Beyond the Deal Newsletter

Mergers and Acquisitions that
Achieve Breakthrough Gains

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Dear Jay,

Quote of the Month:

World trade means competition from anywhere; advancing technology encourages cross-industry competition. Consequently, strategic planning must consider who our future competitors will be, not only who is here today.

Mary Ann Allison

Principal, Allison Group

In this Newsletter:

The United/Continental Merger - Will Bigger Mean Better??

Since the April Newsletter, United jettisoned US Airways as a possible merger partner and agreed to merge with Continental Airlines to become the world's largest airline. The question raised by ***Ron Ashkenas***, author of *SIMPLY EFFECTIVE: How to Cut Through Complexity in Your Organization and Get Things Done*, is whether "bigger" is better. Ashkenas notes that any number of large scale mergers (AOLTimeWarner, DaimlerChrysler, etc.) failed to produce the anticipated benefits. Great size may yield scale and any number of other opportunities, but the other side of the two edged acquisition sword is the new combination can create both a bloat factor that stifles realization of value as well as a cluster of complex and difficult to resolve problems.

Let's take a look at three fundamental requirements for success that Ashkenas raises in his recent article in the ***Huffington Post*** (http://www.huffingtonpost.com/ron-ashkenas/will-bigger-be-better-for_b_564979.html):

- *Tackle the Tough Decisions That Need to Be Made:* While the merger may be a good strategic fit, there are any number of stakeholders that are going to be significantly affected - some positively, some quite negatively, and many with mixed outcomes: jobs will be cut and reworked, routes dropped or modified, there is a good chance of fares being raised, etc. There will be a lot of tough decisions to be made and worked through with each of these key stakeholder entities. Ashkenas makes a good point in saying that for the new leadership to be credible and win the backing of essential stakeholder populations, it must act "candidly and constructively as soon as possible." While it may not have all the answers it is critical for stakeholders to know that these core issues are being effectively addressed.
- *Put the Focus on "Better" Not "Bigger":* The raw truth is that scale has not made either of these companies successful thus far. It may provide opportunities but it does not mean those opportunities will be capitalized upon. What will make the strategic difference will be the "reinvention of new business models and processes." Virtually every area of these companies will be combining. Will the major thrust be primarily on cutting costs or will the new company capitalize on its unique window of opportunity to reformulate its way of operating to achieve breakthrough performance and value creation? The latter is where the real payoffs will come from.
- *Create a Customer-Centric Culture:* A make or break challenge in any integration is to create a culture that works to support achieving the goals of the newly combined firm. In the case of the United/Continental merger it may turn out to be the difference between "success and mediocrity", as Ashkenas puts it. Continental worked to turn itself around to be a service oriented organization over the last fifteen years. United efforts have been less successful and it continues to have marked difficulty working through its internal union contract issues. The result is that United has been dragging up the rear in customer and performance service ratings. Can the new United migrate the best of Continental's practices and orientation to help lead the merged company into becoming as a customer-centric culture? Will an effective response be forthcoming?

The quickness of the merger deal raises the question of how much of a business plan exists for the integration of the two firms. The significance of developing such a strong flexible business plan is discussed in the article below. How well do you think United and Continental are prepared for the integration challenges they are taking on?

Another factor to consider here is that there are very few mergers of equals. Most likely this will turn out to be true with the United/Continental combination as well. Although United has a majority (55 percent) ownership of the new company, the new United may well become a reverse acquisition, with Continental leadership and practices guiding the new organization. This could prove to be the best outcome. We will be following how the new United "takes off."

Integration Guidance Factor #2: Creating A Strong - But Flexible Business Plan

An integration business plan needs to be both strong and flexible so that the acquiring company is able to constantly adjust to new conditions and requirements.

The reality is that the moment every business plan is completed it is obsolete because of the constant change in market conditions. The key to an effective business plan is that it outlines how the organization will deal with issues as it encounters them, not that it is written in stone. It needs to be a living document.

For example, few if any people predicted the rapid deterioration of the markets in 2008 when Dow Chemical began its $18.8 billion acquisition of Rohm and Haas. What could have been a financial disaster of fatal proportions was managed, albeit with many volatile bumps along the way by an exceptional and dedicated team from Dow's acquisition center. With the discipline, practice, perspective and senior leadership participation and support, Dow has made the necessary adjustments to take a major acquisition that was unexpectedly beset by drastically shifting conditions into positive territory.

Since there is no way to predict all changes, the best preparation is to have the highest level of readiness capabilities underpinning the development and execution of the business plan. The place to start is by looking at shaping the business plan during due diligence and continuing it through the integration planning stage. If your company has a clear strategic intent and if your strategic logic is well established, then the people involved at all stages of the acquisition can better focus on the key business questions of the acquisition and build a strong, flexible business plan to use during the integration and postintegration periods.

The business plan is valuable both as a guide for the integration as well as in serving as a mental framework for thinking about implementing the integration. The business plan becomes a working blueprint for actions and attitude. As you develop your business plan blueprint, you begin to recognize, anticipate and work though various issues that may arise during integration. With this approach you will not have to face a sizable backlog of issues you haven't dealt with or decisions you have not made!

The more grounded, well-thought out, and explicit your business plan, the more readily your integration team can use that business plan to map out how to move faster, resolve issues more quickly, and streamline decision-making, and far better navigate in our era where conventional rules of business have become relics of the past.

The June Newsletter will continue with the next factor in the integration guidance series: The Need for Speed.

Using Wikis to Facilitate Integrations

As part of the evolving nature of the Beyond the Deal Newsletter, we are exploring the development of a wiki to serve as a collaboration tool for the integration community. The goal is to create an accessible resource in which contributors (i.e., people like your self) can share your insights, knowledge and experience on what is useful for building the capabilities and raising performance levels during the integration process.

One intriguing tool for this is **Wikispaces** (www.wikispaces.com). Visit this resource to see how remarkably simple it has become to set up an open space for anyone in a newly combined organization to participate in the key and continuing conversations required to achieve a successful integration.

Learn more about how to set up and implement a social media strategy for integrations:

Progressive Practices is partnering with Euan Semple, one of the leading practitioners in social media, to develop a strategic approach of social media across the range of action areas involved in integrations. Click on this link to ***Social Media Strategy to Transform Integrations*** (http://beyondthedeal.net/PresentationSocialMediaStrategytoTransformIntegrations.pdf) PowerPoint presentation to get a strong picture of what we mean by a strategic approach and how you can start developing this capability in your organization now. Look into how you can develop and implement an effective social media strategy in your firm. Contact ***Jay Chatzkel*** (jaychatzkel@progressivepractices.com) or ***Euan Semple*** (euan@euansemple.com) to make arrangements and for further information.

In addition to having the Newsletter sent to you directly, you can access the Newsletter and article library at: http://www.beyondthedeal.net/Newsletter.html

Please send in your comments, contributions and suggestions to Jay Chatzkel, editor. They are important to making the newsletter as relevant to you as possible.

You are welcome to forward this newsletter on to a colleague or friend.

All the best,

Jay Chatzkel
Progressive Practices

Jay L. Chatzkel is coauthor of the *Beyond the Deal*, and editor of the Newsletter. He is Principal of Progressive Practices where he assists organizations in transforming themselves into knowledge-based, intelligent enterprises. This includes working with organizations to develop skills and practices in the areas of merger and acquisition integration, intellectual capital, knowledge management, leadership and collaboration, business process management and performance measurement.

He is also author of *Knowledge Capital: How Knowledge-Based Enterprises Really Get Built* (Oxford University Press, 2003) and *Intellectual Capital* (John Wiley & Sons, 2002).
