Getting It Together

The Leadership Challenge of Mergers and Acquisitions

Mergers, acquisitions, and strategic alliances are supposed to create new, stronger organizations, but history shows that such combinations often fall far short of expectations. Cross-border integrations, such as those between Western and Eastern companies, are particularly difficult to manage. Here the CEOs of two multinational firms that have been there talk about the factors that set winning corporate combinations apart from the rest.

Every merger, acquisition, or strategic alliance promises to create value from some kind of synergy, yet statistics show that the benefits that look so good on paper often do not materialize. The result, more often than not, is value destruction. The literature on mergers and acquisitions indicates that failure rates typically range from 50 to 70 percent or even higher. A BusinessWeek study of megamerger conducted between 1998 and 2000 found that in more than 60 percent of the cases, shareholder value was destroyed. (Keep in mind that this was during an unprecedented boom phase when stock markets soared.) Alliances are on average more successful than mergers and acquisitions, but cross-border alliances in particular are difficult to manage, and their performance is often disappointing.

Why do so many corporate combinations that looked like such great opportunities end up in disaster? Recent research suggests that contrary to common belief, it is not poor strategic fit that most often causes mergers and acquisitions to fail but poor execution. The errors can be seen, for example, in instances of insensitive management, lack of trust building and communication, slow execution, power struggles, or a lead-

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by Günter K. Stahl
Two Integration Success Stories

Carlos Ghosn joined Nissan Motor after the Renault-Nissan alliance was signed on March 27, 1999. Two months later, the automobile manufacturing companies got to work setting up joint project structures. Combined sales in 2003 reached more than five million units worldwide, putting the alliance among the world’s top five automakers. Renault now holds a 44 percent stake in Nissan; Nissan owns 15 percent of Renault shares. Jean-Pierre Garnier helped pilot SmithKline Beecham through one of the largest mergers in the history of the pharmaceuticals industry. GlaxoSmithKline was formed on December 27, 2000, through the merger of SmithKline Beecham and Glaxo Wellcome. The resulting company aimed to make research one of its main focuses and secured more than $4 billion annually to do so. It now supplies pharmaceutical products to 140 markets around the world.

Leadership’s Role

“Academic scholars and most business analysts tend to view these business ventures only from financial and operational perspectives,” says Ghosn. “They are often surprised when mergers struggle or even fail, when on paper they seemed sure to succeed.”

Garnier concurs: “In any merger or acquisition, investment banks and equity analysts will provide you with a plethora of figures quantifying the synergistic strategic benefits of the union. Yet what determines whether a merger succeeds or fails is really its people. History, sadly, has been littered with far too many examples of failed acquisitions or mergers that did not create value for the companies involved. What lessons can we draw from them, and how can we avoid this?”

Perhaps one way to better understand what goes right or wrong in mergers, acquisitions, and strategic alliances is to first recognize how leadership plays a critical role in the process. Ghosn and Garnier shed some light on the crucial but often-neglected areas that they found needed specific attention during their experiences with mergers, acquisitions, and alliances.

“My experience with Nissan has reconfirmed my conviction that the dignity of people must be respected even as you challenge them to overturn deep-seated practices and traditions,” says Ghosn. “The most fundamental challenge of any alliance or merger is cultural: if one does not believe anything can be learned from one’s new partners, the venture is doomed to fail. I have always believed that an alliance, merger, or acquisition—in fact, any corporate combination—is about partnership and trust rather than power and domination.”

In the Renault-Nissan alliance, the two companies pursue synergies in several areas, including sharing the platforms on which vehicles are built. They also exchange research and technological innovations, including state-of-the-art engines, transmission engineering, and fuel cell research. To facilitate coordination and improve performance, part of the alliance integration plan called for employee exchanges between the organizations. In addition, some employees, while staying in their original companies, worked in Renault-Nissan alliance structures such as cross-company teams and functional task teams.

Yet even when common operating structures are well built and maintained, questions still arise about which identity will dominate when corporate identities are combined, coordinated, or blended. Embracing and respecting the differences between companies involved in mergers, acquisitions, or alliances goes hand-in-hand with allowing trust to grow between companies that have been, in some cases, long-time competitors.

 ABOUT THE AUTHOR

Günter K. Stahl is assistant professor of organizational behavior at INSEAD, an international business school with campuses in Fontainebleau, France, and Singapore. He teaches on various topics, including cross-cultural management and the management of mergers and acquisitions.
Says Ghosn: “People will not give their best efforts if they feel that their identities are being consumed by a greater force. If any partnership or merger is to succeed, it must respect the identities and self-esteem of all the people involved. . . . Two goals—making changes and safeguarding identity—could easily come into conflict. Pursuing them both entails a difficult yet vital balancing act.”

DIFFERENT CULTURES

Mergers, acquisitions, and alliances involve blending people of different corporate cultures and even various national cultures into one company, which tends to complicate matters further. Instead of melting everyone together, a leader must capitalize on the cultural differences between employees and try to diminish the psychological distances between them.

Ghosn says: “I have been asked, ‘Is Renault-Nissan bicultural?’ My reply is that our alliance is both global and multicultural. We are French and Japanese, certainly, but our corporate culture also includes American, Chinese, Brazilian, Mexican, and many other cultures. We are always evolving, always adapting, always pursuing synergies that will improve our performance, based on our internal learning from one another.”

At the same time, whether or not a firm is multinational, the CEO must also be attentive to the internal differences in corporate culture that people feel when going through a merger or acquisition or entering an alliance.

“One of the key issues I faced with the [2000 merger of SmithKline Beecham and Glaxo Wellcome into GlaxoSmithKline] was to have employees thinking and behaving as GSK people and not Glaxo people or SmithKline people,” says Garnier. “We had to decide and collectively answer some very fundamental questions from the start. Why did we exist as a business? How did we work and treat each other as colleagues? Where were we going as a business in the future? How were we going to get there?”

To answer these questions, GSK formed a corporate executive team that collected input and consultation from the various departments and eventually distilled the essence of what the new GSK stood for. The team outlined the new vision and guiding principles in a document and distributed it to all the employees. “However,” Garnier adds, “these principles would have remained little more than words unless each member of the GSK family adopted them and decided to act accordingly.”

REINFORCING VALUES

To drive change, the CEO must espouse visionary, or value-based, leadership. In this kind of leadership the leader reinforces the values inherent in the organization’s vision and exhibits characteristics such as articulating a clear and appealing vision; using strong, expressive forms of communication to do so; displaying strong self-confidence and confidence in the attainment of the vision; communicating high expectations for followers and confidence in their abilities; role-modeling behaviors that emphasize and reinforce the values inherent in the vision; and empowering people to achieve the vision.

One can see that some of these concepts have been applied by Garnier, for example, when he set forth GSK’s mission: “to improve the quality of life by enabling people to do more, feel better, and live longer.” He also took it upon himself to communicate the company’s spirit in a broadcast to all GSK employees. The message was straightforward: deliver performance with integrity.

“Performance with integrity for GSK meant not taking shortcuts or pride in the way we generated profits for shareholders,” Garnier says. “When faced with a choice of either maximizing profits for the company or doing good, we would choose to do good first. Of course, words had to be backed up by action in order to be credible and to demonstrate that we walk our talk.”

The action was visible in part in the company’s efforts to provide low-cost drugs to poor, developing nations. Garnier says, “We also committed ourselves to an ambitious program, in conjunction with the World Health Organization and regional institutions, to eradicate lymphatic filariasis, a grievous disease afflicting the poor in underdeveloped countries, as a public health problem by 2020.”

These elements, coupled with communication of the company’s core values (innovation, performance, integrity, passion, and commitment), enabled GSK employees and stakeholders to understand how their roles in the company could affect people’s lives. “This was something that everyone understood, and it served to energize our people and create excitement for the new company,” Garnier says. “More important, employees would get a chance to participate in the process of executing the winning game plan that was being created.”

This approach has helped the company advance in achieving its strategic goals, which include becoming the indisputable leader in the pharmaceutical industry—but again, not at any price, only within GSK’s value system.

Ghosn also exemplifies value-based leadership. He says Nissan’s mission is to provide “unique and innovative automotive products and
involvement and partnering with various nonprofit organizations. For example, about twenty students participate each year in the Nissan-NPO Learning Scholarship Program, which was established to help students develop knowledge and management skills by interning in specialized environments. The goal is to promote human resource development.

Reinforcing his belief in making the company’s values a reality (another quality of value-based leadership), Ghosn made headlines worldwide as he laid his job on the line in October 1999, declaring that he and his management team would resign if Nissan did not fulfill any of the critical commitments of the Nissan Revival Plan, which was aimed at breathing new life into the company. He set out clearly marked progress measures in the three-year plan, so that the change process would be transparent and understandable for everyone involved. When the Nissan Revival Plan commitments were delivered one year ahead of schedule, that plan was immediately followed by the NISSAN 180 plan, which is described by the company as “a comprehensive blueprint for Nissan’s continuing revival, calling for growth, profit, and zero debt.” In the first two years of NISSAN 180, two of the three commitments (an 8 percent operating profit margin and zero net automotive debt) have already been attained.

BUILDING THE NEW

Given their high failure rates, mergers, acquisitions, and alliances can be rather frightening propositions for those involved. Even though there is no standard for success in building harmonious organizations, understanding the role of leadership in the process can help the numbers of merger, acquisition, and alliance success stories proliferate.

Garnier says GSK has been fortunate in that it has a heritage of managing alliances and mergers. “Each of these occasions has represented an opportunity for us to learn and improve,” he says. “One big lesson: build a truly new company that is different from either of its predecessors. After all, we can hardly hope to build a new company if we are duplicates of each other.”
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