Dispelling Myths: Communication in Mergers & Acquisitions

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When mergers and acquisitions fail, more often than not blame is put on communication or the lack thereof, or on the cultural conflict between merging entities. This research, however, suggests that communication and cultural integration are not magic bullets that can make a poorly crafted merger successful. It identifies those myths, half-truths and misunderstandings about how M&As should be implemented, and how communication can impact the outcome of an M&A.

Introduction

Mergers and acquisitions (M&As) have been the predominant corporate growth strategy during the past 35 years. Between 1965 and 1994, the number and size of M&As worldwide grew steadily; but by today's standards, this pace is almost leisurely. During the next five years, the volume of M&A transactions grew at close to exponential rates, and the number of major organizations within key industries began to shrink and coalesce around a small number of powerful firms (Day, 1997). Just when there seemed to be room for no more deals, 1999 M&A levels hit new records, with U.S. M&A transactions valued at $1.7 trillion, European transactions valued at $1.2 trillion, and worldwide M&As valued at $3.44 trillion, up from $2.6 trillion in 1998 (Best Practices, 2000).

Despite these explosive growth trends in M&As, it is widely known and widely reported that the vast majority of them will fail. Studies on M&As conducted in the early 1990s found that 1980s concluded that one-third of all acquired companies were sold off within five years of acquisition and as many as 90% never lived up to financial expectations (Kitting, 1967; Lefkoe, 1987). A McKinsey and Company study reported that more than two-thirds of the corporate mergers and acquisitions studied never earned as much as the acquirer would have made by investing the same money in bank certificates of deposit (Magnet, 1984). Despite the dismal trend, few companies have developed skills to implement M&A effectively.

Recently, a CEO told me "Communication isn't rocket science." He boasted of utilizing no professional communicators to strategize his multi-billion dollar acquisition that would add thousands of new employees to his already very large company. Instead, he worked closely with a small, handpicked group from finance, legal, and business development departments for the early due diligence process. Once the deal was set, he gave his public relations manager two days' notice to draft a press release regarding the acquisition and to coordinate with her counterpart in the target firm. This press release, handed to employees on the day it was sent to the media, notified the target firm employees of the acquisition. Employees in the parent firm were not given any communiqué. Instead, they read the details of the deal in the next day's Wall Street Journal.

Most of us who have ever made a living by developing strategic communication plans for large corporations cringe when we hear stories like this and hope it is the rare exception. Unfortunately, it is far more common than most of us would like to admit.

These are recent headlines reflecting some seriously troubled M&A implementation strategies:
"Fort James Mops up a Mess," (Stewart, Chicago Tribune, May 17, 2000)

"Investors Sour on Wesley Jessen Bid," (Jepsen, Chicago Tribune, May 10, 2000)


"Unfriendly Skies For An Airline Merger," (Arndt, Business Week, June 5, 2000)


"How the DaimlerChrysler 'Marriage of Equals' Crumbled - Taken For a Ride," (Vlasic & Stertz, Business Week, June 5, 2000)

"Mergers Test Investors' Patience - New Firms' Shares Often Don't Thrive After The Marriage," (Stewart, Chicago Tribune, June 23, 2000)

Because of the huge financial risk major corporations undertake with these M&As, investors, employees and customers should demand proper implementation to avoid becoming yet another statistic. But therein lies the difficulty. The proper way to implement a merger and acquisition it is not as obvious as it appears.

**Causes of Merger Failures**

When deals fail, more often than not, blame is put on the communication or lack of communication utilized. Occasionally, poor performance of some M&As are traced to financial or strategic causes. For example, AT&T's 1991 failed acquisition of NCR and Matsushita's 1991 failed acquisition of MCA have generally been blamed on heavy debt load, reduction in stock performance, and fuzzy business objectives (Zweig, Holland & Alexander, 1995). The recent unraveling of the RJR Reynolds/Nabisco mega-deal will most likely be blamed on similar problems in years to come.

More commonly, experts blame the high failure rate on "cultural conflict" between merging entities, and the cause of this cultural conflict is often attributed to poor communication during the acquisition.

These conclusions are echoed in dozens of books and articles focusing on how to communicate during M&As. Conventional wisdom stresses that successful M&As require broadly disseminated and ongoing communication before, during and after the event (Callahan, 1986; Goold & Campbell, 1998; Kitching, 1967; Marks & Mirvis, 1997; Sirower, 1997; Zweig, 1995).

Authors Galpin and Robinson (1997) suggest that management undertake "excessive communications" after a merger is announced. Operations, marketing, systems, and financial aspects of the newly formed organization should be addressed, in addition to personnel. Galpin and Robinson advise that "Clear, consistent and frequent (at least weekly, perhaps more often) communications - even when only cursory updates on progress are available - go a long way toward capturing the commitment of both management and employees during the integration" (p. 26). Similarly, Marks and Mirvis (1992, 1997) suggest that organizations should engage in "over communications" because it "helps by repeating the same message through multiple channels" (p. 26).

**Proprietary Research**

Having lived through a number of mergers, acquisitions, and joint ventures in my 17-year career as a corporate communicator, I know there is more to successful M&A than "excessive" and "over communication." Unfortunately, I found few studies that went beyond the individual case level to identify what M&A communication strategies and tactics work best and in what situations.

I set out to study a wide range of M&As through primary research and reviewing dozens of case histories reported in the major business press to try to identify the communication activities most commonly employed and the role said activities have in determining the deals' success.

In my most recent M&A study, I conducted survey research with high level executives who had the ultimate responsibility for communication efforts of 108 M&As with the value of the target firm exceeding $100 million each. I obtained detailed information about the communication planning and implementation employed before, during, and after each M&A. All of the deals took place between January 1, 1996, and February 1, 1998, so that they were recent enough for the details to be remembered, but old enough for the communication efforts to have had time to...
have some effect. The goal was to uncover the most common communication practices and to look for a correlation between the type of communication tactics employed by the parent firm and factors such as cultural conflict, unwanted attrition, and perceived performance.

**Myths about Communications in M&As**

I have identified a number of myths, half-truths, and misunderstandings about how M&As should be implemented and how communication can impact the outcome of an M&A.

**Myth #1 - The more strategic the M&A, the less conflict there will be.**

My research indicates the exact opposite. This may explain why strategic communication planning is more critical in today's M&As than ever before.

A joint study undertaken by Business Week and Mercer Management Consulting, Inc. on M&As of the 1990s found that not only are the majority of 1990's M&As more strategic than their earlier counterparts, but they also tend to seek synergies between merging firms rather than pure financial gain, as the majority of the M&As of the 1980s did (Zweig, 1995).

Synergy is achieved when two discrete entities work together to create a sum greater than they could achieve independently (Bielinski, 1992; Cartwright & Cooper, 1996). When two related firms merge, management counts on each entity to bring a unique skill or resource to the table that the other entity can utilize and build upon. These are called "operating synergies."

Some of the most common operating synergies sought include:

- Achieving economies of scale in purchasing and manufacturing
- Better integration of production facilities
- Plant specialization
- Lower transportation costs
- Efficiencies relating to specific manufacturing, servicing, or distribution operations
- Reduction in general selling, administrative, and overhead expenses

The Business Week/Mercer study reported that because of their strategic nature, 1990's M&As are performing better than many of their predecessors. Unfortunately, the study still concluded that most have not increased shareholder wealth, judged by stock performance in relation to Standard and Poor's industry indexes (Zweig, 1995). One reason for this may be that current combinations require fusion or integration of their human resources, and "success depends on human synergy" (Cartwright and Cooper, 1996, p. 2).

My research clearly indicates that, regardless of - or perhaps because of - the strategic nature of the goal to achieve operating synergy, these M&As are more likely to generate high levels of conflict and be in greater need of communication interventions than the M&As between unrelated firms, which tend to take a more "hands off" approach.

This finding is not controversial considering many M&As are undertaken with the goal of closing and consolidating operations and laying off large numbers of employees. It would be foolish to think these events would occur without conflict and concern among employees.

**Myth #2 - The more communication you employ in an M&A, the lower the level of cultural conflict the two firms will experience.**

Well-timed and strategic communication is a critical tool that can improve an M&A's chances of success, but my research suggests there is no direct correlation between the amount of communication activities employed and a reduction in internal conflict during the M&A.

In fact, there is typically a high positive correlation between the level of formal communications employed and conflict level, because most firms recognize that they will need to increase their formal communication efforts during high-conflict events. However, this does not mean that a high degree of internal conflict translates into M&A failure.

The critical factor for ensuring success is addressing specific communication needs of each key constituency. Although I did not find that increased formal communication reduced conflict levels during M&As, I did find that in firms experiencing high conflict, there was a positive relationship between the amount of formal communications employed and overall performance of the transaction. Despite this finding, I also found a quality-over-quantity factor.
One surprising research finding was that firms with the most experience in M&As employed a smaller number of communication tactics than their less experienced counterparts. These experienced firms also tended to be successful in their M&A activities by matching the type of communication tactics to the motive behind the deal, and messages were targeted to the needs of their specific audiences. They focused on creating informal opportunities for the management and employees of the merging firms to interact, while also providing detailed updates about the deal with just a few key formal tools such as web sites and specialized newsletters. When there were no plans to integrate specific operations, the parent company tended to keep a low profile at the target firm and kept formal communications to a minimum.

**Myth #3 - Cultural integration is necessary for a successful M&A.**

This myth also leads to the corollary that M&A communication efforts should be aimed at integrating the cultures of the merging firms. These are common misconceptions, especially since today's mergers tend to be more strategic than those of earlier times.

In the 1960s and early 1970s, conglomerates were the most active acquirers; seeking to diversify their portfolios to spread risk or to grow for growth's sake (Carrington & Cooper, 1996; Sauerhaft, 1997). These transactions often tended to be hostile takeovers in the sense that the targets were not seeking a partner or acquirer, and they often resisted the early advances of their suitors. Despite the "hostile" nature of the transactions, many of them succeeded because the acquired businesses were left intact to operate autonomously. One assumes that this was a strategic decision on these firms' parts, since the differences in the firms' industries and markets made it impractical to integrate the two firms.

Today, this autonomy strategy is employed by about a third of the M&As undertaken, and these firms are as likely to succeed as their integrated counterparts.

A good example of where up-front strategic planning was critical to an M&A's success, but where the decision was to maintain separate cultures and to minimize communication after the deal was when Cisco Systems successfully undertook its $7.2 billion acquisition of fiber optics equipment maker Cerent Corporation. While conducting a great deal of targeted communications to employees before the completion of the deal, it ultimately kept formal communications to a minimum after the acquisition. According to the Wall Street Journal, Cisco has retained nearly all of the Cerent employees and maintained the firm's profitability.
Aside from their newfound stock wealth, most (of the Cerent employees) hardly noticed the changes. "They said we would continue business as usual, and we did," said Charles Robertson, a top software engineer who was Cerent's third employee. "There haven't been any surprises." (Thurm, Wall Street Journal, March 1, 2000)

This example confirms what many academic studies have suggested - the degree of integration and autonomy that an acquired firm is promised and given can affect how its members perceive conflict and cultural differences with the parent firm. This, in turn, can influence the subsequent performance of both the acquired and acquiring organizations. Several studies have found that unrelated firms given a high degree of autonomy will outperform unrelated firms that have been integrated with the parent firm. Similarly, these studies report that related firms with a high degree of integration with the parent firm typically out-perform related firms that operate autonomously (Datta and Grant, 1990; Elsas & Veiga, 1994; Magnet, 1984).

My own research has verified these conclusions to some degree. I found a reasonably high correlation (r=.48) between communication and conflict levels among M&As motivated by financial rather than operating synergy. In firms that were intended to operate autonomously, high levels of communications from the parent firm resulted in increased conflict, and lower conflict was reported in similar firms that received relatively few communications from the parent.

These results also fit with feedback I received during several in-depth interviews conducted with boutique ad agency executives whose firms had been acquired by mega-agency holding companies. Most of these agencies reported that all was fine with the acquisition until the parent agency began to send extensive communications to the acquired firm -- newsletters, quarterly letters from the chairman, personnel and purchasing procedures, etc. These executives consistently reported that they felt betrayed and that the parent had reneged on the promise of continued autonomy. In many of these small agencies, top talent simply left. In some of the firms, the principals were able to come up with enough cash to buy themselves back from the parents.

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**Myth #4 - Communications can create synergy in M&As.**

Unfortunately, this, too, is just not the case. Communication strategies cannot create synergy where no synergy exists or where it is overestimated and overvalued, causing the buyers to pay too much in the deal (Bielinski, 1992; Kusewitt, 1985). In these types of transactions, the M&A will be labeled a failure because the merged entity did not make enough profit to cover the cost of the acquisition. This can happen in spite of the best communication efforts, even when there is a good cultural fit, and real synergies may have existed.

Occasionally, firms jumping into M&As may reap early "synergy" benefits from closing and consolidating operations and laying off workers, but after these early actions, they have destroyed the very value in the firm they acquired. SBC's acquisition of Ameritech may be such a situation. Another common mistake is for firms to overestimate their ability to absorb large acquisitions. There is little communication can do to save these deals.

Hanger Orthopedic Group is a classic example. According to Fortune magazine (Kahn, 2000), Hanger ranked 74th on last year's list of America's Fastest-Growing Companies, a place it achieved primarily by successfully buying up and integrating over 75 small, mom-and-pop competitors between 1986 and 1999. In 1999, it acquired its single largest competitor, NovaCare for $445 million, which doubled Hanger's size overnight. Fortune reported that "Hanger was soon overwhelmed by the difficulty of integrating NovaCare into its business" (p. 168).

Another problem was "NovaCare's bureaucratic corporate structure didn't mesh well with Hanger's more entrepreneurial management style. When Hanger tried to impose changes at NovaCare, an unexpected number of employees left ... causing Hanger to spend thousands to recruit new specialists" (p. 168). Other unforeseen difficulties included incompatible billing and payroll systems. The bottom-line is the once very profitable company is now reporting serious losses, its stock value has dropped significantly, and its management is currently trying to figure out what to do next.

These problems should have been foreseen, and they cannot be fixed with communication after the fact. Yet, it seems that many CEOs think they can overcome these types of fundamental prob-
lems by merely communicating their goals better. These CEOs are also likely to be willing to bring in the "big guns" - the high-priced consulting and public relations firms - to deal with the communication issues.

This view of communications is the exact opposite of my earlier example of the CEO who found no value in hiring top communications talent. But companies that put too much stock in what communication can accomplish will fare equally as badly as those that do not trust in effective communication. Communications cannot make up for laziness in the due diligence phase, poor initial planning, or in a lack of understanding of where both firms add value to their customers.

**Myth #5 - As long as we address communication issues, it does not matter who manages the communication process.**

Many top executives believe that communication is a fundamental skill inherent in every good manager, as did the earlier discussed CEO. They mistakenly believe that it is not necessary to hire top level specialists in this area to manage the M&A integration process.

My research found that, while nearly 65% of the firms used some type of planning team to strategize the M&A, only 37% of those firms had the public relations or corporate communication professional lead that team, despite the fact that communication is the primary tool used to integrate the merging firms. I also found that the public relations or corporate communication professionals were more frequently asked to lead the integration teams when M&As were likely to encounter high conflict and high turnover. When these communicators did lead the teams, a more positive M&A outcome was achieved in terms of lower unwanted attrition and higher perceived performance.

**Myth #6 - There is one "right" way to implement M&A communications.**

This is a myth, because every company is different and communication strategies need to be customized for each merger situation. Also, as has been noted, the motives behind the merger should dictate the most appropriate communication strategy to employ, and these strategies may be dramatically different, depending on what is driving the deal. There is some truth behind this myth, and there are some common practices among some of the more successful firms, such as Cisco Systems, Nortel, and GE Capital, which other firms should emulate. These will be addressed below.

**How M&As should be Implemented**

Most critical to a successful M&A is the use of experienced integration teams which ensure that there is a strategic fit between both firms and then plan the communication for the particular M&A before the deal is announced.

While integration teams are mentioned in nearly every article on how to implement an M&A effectively, I found that an astounding 34% of the firms I studied did not use an integration team of any kind. The parent firms of the 108 M&As I studied had, on average, $8.2 billion in revenues and 15,000 employees, ...an astounding 34% of the firms did not use an integration team of any kind.

...while their target firms had revenues averaging $1.6 billion and 2,925 employees. Despite the size and the number of employees affected, a full third of the companies managed the process from the CEO or CFO's office and simply asked that each department head create appropriate communication activities for their functional areas. Not all of these M&As failed, but this is a hit-or-miss approach that takes an inordinate amount of time and effort on the part of every key manager to succeed - not to mention a certain amount of luck.

In addition to integration teams, companies such as Cisco and GE Capital which conduct many small acquisitions easily absorbed into the parent tend to use a standardized, general plan that ensures key areas aren't missed. This does not mean that they have a cookie-cutter M&A plan, but they have formal M&A manuals and computerized checklists to ensure that they consider all options. They use a permanent integration staff and add temporary members to the team from functional areas critical to that particular merger's need. Cisco Systems, almost a legend in how it handles M&As, is widely credited for perfecting the strategy.

...the secret to Cisco's merger success kicked in even before the deal was signed, when the company mobilized a transition SWAT team to oversee every detail of the start-up's assimilation. Led by Cisco's resident makeover expert, Mimi Gigoux, the team drew on its pool of three-dozen Cisco staffers who work full-time shepherding newcomers into the fold. When Cisco formally took control two months later, every Cerent employee had a title, boss, bonus plan, health plan...
and direct link to Cisco's internal Web site. (Thurm, March 1, 2000)

What the Most Successful Firms do to Implement M&As

1. Permanent integration staff
2. Cross-functional integration team with members from both firms
4. Pre-merger cultural assessments
5. Checklist of potential problem areas
6. Communication strategies that match the M&A motive
7. Both formal and informal communication tactics
8. Use of professional communicators
9. Consistency between initial promises and implementation

Another critical factor in M&A success is involving more than just an elite team of top executives in the planning and implementation. Nortel's CEO John Roth recently explained to the Wall Street Journal his strategy of using cross-functional teams to help shake up the status quo that was keeping the company from making strategic acquisitions and not properly implementing those it did make:

I assembled what we call the CEO Forum. We picked 75 people, three teams of 25 from the rank and file of Nortel. We got people at every level who were nominated by their peers. Everybody got together — no name tags, no badges, no titles… It was a huge event because a whole bunch of vice presidents were not invited to this forum – they saw engineers being invited who hadn’t been with the company for six months. It was quite a turning event in the sense of culture. (Heinzl, 2000, p. B1)

Other practices associated with successful M&As (Sauerhaft, 1997) are:

- Including members from both firms to serve on the cross-functional integration team
- Collecting and analyzing cultural artifacts from each firm to assess cultural compatibility. This assessment might involve surveys to determine management styles and employee attitudes in both firms, or might only explore key artifacts such as both firms' mission statements, employee benefits manuals and work rules, internal newsletters, annual reports, and customer service procedures
- Utilizing a series of pre-determined questions that the integration team should explore to identify potential problem areas long before the merger or acquisition takes place
- Developing specific pre-merger and post-merger communication strategies and materials aimed at external and internal audiences and which employ both a formal, written component and a more informal component stressing interaction among the merging organizations

Conclusion

While my research definitely supports the view that strategic communication is critical to the successful implementation of mergers and acquisitions and in the integration of newly acquired employees into new corporate cultures, it is not a magic bullet that can make a poorly crafted merger successful.

Additionally, some of my research findings conflict with the widely accepted view that cultural conflict is the chief cause of merger failure, that poor communication and poor M&A implementation are the chief causes of that conflict, and that excessive communications will save a failing M&A. This warning should be heeded by executives who pride themselves in making a quick deal, yet do not spend enough time conducting due diligence, strategically planning the implementation process, or assessing the true synergies that may accrue to the merged entity. These executives may inaccurately believe that they can make any merger succeed after the fact with enough time and well-thought-out communication efforts. This article suggests that if it were truly that easy, the vast majority of all mergers and acquisitions that have taken place over the past few decades would have been far more successful in living up to their creator’s expectations.

References


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