial disclosure regulations of various markets in various countries if you have a global merger.

**Ruth Hunt:** As a communicator, you can be important in helping to make sure that there is a seamlessness between the message that is sent to external stakeholders—the customers, the shareholders and the analyst community—as well as the internal community. Find whatever you can find in the merger or the deal that can be a powerful and compelling unifying element. Sometimes that can be how you're going to absorb everything under an existing brand, or create a whole new brand identity that has some elements of the old.

#### MEASURE YOUR WAY INTO THE BOARDROOM

**Kouba:** With Pharmacia & Upjohn and Monsanto, it took us some time to get communicators to the table. I think senior executives think they know what's going on [with the merger], that they're connected—and a lot of times they're not. So the earlier you can get some measurement—whether it is qualitative or

quantitative—the more helpful it is in changing that mindset.

**Denver:** A lot of people with a merger plan have a box labeled "communication." They believe that sending a message puts a tick in that box—they forget that communication is about the transfer of meaning and understanding. You've got to measure what you're doing and demonstrate in a survey that when you fill an information vacuum, confidence in the merger goes up.

**Sanchez:** Often what swings the vote on the core team to recognize the importance of communication as a truly integral part of the whole merger is data derived from focus groups or culture-assessment surveys. Most of the people on the core team come from finance or operations, and if you can give them percentages and charts and profile lines, they're going to feel a whole lot better about what you're saying than if you go in with broad-based narrative. There's lots of published data from IABC and others that you can present to support

your case that communication needs to be seen as a full spectrum of activity—not just an occasional news release or focus groups.

#### ACKNOWLEDGE THE FEAR FACTOR

**Denver:** The biggest obstacle to any merger or acquisition is fear of the unknown, whether that's community hostility or senior management paranoia. Acknowledge the fear. Tease out the detail. What are you afraid of? Is it job loss, is it culture conflict, is it just general uncertainty? Start to break down the fear, and then start to construct the opportunity. Work at how you can engage those employees, and see that what they're saying is taken on board in some way.

**Hunt:** You've got to manage expectations, because you're not going to be able to solve all employees' problems. Allow employees to have a voice, so that you can pinpoint the issues and help address them. I might not be able to promise the organization that I'm going to be able to give them all the answers they want, when they want them. But I will be able to tell them the process by which we will be coming up with some of those answers, so that the punishing effects of uncertainty and change are reduced.

#### ARE MERGERS OF EQUALS FACT OR FICTION?

**Sanchez:** Mergers of equals happen less frequently than might be proclaimed, but they do happen. The level of equality depends on the real reason for the merger: Is it for market share, efficiency or intellectual capital? If it's for efficiency, it's not likely to be a merger of equals. If it isn't a merger of equals, the imposing organization needs to move swiftly to put in place its processes, its brand and its identity, and not try to delude anybody that it's a merger of equals. If the merger is for intellectual capital or market share,

then the two organizations will look at what are best practices on either side and attempt to incorporate them.

**Hunt:** You've got to be careful about the scorekeeping that automatically occurs when people are in an emotional state. They will keep lists: "How many leaders came from this side, how many came from that side?" Are you trying to incorporate the best of both to meet customer needs and increase shareholder value? Absolutely. Does that mean that there's going to be an equal distribution on either side? Not likely. Help coach your leadership team to manage expectations and not use "merger of equals" terminology.

#### BRIDGE DIFFERENCES

**Kouba:** We began the process of integrating Pharmacia & Upjohn with Monsanto with a lot of culture measurement. The P&U people saw themselves as being very flexible and innovative, but the Monsanto people saw the P&U people as being bureaucratic and staid—it was very eye-opening. That research shouldn't be shared just at the management committee level—those culture data help everybody in the organization understand who these people are that we're trying to build bridges with.

**Sanchez:** One successful merger was with a chemical company that was focused on an acquisition to gain intellectual capital. We selected employee leaders who would engage their groups of people in solving some of the integration issues, and they took to it like ducks to water. When the people in the company that was being acquired got on board with an understanding of where we were going, they became change agents supporting the merger. That operation went on to become one of the stars of this particular chemical company.

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“March Sadness”

be a tragic event. They bond in their grief. Hands are pressed to faces, heads are buried on the shoulders of others. All wear sporting garments. “March Sadness” is a losing basketball team. We can relate to loss. It’s a common human value, and Weimer uses it to interpret and make her point about the outcome of a sporting event.

Weimer’s final example takes us to a flower show. Instead of showing us acres of flowers, she puts the flora out of focus and focuses on two people reacting to what they are seeing. The caption reads “Like mother, like daughter.” Each raises forefinger to lip in identical gestures of thought. Through this incongruous set of responses, Weimer’s interpretation expresses values unique to human beings—the ability to wonder, marvel and think about those special things we discover along the way.

In each of these examples, Weimer interprets events by capturing spontaneous natural gestures, linking them to evocative body language, and thereby expressing basic human values that all of us understand.

Philip N. Douglass, ABC, is director of The Douglass Visual Workshops, now in its 31st year of training communicators in visual literacy.



“Like mother, like daughter”

Douglass, an IABC Fellow, is the most widely known consultant on editorial photography for organizations. He offers a comprehensive six-person Communicating with Pictures workshop every May and October in Oak Creek Canyon, near Sedona, Ariz. For current openings and registration information, call Douglass at 602-493-6709, or e-mail him at [pnd1@cox.net](mailto:pnd1@cox.net). He also welcomes tear sheets for possible use in this column. Send to The Douglass Visual Workshops, 2505 E. Carol Ave., Phoenix, AZ 85028.

## Merger Success

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**Denver:** At Commonwealth Bank we’ve developed a buddy system that allows people from Colonial to come over into the Commonwealth space and vice versa. The tasks are fairly similar, so we can swap people from one place to another. When we engaged people at a new site, we found the cultural issues just dropped away.

### MAKE IT QUICK AND CONSTRUCTIVE

**Hunt:** I was with PriceWaterhouseCoopers, and a number of our studies showed that as they looked back at what they would have done differently, 89 percent of companies undergoing mergers said they would have done them faster. The analogy is very simple: You know a Band-Aid is going to hurt when you pull it off. Why wouldn’t you do it quickly and be done with it? Employees know it’s going to happen, and they’re probably assuming it’s worse than it really is—so coach management to move aggressively and get out their plan for the process. You can leverage the merger event as a stimulus for some significant change, and turn it into an opportunity.

**Sanchez:** You need adaptability and a sense of humor as you’re working through a merger. I think communication people have a particular responsibility to remain level-headed to make sure that the merger works—don’t lead the depression or the shouting.

**Denver:** People don’t come to work just for money; people come to work because they want to be part of something that’s bigger than they. So let’s look at ways that you can tease out all the positives of this new entity, and engage people in that experience.