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To prevent merger meltdown, avoid five 'people system' mistakes

ON PERFORMANCE
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After months of planning and ungodly amounts of money spent on fees, and despite leadership's conviction that a merger makes all the sense in the world, you may be headed for a complete merger meltdown.

Unfortunately, studies show that about one-third of all mergers succeed and two-thirds fail. In meltdown situations, most leaders are left wondering: What caused this? Could it have been avoided?

When merging companies, it is important to evaluate and determine how to integrate financial systems, operational systems and technological systems. Each of these integration areas is critical to ensuring economies of scale, highly productive operations and a seamless customer experience.

However, what often gets lower priority—and sometimes is entirely ignored—is the "people" systems. People systems are vital resources needed to make the merger happen successfully.

Five mistakes regarding people systems can lead to merger meltdown. These mistakes don't discriminate by company size, industry or economic climate. They happen at the all-important "execution" stage, where failure rates between 50 percent and 80 percent have been reported.

If you are thinking of merging or have recently been part of a merger, avoiding these mistakes will help you achieve maximum success and avoid meltdown.

Mistake 1: Not investigating reality. Most leaders believe they know what people think about their company, its work culture and the customer experience, and they base crucial merger decisions on their assumptions. However, the cost of being wrong can destroy a merger in year one, causing significant losses of employees and customers.

Investigating the following two realities will answer important questions about the work culture of each merging enterprise and its customers' current and desired experiences:

■ The work culture: What is it like to work at each company? Considering people, processes, behavior and work culture experience, how are the companies similar and different? What are their respective operating strengths? What are the differences that must be addressed?

■ The customer experience: Why are customers loyal to each company? Which are the companies they like to do business with? What outcomes do customers desire in a relationship with each company? Are these requirements currently missed, met or exceeded?

How do you investigate these realities? You ask! To get a clear picture of the current culture and brand from the inside out, ask customers and employees what they like, how they feel and what concerns they have about doing business with or working in each company. Powerful thinking occurs when you have the opportunity to explore various viewpoints. By investigating the emotional and logical perceptions of employees and customers, leaders are better positioned to determine cultural and experiential strengths to capitalize on and differences to address, rather than avoid, during the merger.

Mistake 2: Branding for the neighborhood. Too often, merging companies put the fun marketing activity—telling the world about the merger and how it will make their lives better in some way—high on their merger to-do list. Branding, marketing and advertising firms champ at the bit to get started selling logos, taglines, brochures, new Web site designs and expensive advertising to tell the world how wonderful the combined enterprise will be.

These things look great from the outside, but what happens when customers actually come in? The advertising and marketing promises made by merging companies are equivalent to mowing the lawn, planting flowers and painting the house. In essence, they create curbside appeal, and the house looks great! But then reality interferes.

Can the combined work force fulfill the advertising and marketing promises made? In most cases they are unable to, because the inside of the house didn't get the same attention as the outside. Employees can't or won't deliver on the promises made. Customers won't experience it.

This approach of branding for the neighborhood may feel good at first and seem like an initial, logical step, but it's superficial and detrimental when the inside of the house tells a very different story. Branding for the neighborhood works only if you don't want the neighbors to actually come inside.

Mistake 3: Lacking a belief system. Some companies have their own belief systems, ill-defined or not, about what is important and why. Yet when a company buys or merges with another, the parties are not buying or merging with the system of beliefs; they're buying or merging with the people—who have their own belief systems.

Employees have beliefs about their work culture, what it means to be operationally efficient, how to demonstrate leadership, integrity and trust, and what it looks like to share knowledge and expertise—all while serving, or not serving, customers. So in the merger, the enterprise must begin to formulate a unified belief system.

Beliefs are powerful! Keep this in mind: If the combined company does not define its beliefs, employees will use their own. And since beliefs drive behavior, the ultimate result will be an inconsistent cultural and customer experience.

It should not surprise any good leader to be told that it is necessary to go beyond mission statements, visions and core values to create alignment on what the company "believes" and how it will behave with respect to operations, culture and service.

Mistake 4: Not forming a guiding coalition. In general, most people are uncomfortable with change. This is especially true during a merger, when change often is perceived as chaotic and in the best interest of just a few leaders who are pushing their own agenda, ultimately creating more work for individual contributors or teams. Consequently, it becomes almost second nature on the job to doubt, push back and consciously refuse to make necessary change happen.

Leaders can underestimate how hard it is to move people out of their comfort zones.

By forming a guiding coalition of executive and functional, respected leaders, the post-merger company can begin building the trust necessary for engaging employees' hearts and minds. As a result, the company can achieve the right alignment with considerably less investment of time and money.

Mistake 5: Poor resource allocation. Because people systems typically are given more lip service than actual planning, budgets estimated and prepared often overlook the necessary human integration activities. To enable accountability, leadership should apply resources to set expectations for the vision and desired beliefs and behaviors and then communicate those expectations through hiring systems, performance evaluations and strategic recognition.

The journey of merging two work forces can be complicated and full of surprises. The fact is that you can't just announce a culture. Your culture is a result of an intensive focus on the beliefs and behaviors that create an aligned work force and enable delivery of consistently great customer experiences.

Avoiding the five mistakes outlined here will help to make your merger one of the 33 percent that succeeds, rather than one that melts down because of culture clash and misalignment.

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