WORKING PAPER
ALFRED P. SLOAN SCHOOL OF MANAGEMENT

MERGERS AND ACQUISITIONS: SOME CRITICAL ISSUES FOR COE'S

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July, 1989

WP# 3055-89-BPS

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* The issues identified below are based on the Roundtable on Mergers and Acquisitions sponsored by the Centre for Organizational Studies, Foundation Jose M. de Anzizu, June 4, 5, and 6, 1989, Barcelona, Spain. A general summary of the roundtable was prepared by Jane Salk. The present paper pulls out the critical issues that pertain particularly to CEO's contemplating mergers or acquisitions.

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The issues identified below are intended to provide the CEO a roadmap of the less obvious yet consequential forces that operate in any merger or acquisition situation prior to, during, and after the formal legal event. Some of these forces have the potential of destroying the results that were intended by the M/A and thus must be considered even during the initial planning process.

The issues are identified in terms of the basic time sequence involved in the typical M/A, but the ones discussed later may be the more critical ones. The order of listing does not, therefore, imply relative importance.
1. The nature of the core technology underlying the organizations involved strongly determines the potential success of the M/A.

The most fundamental aspects of an organization's culture and identity are derived from the nature of its core technology and the personalities of its founders. The newer and more complex this technology, the more difficult it will be to "merge" companies because so many basic business processes are tied to the technology itself. However, the organization's culture will be a joint product of the technology, the personality of the founders, and the company's actual history, resulting in cultural variation even within a given technology. One cannot assume, therefore, that M/A's within a given technology will work better than M/A's across different technologies.

The implication for CEO's is that in the planning process they must carefully analyze the nature of the technology involved in each organization as well as assessing the personalities and histories of the companies.

2. The psychological reasons for entering M/A's are complex, multiple, and often concealed until long after the M/A has been completed.

The forces driving CEO's, Boards, and other stakeholders toward M/A's are in part technological, institutional, economic, and legal. Such forces are often publicly identified and serve as the rationale for the M/A. However, it is clear that in addi-
tion to those forces there are operating psychological forces that involve personal power needs, needs for growth and expanded identity, needs to destroy other organizations or to subjugate them, and needs to undermine unions or other groups. Such needs may have little to do with the publicly published rationale for the M/A.

In the years following the M/A those psychological forces may play a major role in how the merger process works out, and must, therefore, be understood by the planners to the greatest extent possible. The CEO must be careful to examine his or her own motives and try to determine as much as possible what the "real" motives are of the other party to the M/A. Such an examination will sometimes reveal that other forms of new business arrangements such as joint ventures, sub-contracting, strategic alliances, or internal diversification might be better alternatives for achieving the business goals than a M/A.

3. The stages involved in M/A's are inherently disjunctive and the outcomes at each stage are, therefore, inherently unpredictable.

Some of the stages or steps involved in a typical M/A are the following:

1) Preparation and planning in each organization
2) Legal maneuvering to insure consummation
3) Formal consummation, signing the papers
4) Announcing the M/A and "cosmetic" public explanations directed toward external stakeholders
5) "Real" coming together of the top managements, sorting out who remains, and new roles
6) Defining who remains and in what roles down through the other levels of the organization
7) Dealing with new problems that arise from unanticipated reactions in steps 5) and 6)
8) Readjustments of short run plans
9) Implementation of longer range programs and processes designed to make the M/A work effectively
10) Assessment of progress, replanning, new decisions

The most important conclusion for the CEO is that what happens at any given stage or in any of the above steps is not a good predictor of what may happen later. Therefore, the value of a formal planning process is limited. Instead, what top management needs to make an M/A work is flexibility and process skills to deal with the unpredicted contingencies that will arise.

This conclusion is based on several considerations. The most important point is that if the two organizations have any history they will have generated cultures, identities, and loyalties that will tend to persist in spite of formal attempts to blend or to create a common culture or identity. Such persistence of original identities can be observed in post merger situations as long as several decades after the formal M/A. We cannot really predict even in situations where initial compatibility seems to be high how two cultures will interact, how they will threaten each other, or how they will trigger new responses that even the insiders would not have anticipated.
For example, if the M/A involves national cultures, the members of each organization may be genuinely unable to predict how they will respond to a manager from the other country. The parent may leave the acquired unit alone for several years and then move one of its own managers in as CEO, only to discover at that point forms of cultural resistance that were not predictable from earlier events.

Second, it has already been pointed out that there are often hidden motives in a M/A that may come out unexpectedly and without warning. If those hidden motives are out of line with the public justifications provided earlier, new forms of resistance or alienation may come into play.

Third, while the pre-M/A analysis may show that the organizations can mesh at the level of their financial and business goals, and that some of their espoused values may be congruent, it may not become evident until much later that basic underlying assumptions do not mesh. Once the two parties discover disagreement at that level, the situation becomes unstable and a whole new set of activities have to be invented to deal with the new issues. Some of these activities may lead to the conclusion that the M/A should be undone.

For example, a chemical company buys a consumer goods company based on its needs to fill an important market niche and to bring marketing skills into the parent organization, only to discover that the whole technology of manufacturing, distributing and advertising the consumer product is based on different assumptions about what a company should be in business for, what
margins are legitimate, what time dimensions should govern key decisions, and so on. Or, two companies in the same technology decide to merge to obtain economies of scale only to discover that one company was based on egalitarian participative assumptions about the nature of management, while the other company was based on tight hierarchical control.

Fourth, neither organization can anticipate in the early stages what the reactions will be of the other organization once the process reaches below the top management levels. The most common unanticipated event reported in this regard is the mass exodus of those people who were the prime reason for the M/A in the first place. Planning for the retention of key people may have been extensive, yet the reactions of key persons may be quite different from whatever was anticipated.

The implication for the CEO and top management is that it is more important for them to be analytical, flexible, and skilled in dealing with unanticipated processes than it is to be expert planners prior to the M/A. Good planning may be a necessary condition for launching into the M/A but it is far from sufficient for obtaining the desired benefits.

4. The levels of stress created by M/A's are typically much higher than is usually anticipated.

The human consequences of M/A's have recently received increasing attention (Buono & Bowditch, 1989; McManus & Hergert, 1988), but the levels of stress involved for the participants go beyond even what has been written about so far. In particular,
not enough attention has been given to the stresses experienced by the acquiring or dominant partner. The stresses identified occur at the level of the individual, the level of the group, and the level of management per se.

a. Individual level stresses

Being taken over or merged appears consistently to arouse feelings of being victimized, to the point that some individuals feel "raped" in the process. What may be perceived as a "marriage" by the survivors is often perceived in much more negative terms by those who lost jobs, status, identity, or other valued things. Paradoxically, in many mergers of equals, both organizations feel that they are now being dominated and develop paranoia about the ultimate outcomes. For a period of time everyone may feel like a victim of the process, and this feeling is validated for employees by the intrinsic inequity that is inevitable in a M/A.

Equally threatening to individual identity is the recognition by the members of each organization that "the members of the other organization do not know us; they do not know who we are, what we are good at, what our needs and concerns are." Not only is it difficult to feel psychologically safe when one knows that the new boss does not know one personally, but the realization that to many others one suddenly becomes only a resume or an occupant of a job title can be catastrophic. Furthermore, this realization focuses one on one's identity and thus rekindles identity issues that may have been resolved long ago. Everyone in a M/A suddenly has to reconfigure who they are and reestablish
themselves with the "others" who will be in charge. This source of stress is added on top of the economic issue that one may not have a job at all at some time in the future.

Organizations have learned to communicate as much as possible in M/A's but if the communication program involves mostly "explanations" of why the M/A was undertaken and what will happen in the future, such explanations will do little to allay the fears that arise from loss of identity. What may be needed at the beginning is not only the formal explanation but a lot of listening by members of each organization to people from the other organization to allow people to re-explain themselves and, thereby, reestablish their identity. In other words, many will feel: "If they don't know my needs and fears, how can they reassure me?" Mutual listening will be most effective if done in informal as well as formal settings.

b. Group level stresses

At the group level the metaphor focuses more on "conquest" which may either be experienced as rape, pillage, plunder, and subjugation or as liberation from a tyrant. Sometimes both organizations will feel conquered, leading to feelings of discouragement, anxiety, and depression. But, to the extent that group members discover that they have similar feelings, strong forces will be set up to form coalitions that will resist and, if possible, subvert or sabotage the M/A.

Equally traumatic at the group level is the sense that one's culture, and therefore one's system of attaching meaning to events will be dismantled or disapproved of. Culture is a major
source of stability and predictability in human affairs, so any threat to culture is an inherently destabilizing force that will be strongly fought. And, since the "other" group is not known, individuals will have no way of predicting whether their currently held assumptions will be approved of or challenged.

It is this sense of two groups not knowing each other that makes M/A's intrinsically different from other kinds of organizational restructuring where groups may fear or admire each other but where those feelings are likely to be based on some valid data and some contact. In M/A's there is intrinsic ambiguity that can only be reduced over a long period of time.

c. Managerial stresses

At the senior management level the stresses are somewhat less. The metaphor shifts from marriage, rape, conquest, or liberation to "winning or losing the game." The culture of senior management is more likely to be similar across different kinds of organizations so the initial coming together may not be experienced as a clash, and much of the human resource planning preceding the M/A is likely to have been devoted to the disposition of the dispossessed through golden parachutes and the like.

But, as pointed out above, once one goes into middle management and below, the same stresses that were discussed for groups and individuals will operate, and the level of economic insecurity is likely to be very high as well because the middle manager who loses his or her job due to the M/A may have a harder time relocating.

Perhaps the least well understood stress for management
occurs in the implementers of the M/A. The responsibility for
dealing with the human consequences outlined above, the need to
manage an uncertain and unpredictable set of unfolding events,
and, at the same time, to run the business successfully to make
the M/A fulfill its promise requires extraordinary skill and
fortitude. Various studies of M/A's suggest that no more than
half fulfill their promise. Picture then the prospect of taking
on a responsibility in which you have a 50/50 chance of failure.
One should not be surprised, therefore, if one finds in the post
merger management individuals who burn out, who become psychosomatically ill, and in other ways also end up hurt by the process.

Summary and Implications

The above factors taken together suggest that CEO's
should think very carefully about getting into a M/A situation.
Not only is the likelihood of success low, but the human costs
may be too high. And, as experience has shown, if the human
costs are high, the organization will sooner or later reflect
those costs in reduced economic performance.

If the M/A is to work the implementing management must
have extraordinary skills in adapting to unforseen circumstances
and in handling unanticipated events. Good planning, while
necessary for the initial decisions to enter the M/A at all, will
not reveal what is ahead in the implementation stages. The
handling of the human stresses requires not only sensitive senior
management, but a strong human resource and organization develop-
ment function to minimize the deleterious effects the M/A.

Given all of these potential difficulties it is most
important that the CEO be highly aware of his or her own personal and cultural assumptions, and insure that these assumptions do not distort the perceptions of potential strategic and economic advantages in a given M/A. The CEO must know why he or she is going into the M/A, what is really being acquired or merged with, whether or not the reasons are sound, and whether or not the skill and patience exists to make the M/A work.

Finally, the CEO must think carefully about the pros and cons of various alternatives to the M/A. Would it be better to enter a strategic alliance, a joint venture, a sub-contracting arrangement, or some other form of new business arrangement that minimizes the risks of cultural mismatches? Which form of new business arrangement will achieve the technological, strategic, and economic goals without the huge human and, ultimately economic costs of M/A's? Is the M/A with all of its potential problems really the best way to proceed?

References