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Mergers and Acquisitions: What To Do When COMMUNICATING MORE OFTEN Is Just Not Enough

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Overview

Economic and social pressures (such as the drive to achieve "sustainability" by focusing on the triple bottom line – people, profits, planet) are pushing pharmaceutical companies to decrease their "time to market" and driving the expansion of new markets into which to sell both pharmaceutical and consumer products.

Financial pressures create situations where competitors can be more successful if they work closely together, for example jointly marketing products. In April 2010, Aoxing Pharma and Johnson Matthey Plc announced that they had entered into an agreement to, "…establish a joint venture through affiliated companies focused on research, development, manufacturing and marketing of active pharmaceutical ingredients ('API') for narcotics and neurological drugs for the China market. The joint venture represents a significant new opportunity for both companies to expand their business in the rapidly growing pharmaceutical market in China."[1] Also, financial and pipeline pressures drive companies to merge or acquire each other (J&J /Pfizer Consumer products, Pfizer/Wyeth, Merck/Schering Plough). In July 2010, *The New York Times* reported that sanofi-aventis made an informal takeover approach to Genzyme in order to bolster its biotechnology offering which they reiterated in late August.

While financial and global pressures require rapid growth, it is no secret that many mergers (in a wide variety of industries) fail. Here are some examples of more widely reported failures: AOL/Time Warner, HP/Compaq, Alcatel/Lucent, Daimler Benz/Chrysler, Excite/@Home, JDS Uniphase/SDL, Mattel/The Learning Company, Borland/Ashton Tate, Novell/WordPerfect, and National Semiconductor/Fairchild Semiconductor, etc. [2]

Research has demonstrated that mergers often cause a loss of value for one or both of the organizations, and one of the prime causes is the lack of integration of both the cultures of the employees and the organizational cultures. Effective integration of processes requires the people element to work, but not enough attention is paid either to the organizational cultures within which the people work, or the internal values (embedded cultural orientation) of the employees that drive how they approach the integration. All this is overlaid with the fact that most growth approaches will include a global focus.

This article lays the groundwork for how to attend to the important and too-often-misunderstood organizational and people issues, touching on the organizational culture, national, and individual cultural values that so often are the barriers to success in merger situations. It offers practical solutions that are based in measurement and are not just about "communicating more information more often."

Why Mergers/Acquisitions Fail

It is no secret why mergers, acquisitions, joint ventures, marketing, and partnerships are rife in the pharmaceutical and biotech industries. Each of these situations requires a relatively high level of integration between the companies and people involved. Integration issues are the cause of merger or acquisition failure. These issues can be divided into roughly three categories: financial, operational, and human.

- Failure for financial reasons can range from inadequate or inaccurate due diligence or excessive pricing, to mergers between two lame ducks and/or over-leveraging to make the deal

- Failure of operational integration can range from poor organizational, strategic, or cultural fit, to incompatibility of the partners or ego clashes at the senior level

- Failure of the human integration can range from lack of proper or poorly planned/executed communication, to inadequate attention to people issues, failure to set a reasonable pace for integration, and failure to take immediate control.

Given intense stakeholder pressure, financial integration too often is the main focus of merger/acquisition activity. Business/operational integration then becomes the second most important focus, often at the expense of the human integration.

The First Reason

There are two major reasons why the human integration creates issues. One is that employees and management are always out of phase in merger/acquisition situations. The executive team is way ahead of the employees in every phase of activity, and because there are fewer decision makers than employees, it takes less time to get through any stage of change for the senior folks. They go through the phases earlier in the process and get to the next phase faster. Executives often forget how far behind employees have to be, especially in large mergers.

Decision makers often have information and are involved in merger decision making months before the employees have any idea of what is transpiring. It is usually only just before or even at the time the merger plans are made public that employees find out. Many "behind the scenes" activities have taken place well before any announcement is made. It is understandable that some employees may feel betrayed, and it is understandable why those at the top are well beyond their initial reaction at the time when employees just begin to feel it.

When announcements are made, there often are times of uncertainty around government approvals, who will go and who will stay, which processes and products will remain critical to the strategy, and so forth. Usually, this cannot be discussed in detail at the time when the employees seem to need the information the most.

All the advice givers agree that communicating more often – communicating early and often about what has happened and what is changing and what "cannot be revealed just yet" – helps reduce employee anxiety. Meeting regularly even when there is nothing new to report; meeting more often, reducing the size and term of personal work goals, communicating as soon as a decision has been made about a change in priorities – all are good tips to support employees through periods of uncertainty.

The Second Reason

The second major reason mergers fail in the human integration is that organizations are designed and run by humans, often taking on the characteristics of the people involved in the organizational design and the cultures they represent. Often organizations and the people who run them do not know enough about the internal/personal values of the employees and managers (or the organizational culture of the "other" organization). This lack of information leads to interventions to support the integration that are at best, a guess at how and where to attend to the change. At worst, they make changes that are untenable for employees from both companies.

Organizational Cultures: Trash, Clash or…Not

For employees, the period of uncertainty during a merger and acquisition almost always focuses on three things:

- Will I still have a job?

- Will my work change substantially?

- Will my work and reporting relationships change substantially?

While the process of getting to the point where all these questions are answered will seem long to employees, the process of integrating organizational cultures is always a longer, less-defined process.

But how to attend to the change which is going to come—change in structure, organizational goals, strategies, even organizational culture change? What should be kept and what should be eliminated?

Below are two examples of how to approach the complex issues of organizational change. The first case is an acquisition situation.

Case Example 1:
Company A, a manufacturing company, acquires a division of Company B. Company A has acquired this division to extend their geographic reach and wants to own one of the two chemical processes utilized by Company B. Company A's organizational strategy focuses on operational excellence. Their processes are structured so there are a minimum of changes (which cost money). Company B's organizational strategy has always been focused

on customer intimacy – they charge higher prices and customize the products and processes to meet their customer needs.

Companies A and B are in different countries/cultures.

The decisions about the people and jobs that would remain were made within the first 4 – 5 months of this acquisition and employee "redundancies" were implemented. During the "change year" when one of the processes was moved into a third country, the remaining process was streamlined to align with the acquirer's approach.

It was then that Company A began to worry about organizational culture integration. They did not want the hard work done to create the new operation to be wasted, nor did they want the new division to be unclear about the expectations.

The approach they took was to diagnose their current and future state against the internal values of the remaining executives and employees (defined by their embedded cultural orientations) of the people in Company B.

Step 1: Company A measured the current state ("as is") of the organizational cultures of both organizations. What they found was that A and B differed in their perceptions of the "as is" or "now" organizational culture in Company B. (See Figure 1)

Step 2: Data was also gathered from both organizations about the "desired future state of the organizational culture" or Vision for the future state. Again the perceptions of both groups as to the vision of the future organizational culture for Company B (now a division of Company A) differed. A gap analysis was conducted. (See Figure 2)

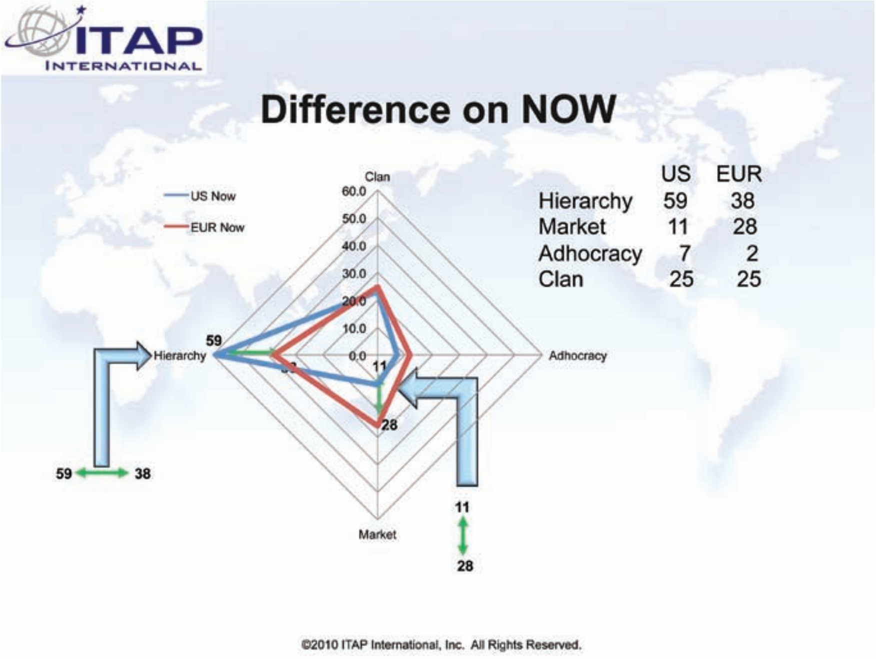

Figure 1

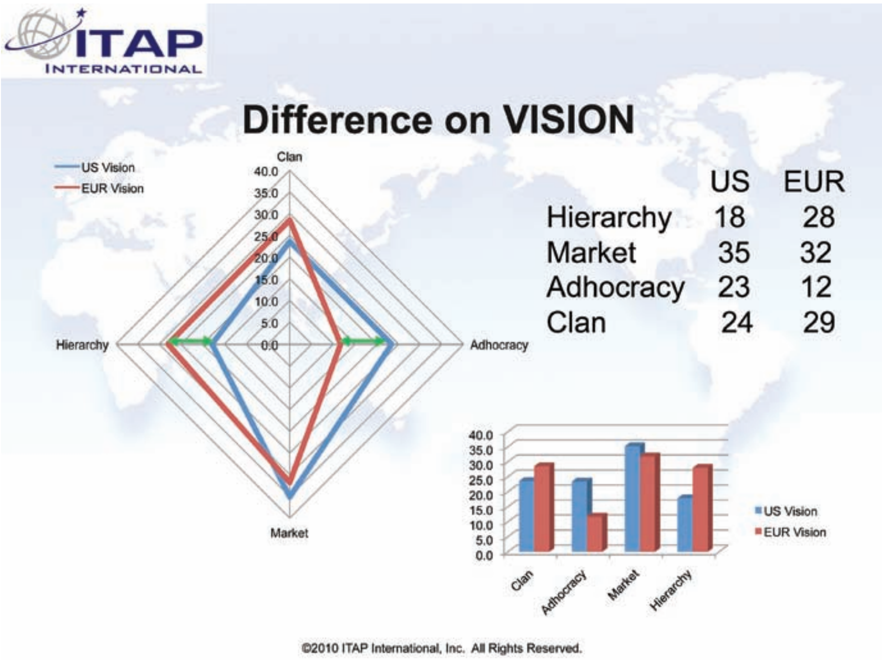

Figure 2

The analysis uncovered discrepancies between what Company A wanted from Company B (in terms of forming the new organizational culture). There had been unintended consequences of the "command and control" activity during the transition year that Company B executives incorrectly believed to be the "new organizational cultural model."

The realization was that the desire to change was in the same direction by both companies; however, the starting point and the desired end state were not the same.

Step 3: The work that came prior to defining integration approaches included facilitation of discussions about the "now" state and the "desired future state." Both organizations needed to understand the other's position and come to consensus about where they were and where they wanted the new organizational culture to be.

Only when they had agreed upon a starting point and an end state could they determine what actions needed to be taken to actually create and communicate clearly about the direction the company was taking in becoming a new organizational culture.

If they had begun integration interventions without this information, they would have invested in approaches that were at best unclear, and at worst that interfered with becoming an efficient organization.

No Matter How You Look At It, M&A Means Change

Mergers and acquisitions are organizational "change opportunities." No matter how much the organizations involved want to develop a clear synthetic picture combining their organizational culture and strategies, the need to engage in this usually comes at a time when most of the top management are too busy with other priorities. Both the time it takes to align and the financial investment just seem too burdensome.

Effective organizational change needs the change perspectives/ vision to come from the top. Here is another case example.

Case Example 2:
A leading company with operations in Korea involved in a similar change opportunity (in this case between a pharmaceutical company and its subsidiary), had a leadership development program designed to focus on Organizational Culture and Change. The purpose of this 1-day workshop was concentrated on the leadership mindset for the changes needed. It focused participants on understanding their own internal values and the embedded work styles derived from these human values, mapping their strategic goals and core strategies, mapping their current/future organizational cultures in terms of practices, and finally developing action plans to reach the ideal future state.

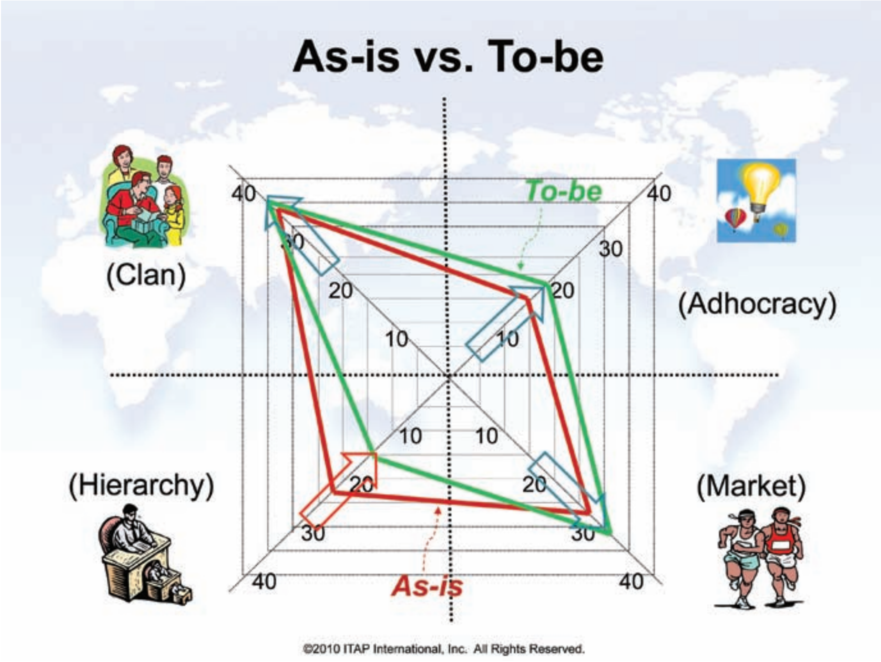

Figure 3

Step 1: Participants completed a pre-work assignment to measure their internal values. The tool used was the Culture in the Workplace Questionnaire™.

Step 2: A session was held to determine what kind of a strategy they would change to which started with four sets of questions for discussion (based on the Balanced Scorecard model).[3] These questions included a look at four perspectives:

1. Financial Perspective – "If we succeed, how will we look to our shareholders?"

2. Customer Perspective – "To achieve our vision, how must we look to our customers?"

3. Internal Perspective – "To satisfy our customers, which processes must we excel at…?"

4. Learning & Growth Perspective – "To achieve our vision, how must our organization learn and improve?"

The outcome of the strategy segment was a strategy map.

Step 3: Based on this model, they reviewed their vision, mission, mid-long term goals, and core strategy tracking down to the level of Organizational Capital including Culture, Leadership, Alignment, and Teamwork.

Step 4: Then participants conducted a gap analysis between the current (as-is) organizational culture and their vision (to-be) of the culture after the change showed the differences. (See Figure 3)

Step 5: An overlay of the participant internal values measured in their pre-work was mapped and compared with the above results of Figure 3. Areas where the work needed to be concentrated were determined by the Synthetic Cultural Map.

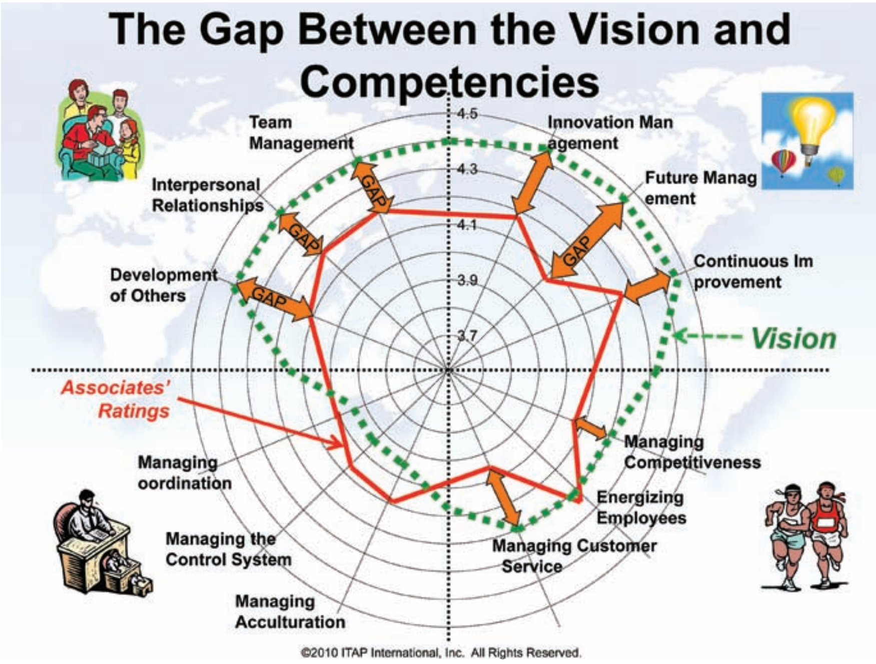

Figure 4

In this case, the change to move to a more market culture was identified as the area facing the most resistance and difficulties because the internal values and the embedded work styles of the employees are contrary to the direction of the change.

This insight helped them prioritize their actions needed for change, and developed an action plan for the items of Do-more, Do-less and Continue-doing.

Step 6: The company leadership used this data to redefine the strategy, mission/vision, and focus on where the internal values of the leadership would support or become a potential barrier to the change planned.

Final step: A redefinition of the competencies it will take to succeed was conducted. See results sample above in Figure 4.

Summary

In both cases, the collection of data about the organizations and the employees who work in them identified areas of concentration for leadership. This approach linked change with the internal values of employees to identify where change might be most difficult. The final step in both cases was an approach to focus on what skills, attributes, and capabilities (leadership competencies) were going to be needed to effect the change.

It is probably no surprise to the doctors, nurses, scientists, pharmacists, statisticians, technicians, and other employees in the pharmaceutical industry that what is important as a starting point is the data collected. If the correct data is collected, aggregated, and analyzed, the focus of action to change to the new organizational culture can be targeted in both time and effort.

Communication remains important to the success of cultural integration in merger, acquisitions or change initiatives. Leaders should be able to communicate that they are focusing on the strategy, mission, vision (to-be), employee values, and the leadership competencies needed to be successful, not just the financial side of the change.

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