

## *Sure it's an oversized buzzword, but synergies still matter*

With all the attention being given to today's high-profile corporate consolidations, it's easy to see that mergers are back in style. And while the media debates whether the latest wave of acquisitions is a result of globalization, technological change or simply corporate hubris, there's no denying the pace has quickened, especially in recent months. With all this new activity, there is now increasing chatter about how corporations can achieve synergy, the all-important, yet highly elusive factor in making mergers work.

The term may be much-derided, but the concept of synergy in the merger environment remains fundamentally sound. For example, a merger's result should be better than if the two organizations had remained entirely separate. If mergers fail this test, it means missed opportunity, reduced shareholder equity and, all too often, lost jobs. Any executive contemplating acquisitions must ask whether the desired synergies will ever come to pass. Before examining this question deeper, however, corporations first must understand that synergy has several dimensions, each of which must be realized for mergers to succeed.

Strategic synergies — eliminating direct competition, adding complementary brands, acquiring disruptive technologies and entering new markets — are considered the “glamour” aspects of acquisitions. They represent legitimate opportunities for both organizations. But if that's the case, then why do strategic synergies so often fail to materialize? Archetypal examples of poor strategic thinking (e.g. the “diversified conglomerate” strategies of the 1960s and '70s) still carry a lot of sway. But CEOs aren't stupid; when they see an opportunity, most of the time it really does exist. The answer often lies in the failure of organizations to achieve other synergies, such as operational, peripheral and cultural.

If strategic synergy is a merger's high-fashion headshot, operational synergy represents the photo taken at 7 a.m. after a long, late night out. The specter of integrating supply and distribution chains, merging systems and data, and even changing signs and letterhead are the ugly hangover after the posh merger-announcement party. Failure to get this right, and on time, can quickly lay waste to even the best strategic intentions.

The TV ads look great and the company trucks may have been beautifully repainted. So what happens when customers of the acquired



### **GUEST COLUMN**

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organization dial up the business call center? Do clients and other key audiences on the periphery of the merger understand that there is now a single corporate entity, delivering even better service than before the merger? Or, do they feel like a pinball bouncing haphazardly between two all-too-distinct organizations?

Customers from both sides of a merger need to perceive that the merger was good for them, not just the corporations. Trying to hide integration work from customers is nearly impossible, and they may be more understanding than expected, especially if the long-term benefits of being patient are evident. What customers won't tolerate is unpleasant surprises and obfuscation.

A successfully executed merger may also be a Pyrrhic victory if it results in the loss of key talent. It's just as important to win the hearts and minds of the best people — on both sides — as it is to win the war of customer perceptions. Cultural synergy is perhaps the least understood, and least well-managed, aspect of many mergers. Being acquired is the modern day equivalent of losing a battle to the rival clan. While the victors plot to divide the spoils, survivors wait in apprehension for word of their fate. Many flee before the decision is even made.

Companies perpetuate this age-old ritual by assigning “merger teams” led by leaders from the acquiring (conquering?) company, and assigning only token representation from the acquired firm. Much has changed since feudal times, but human nature has remained fairly consistent. Uncertainty, fear, clannish behavior and other unhealthy conditions can be observed in even the most modern business environments.

Even companies that strive for a more enlightened “merger of equals” struggle with the same human dimensions. Abraham Maslow's theory of hierarchy of needs applies here perfectly: If someone is uncertain whether his foundational needs will be met (e.g. having a job or not), that person is unlikely to realize his full potential and fully exercise his talent to promote the interests of the new company.

In short, companies are made up of people, and if they're not operating at full potential, then neither does the company. If the merger serves to

restrict employees' potential, then the combination will almost assuredly be worth less than the sum of its two parts.

Given the minefield of potential pitfalls confronting today's mergers, it may seem a miracle that any succeed. But many do, and the following are tips gleaned from successful integration efforts.

Start integration work before the deal is signed. Most merger discussions are carried out under a veil of secrecy, and for good reason: Even the rumor of an acquisition can be highly disruptive. Nonetheless, it is imperative that executives contemplating a merger be cognizant of the operational, peripheral and cultural implications of the deal. Smart executives make a coldly realistic assessment of these and factor them into the decision. This analysis should be performed by an objective third-party not blinded by the romance of the deal.

Create a relentless focus on the desired outcome. After the decision is made, a small number of executives will be focused on how to achieve the goals that justified the decision. Everyone else involved will focus on another question: What does this mean for me? One way to start is to seed the integration with objective project leaders who serve the following purposes:

- Provide day-to-day, unmitigated focus on achieving the goals of the merger at multiple levels in the organization.
- Play the moderator role as the two sides resolve issues and conflicts.
- Offer much-needed experience from similar efforts, including several doses of reality.
- Create and sustain a structure for organizing, managing and measuring the merger integration effort.
- Motivate, encourage, coach and mentor employees on both sides as they deal with “what's in it for me?” questions.

Communicate honestly and openly. Customers, employees, suppliers and political officials all may be apprehensive about what a merger means to them or their constituencies. It's important to speak openly and honestly with each group and stress opportunities related to helping the combined company achieve its goals, rather than the consequences of not “proving your value.”

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