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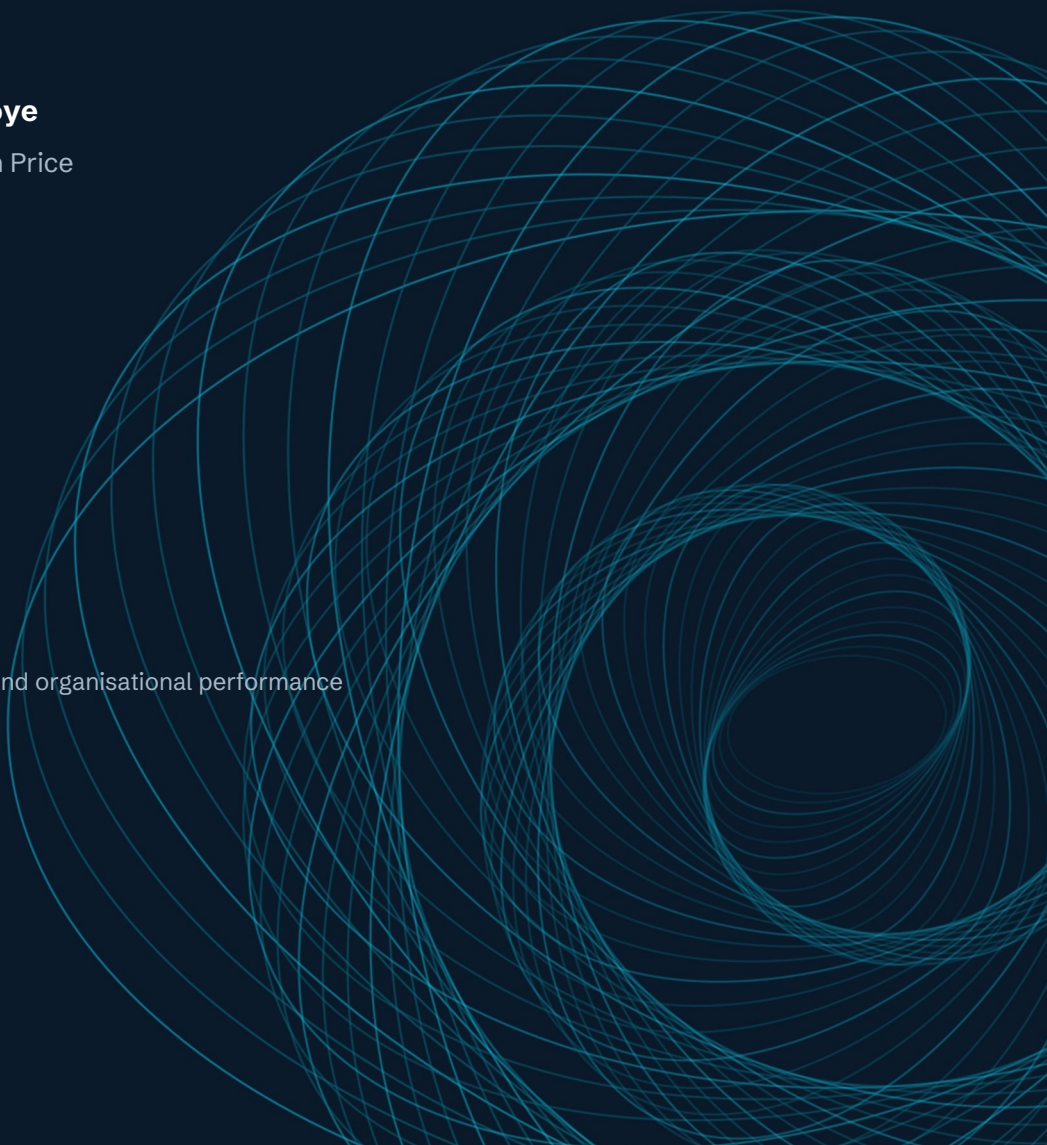
PAPER

Managing Mergers

How the top team turns the deal into customer and economic value

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Original research by Cameron Price



Part of our series on leadership and organisational performance

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Executive summary

A merger gives senior leaders plenty to talk about: jobs, structures, systems and brands. The new top team has to make difficult choices about the combined business while earning the commitment of people whose prospects have become less certain.

Start from the value the combination should create: what the merged business can now do for customers that the separate businesses could not. Translate the case for the deal into a few changes in the business, each with an accountable executive, an agreed starting point and a measure that shows whether the benefit is arriving.

Then make five decisions that reinforce one another. Define the value the team must deliver. Appoint people for the business being built, rather than sharing seats between the former companies. Make disagreement useful and decisions durable. Align the operating model, targets and rewards with the customer promise. Set a pace that releases value while protecting customers.

At the next executive meeting, take one important benefit promised in the deal and trace it through the change required, the decision still outstanding, the person accountable and the measure that will show it has happened.

A merger gives senior leaders plenty to talk about. Who gets which job. Where the headquarters will be. Whose systems survive. Before long, people who used to spend their time winning customers are spending it interpreting the seating plan.

Some of this attention is unavoidable. Careers, loyalties and livelihoods are at stake. But customers still need serving, and the value promised when the deal was agreed still needs delivering. Corporate voyeurism can become an expensive distraction.

The new top team has to hold both realities in view. It must make difficult choices about the combined business while earning the commitment of people whose own prospects may have become less certain. Appointing capable individuals is only the beginning. They must learn to make decisions together about a business that none of them has led before.

Our starting point is the value the combination should create. What can the merged business now do for customers that the separate businesses could not? Which costs can genuinely disappear? Where can cash be released or risk reduced? The answers should determine who joins the team, how it works and where the chief executive spends time.

Acceleration means shortening the time it takes to turn potential into performance.[1] A merger puts that idea under particular pressure. There is plenty of activity to report, but activity can conceal a long wait for value. We would organise the leadership task around five decisions, returning to each as the evidence develops.

Define the value the team must deliver

Start by translating the case for the deal into a small set of changes in the business. “Cross-selling”, “scale” and “synergies” are useful headings for a presentation. They are incomplete instructions for the people expected to deliver them. Who will buy something different, why will they buy it, and what has to happen before the business can deliver the promise profitably?

Consider an illustrative merger between a national maintenance business and a smaller specialist engineering firm. The commercial logic is attractive: customers of the larger business could gain access to expertise they previously bought elsewhere, while the specialists could reach a wider market. The value depends on much more than putting two sales lists together.

Account managers must recognise the relevant customer problem. Specialists must have capacity to respond. Someone must agree the scope, price and service commitment. The teams need a workable way of sharing the revenue and resolving a failed handover. If these decisions remain unsettled, a combined brochure may be the most integrated part of the business.

Now the team has a useful job to do. It can identify the customers for whom the combined offer makes sense, settle ownership of their accounts and test whether the service works from enquiry to delivery. Commercial judgement, specialist expertise and operational authority must all be present. The organisation chart follows a clearer understanding of the work. Figure 1 shows how to connect these promises to the decisions and evidence needed to deliver them.

Figure 1 Connect each promise to a decision and evidence of value

Promise in the deal	Decision for the top team	Evidence to track
Sell specialist services to more existing customers	Set account ownership, referral rules, capacity and pricing authority	Referrals converted into delivered revenue; contribution margin; service reliability
Remove duplicate support cost	Choose the common activity, fund the transition and stop the replaced work	Net recurring cost after transition; service quality; costs transferred elsewhere
Release cash from completed work	Agree when work is ready to bill and who resolves disputed handovers	Time from completion to invoice; disputed invoices; cash actually collected

Give each important source of value an accountable executive, an agreed starting point and a measure that shows whether the benefit is reaching the business. Growth should be examined alongside margin and delivery capacity. A cost reduction should be measured after transition costs and consequences elsewhere. A saving that creates more rework or loses valuable customers needs another look.

This also gives the leadership team a credible story. People need to understand what the combination makes possible, what will change, what is being protected and what remains undecided. Involve those who understand the work in shaping the answer. Do not ask them to cocreate a decision that has already been made.

> **A combined brochure may be the most integrated part of the business.**

Appoint people for the business you are building

Selecting a top team by allocating seats to the biggest parts of the two former businesses is an understandable temptation. It recognises history and can make the announcement easier. It can also preserve the very boundaries the merger needs to overcome. Begin with the capabilities and decisions required to deliver the value, then assess people against them.

Knowledge of the acquired business matters. Its relationships, technical judgement or way of working may be precisely what the buyer wanted. Treating its leaders as guests in the acquirer's established team can deprive the new business of that knowledge. Equally, a seat cannot become permanent compensation for having belonged to the smaller company. Representation provides information and legitimacy; it should not give either legacy business a veto.

The personal choices are difficult. A respected executive may lose a role. Someone who helped build one business may report to a former competitor. Explain the criteria, make decisions within a clear timetable and treat people properly. Where an interim appointment is necessary, specify its authority and review point. Avoid making two people jointly responsible for a decision simply because choosing between them is uncomfortable.

We would look closely at behaviour under pressure.[2] Can this person acknowledge a mistaken assumption? Can they argue a case without humiliating a colleague? Will they release a strong person to a more valuable enterprise task? Do they change their mind when the evidence changes? These observations are more useful for this purpose than attaching a personality label to an ambitious executive.

Sharon's work on enterprise leadership develops Patrick Lencioni's first-team principle: for choices affecting the whole business, your primary team is the leadership group you belong to.[3] You bring your function's knowledge and concerns into the discussion, then take responsibility for the collective decision. You still owe your own people support, professional standards and honest representation.

In a merger, this may mean supporting the closure of your former headquarters or appointing someone from the other business to a role your colleague wanted. The test is whether you can explain the decision honestly without presenting it as something imposed by "them". That is a demanding change in loyalty. It requires reasons people can respect and conduct they can trust.

Keep the executive group small enough to resolve its most important decisions, and involve a wider leadership community in designing and delivering the changes. There is no useful universal headcount. Be precise about which decisions belong to the executive team, which belong elsewhere and who needs to contribute. A large meeting with an impressive title does not necessarily extend leadership.

Make disagreement useful and decisions durable

A newly merged team can agree enthusiastically with words that mean different things to its members. "Customer first" may mean responding immediately in one business and refusing a promise that cannot be delivered in the other. "Accountability" may mean personal initiative to one leader and strict adherence to agreed controls to another. Those differences need examining before they become competing instructions.

Our report *Challenging Teams* examines what makes senior teams effective.[4] It draws on a study of 408 senior teams, in which the ability to surface and productively address disagreement was the strongest correlate of performance among the characteristics assessed. High challenge also accompanied trust and relationship building. This was observational research, with a bias towards private equity portfolio companies, rather than a study confined to mergers or proof that greater challenge causes better results. It gives us a strong reason to examine how disagreement is handled.

Return to the maintenance and engineering example. The sales leader wants to launch the combined offer immediately. The engineering leader fears that a volume target will overwhelm a small pool of specialists. Both may be protecting something valuable. Asking them to "align" will not establish how much work the business can safely accept.

Put the actual choice in front of the team. Which customers should enter the first test? What capacity is available? What would trigger a pause? Who can authorise an exception? Ask each leader to explain the strongest part of the other's case. The purpose is to improve the decision and make the remaining trade-off explicit.

The chief executive's behaviour matters here. If you consistently speak first, defend familiar colleagues or become impatient with unwelcome evidence, people will learn which views are safe to express. Invite the person most likely to see the weakness in the proposal. Give them time to

explain it. The executive from the acquired business should not have to spend political capital merely to describe how its customers work.

Close the discussion with a decision, an owner, the support required from colleagues and the circumstances in which it can be reopened. New evidence is a legitimate reason to reconsider. Disliking the result is insufficient. Record what each leader will tell their own team; otherwise an apparently settled decision can become several different plans by lunchtime.

When trust is damaged, repair it through a direct conversation about what happened, its impact and what will change. An apology matters, but colleagues also need to see a different response next time. Repeated breaches require action. A senior team becomes credible when members can challenge each other and rely on the commitments that follow.

> **The executive from the acquired business should not have to spend political capital merely to describe how its customers work.**

Make the operating model support the promise

Good behaviour is necessary, but leaders should not expect it to compensate indefinitely for contradictory targets or authority that stops at the wrong boundary. Sensible local choices can produce a poor enterprise result. A merger can inherit two versions of that problem and add a third reporting structure to coordinate them.

Suppose the account manager in our example is rewarded only for maintenance revenue, while the engineering leader is rewarded for protecting specialist margin. The account manager gives up selling time without credit for the specialist sale. The engineering leader is asked to reserve capacity at a discounted internal price. An appeal to enterprise leadership has to be supported by rules for account ownership, commercial credit and delivery commitments that make the desired behaviour worthwhile.

Changing behaviour requires attention to purpose, the operating model, skills, role modelling and space to engage.[6] All five matter here.[5] People need a convincing customer reason to work differently, authority and measures that support it, the skills to do it, leaders who demonstrate it and time to practise. Announcing shared values leaves most of that work untouched.

The choice is more precise than centralisation versus decentralisation.[7] Common standards can support local responsiveness when leaders specify what each is for. A shared customer record can reduce repeated questions while leaving the specialist free to shape the technical solution. A common security requirement need not dictate every part of the sales conversation. Figure 2 sets out what to make common, what to connect and what to keep distinctive.

For the illustrative merged business, a single view of the customer and clear rules for referrals may be urgent. Replacing the specialists' scheduling system may require a careful test: does the proposed common system handle the technical constraints that make their service reliable? Keeping a distinctive capability is a deliberate design choice, with an owner and a reason. It should not become a general exemption from enterprise commitments.

The same discipline applies to the financial promise. Put each promised benefit into an accountable executive's budget and delivery commitments. Apply that discipline with a clear baseline, delivery costs and explicit dependencies. If the saving relies on another executive releasing capacity, their commitment belongs in the plan too. Finance should reconcile the benefit once, so that two workstreams do not claim the same saving.

Be equally precise about the form of value. Releasing staff time creates capacity; it does not automatically reduce payroll. Earlier collection improves cash timing; it does not create additional revenue. A higher sales target is not evidence that customers want the combined offer. These distinctions make the conversation more useful and the promises more credible.

Finally, align consequences with the decisions you have asked people to make. If an executive gives up a local result for an agreed enterprise priority, reflect that choice in the performance review. Otherwise the next request for cooperation will be assessed against what happened last time.

Figure 2 Choose what becomes common and what stays distinctive

One customer promise with clear ownership and shared measures		
Make common	**Connect**	**Keep distinctive**
Customer identity Financial definitions Essential control standards	Account referrals Service handovers Capacity commitments	Specialist expertise Local relationships Useful delivery practices
Agree standards and test the transition before retiring the old approach	Give each handover an owner, a service commitment and a route for exceptions	Name the capability to protect, its owner and when the choice will be reviewed
Test the complete customer journey before changing what already works		

Set a pace that releases value and protects customers

Speed matters most where delay is destroying value, prolonging uncertainty or blocking the next decision. It matters differently when the team is changing a process it does not yet understand. Closing an unnecessary duplicate approval can be straightforward. Moving a critical customer service onto an unfamiliar system deserves more evidence.

Separate the decisions that can be made now from those that need a bounded test. Give each test an owner, a question to answer and a date for reviewing the evidence. An integration team should be able to explain why it is waiting and what will end the wait. "We are being careful" should not provide indefinite shelter for avoiding a difficult choice.

Equally, do not measure progress solely through integration milestones. Retiring a system is useful if the replacement delivers the required service. Until then, the milestone may record a transfer of difficulty to the customer. Keep customer retention, service reliability, profitable growth and cash visible alongside the work plan. Examine leading signs of trouble, including unresolved handovers, specialist capacity and repeated escalation of decisions that should already be settled.

The executive meeting should concentrate on the few obstacles requiring collective authority. A programme office can assemble information, track dependencies and expose delay. The business leaders remain responsible for the result. Bring in the managers who know where the work is stuck,

give them clear decisions and remove reports that add no useful information. Combining two businesses should not require keeping both sets of meetings forever.

Protect capacity for the change. Every integration demand lands on someone who already has customers, colleagues and commitments. Decide what will stop, which people will be released and where temporary support is justified. Use live decisions to develop the team: review a missed commitment, examine the assumptions behind it and agree what will be done differently. Coaching and feedback are most useful when they improve the next piece of work.

The chief executive's calendar is part of the operating model. Spend time with customers who will experience the combined offer, with the people whose expertise made the acquisition attractive and with the decisions colleagues are struggling to resolve. Make room to think. If all your attention goes to internal negotiations, the organisation has a clear example to follow.

> **An integration team should be able to explain why it is waiting and what will end the wait.**

Make the next meeting count

These five decisions reinforce one another. A clear value ambition informs appointments. The right mix of people exposes better choices. Productive disagreement turns those choices into commitments, and a coherent operating model makes them possible to deliver. Pace comes from removing the obstacles in that chain while protecting the business customers still depend on.

At the next executive meeting, take one important benefit promised in the deal. Trace it through the customer or operating change required, the decision still outstanding, the person accountable and the measure that will show it has happened. Then identify the work you will stop or the resource you will move to make delivery possible. Repeat the exercise until the team can see where its attention is most valuable.

There will still be uncomfortable choices. Leadership cannot remove all the losses or uncertainty that a merger creates. It can make the reasons clear, treat people fairly and take responsibility for what follows. The test of the new top team is whether customers and colleagues can see those choices making the combined business work better.

Sources and further reading

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