

Change Management

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MGM323

Lecture 6



Change Management

Lecture 6 Mergers and acquisitions

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Agenda The Part Two - The applications

- Introduction
- Part Two - The applications
- The main reasons for the merger or acquisition
- Avoid the seven deadly sins
- How to manage the development of a merged team

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Change Management

This subject is about learning how to manage change. The world around us is changing very quickly. Almost every day, there is a new discovery or innovation, especially in science. Globalization also has a big effect on how we think about politics and business. At the same time, the problems that come with globalization are growing just as fast, which is also a big concern.



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Part Two - The applications

In Part One we looked at change and the management of change from three different perspectives: the individual, the team and the organization. We also examined the roles, styles and skills needed to become a successful leader of change and the final chapter looked at the role of the change agent.

Chapter
06**Part Two - The applications**

In Part Two we apply this learning to specific types of change. We have identified three generic change scenarios, and we look at the particular management challenges involved in initiating and implementing each type of change. These change scenarios are:

- **Mergers and acquisitions;**
- **Cultural change;**
- **IT-based process change;**

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Chapter

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Mergers and acquisitions

Why do organizations embark on a merger or acquisition? The main reasons are listed in the following points

Mergers and acquisitions

1- Growth

Most commercial M&As are about growth. Merging or acquiring another company provides a quick way of growing, and acquiring new customers. However, it brings with it the risks and challenges of realizing the intended benefits of this activity.



Mergers and acquisitions

1- Growth Advantages

- 1) Immediate revenue growth pleases shareholders. Reduction in competition (if the other party is a competitor).
- 2) Good way of overcoming barriers to entry to specific areas of business.



Mergers and acquisitions

1- Growth Disadvantages

- 1) More work for the top team.
- 2) Hard to sustain the benefits once initial savings have been made.
- 3) Cultural problems were often hard to overcome, and the potential was not realized.



Mergers and acquisitions

1- Growth

Organizational implications

- 1) The top team is required to make a step change in performance.
- 2) New arrivals in the top team. Probably some administrative efficiencies.
- 3) Integration in some areas is beneficial to results.



Mergers and acquisitions



2- Synergy

Synergy is a familiar word in the M&A world. If two organizations are thought to have synergy, this refers to the potential ability of the two to be more successful when merged than they were apart (the whole is greater than the sum of the parts).

Mergers and acquisitions



2- Synergy Advantages

- 1) May offer significant easy cost-reduction benefits.
- 2) Attractive concept for employees (unless they have ‘heard it all before’).

Mergers and acquisitions



2- Synergy Disadvantages

- 1) More subtle forms of synergy such as product or service gains may be difficult to realize without significant effort.
- 2) Cultural issues may cause problems that are hard to overcome.

Mergers and acquisitions



2- Synergy

Organizational implications

- 1) Top teams need to work closely together on key areas of synergy.
- 2) Other areas are left intact.

Mergers and acquisitions



3- Diversification

Diversification is about growing business outside the company's traditional industry. This type of merger or acquisition was very popular during the third wave in the 1960s. Although General Electric (GE) has flourished by following a strategy that embraced both diversification, many companies following this course have been far less successful.

Mergers and acquisitions



3- Diversification

Advantages

- 1) May offer the possibility of entering new, inaccessible markets.
- 2) Allows the company to expand its portfolio if uncertain about current business levels.

Mergers and acquisitions



3- Diversification Disadvantages

- 1) Economic theory suggests that potential gains from entering more profitable profit streams may not be realized.
- 2) May be hard for the top team to agree strategy due to little understanding of each other's business areas.

Mergers and acquisitions



3- Diversification

Organizational implications

Loosely coupled management teams, joint reporting, some administrative efficiencies, separate identities and logos.

Mergers and acquisitions



4- Integration

Integration to achieve economic gains or better services Another increasingly common motive for M&A activity is to achieve horizontal integration. A company may decide to merge with or acquire a competitor to gain market share and increase its marketing strength.

Mergers and acquisitions



4- Integration Advantages

- 1) Buyer or supplier power is automatically reduced if other party is the buyer or supplier.
- 2) More control of customer demands or supply chain respectively.
- 3) Better partnerships are desired for public sector organizations.
- 4) Reduction in competition (if other party is a competitor).
- 5) Increase in market share/marketing strength.

Mergers and acquisitions



4- Integration Disadvantages

- 1) More work for the top team.
- 2) In the case of horizontal integration(the other party is the competitor), cultural problems are hard to overcome, and thus potential is not realized.
- 3) Complex 'dual' structures often result in spare egos.

Mergers and acquisitions



4- Integration

Organizational implications

Integrated top team, merged administrative systems, tightly coupled core processes, single corporate identity, better partnership working, pooled resources, and better services.

Mergers and acquisitions



5- Defensive measures

Some mergers are defensive and are a response to other mergers that threaten the commercial position of a company.

Mergers and acquisitions



5- Defensive measures Advantages

Enhance the company's commercial position in the face of weighty competition.

Mergers and acquisitions



5- Defensive measures Disadvantages

May be very unexpected for staff and low performance can result from confusion.

Mergers and acquisitions



5- Defensive measures

Organizational implications

If managed well, it leads to greater commercial strength.

Mergers and acquisitions

6- Pressure to do a deal, any deal “Deal doing”

There is often tremendous pressure on the CEO to reinvest cash and grow reported earnings (Selden and Colvin, 2003). He or she may be being advised to make the deal quickly before a competitor does, so much so that the CEO's definition of success becomes completion of the deal rather than the longer-term programme of achieving intended benefits.



Mergers and acquisitions

6- Pressure to do a deal, any deal “Deal doing”

Advantages

- 1) Seductive and thrilling.
- 2) Publicity about the deal augments the CEO's and the company's profile.



Mergers and acquisitions

6- Pressure to do a deal, any deal “Deal doing” Disadvantages

The excitement of the deal may cloud the CEO’s judgement.



Mergers and acquisitions

6- Pressure to do a deal, any deal “Deal doing”
Organizational implications
Anyone’s guess!



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Mergers and acquisitions

AVOIDING THE SEVEN DEADLY SINS

Feldmann and Spratt (1999) identify seven deadly sins in implementing a merger or acquisition. The current lecture goes on to describe in detail how to ensure that you avoid these problems:

AVOIDING THE SEVEN DEADLY SINS

- Sin 1: Obsessive list-making. Don't make lists of everything that needs to be done – it is exhausting and demoralizing. Instead, use the 80:20 rule. Focus on the 20 per cent of tasks that add the most value.
- Sin 2: Content-free communications. Don't send out communications that contain only hype and promotion. Employees, customers, suppliers and shareholders all have real questions, so answer them.

AVOIDING THE SEVEN DEADLY SINS

- Sin 3: Creating a planning circus. Use targeted task forces, rather than a hierarchy of slow-paced committees.
- Sin 4: Barnyard behaviour. Unless roles and relationships are clarified, feathers will fly in an attempt to establish the pecking order. Simply labelling the hierarchy will not sort this one out.

AVOIDING THE SEVEN DEADLY SINS

- Sin 5: Preaching vision and values. If you want cultural change, you have to work at it. It will not happen through announcement.
- Sin 6: Rewarding the wrong behaviours. Sort out compensation and link it to the right behaviours.

AVOIDING THE SEVEN DEADLY SINS

- Sin 7: Putting turtles on fence posts. Ensure that the role models you select for promotion provide good examples of how you want things to be. Do not compromise on selection by indulging in a quota system (two of theirs and two of ours).

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How to manage the development of a merged team

1- Stage “Forming”- Team activity

- Confusion
- Uncertainty
- Assessing situation
- Testing ground rules
- Feeling out others
- Defining goals



How to manage the development of a merged team

1- Stage “Forming”- Advice for leaders

- Be very clear about roles and responsibilities in the new company.
- Talk about where people have come from in terms of the structure, process and culture in their previous situation.
- Compare notes.



How to manage the development of a merged team

2- Stage “Storming”- Team activity

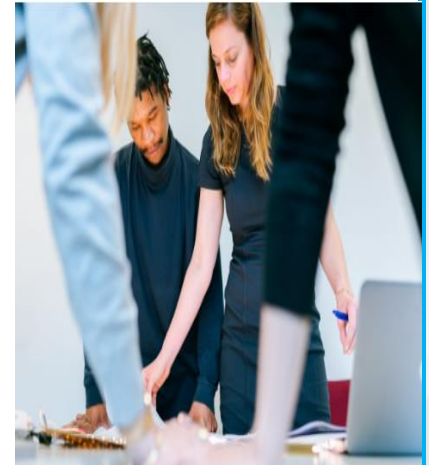
- Disagreement over priorities
- Struggle for leadership
- Tension
- Hostility
- Clique formation



How to manage the development of a merged team

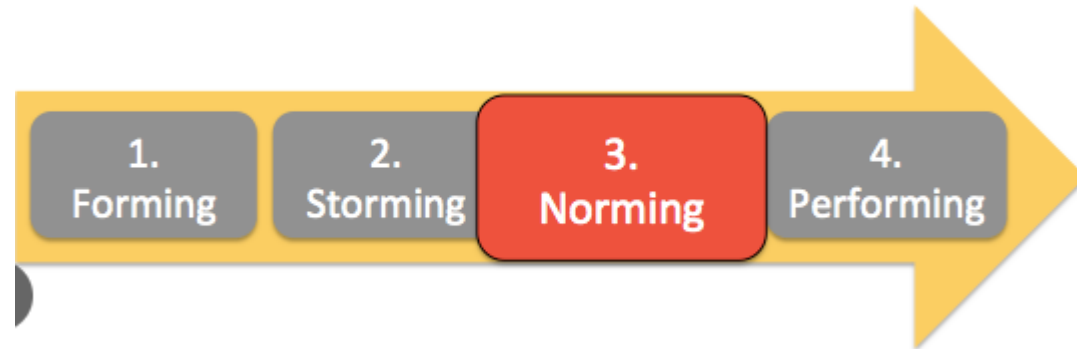
2- Stage “Storming”- **Advice for leaders**

- Make time for team to discuss important issues.
- Be patient.
- Be clear on direction and purpose of the team.
- Nip conflict between cultures and people in the bud by talking to those involved.



3- Stage “Norming”- Team activity

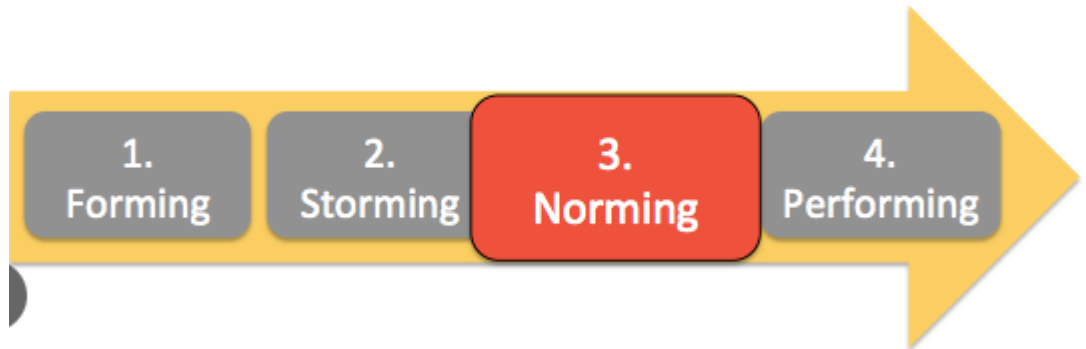
- Agreement
- Leadership accepted
- Trust established
- Standards set
- New stable roles
- Co-operation



How to manage the development of a merged team

3- Stage “Norming”- Advice for leaders

- Develop decision-making process.
- Maintain flexibility by reviewing goals and process.



4- Stage “Performing”- Team activity

- Successful performance
- Flexible task roles
- Openness
- Helpfulness



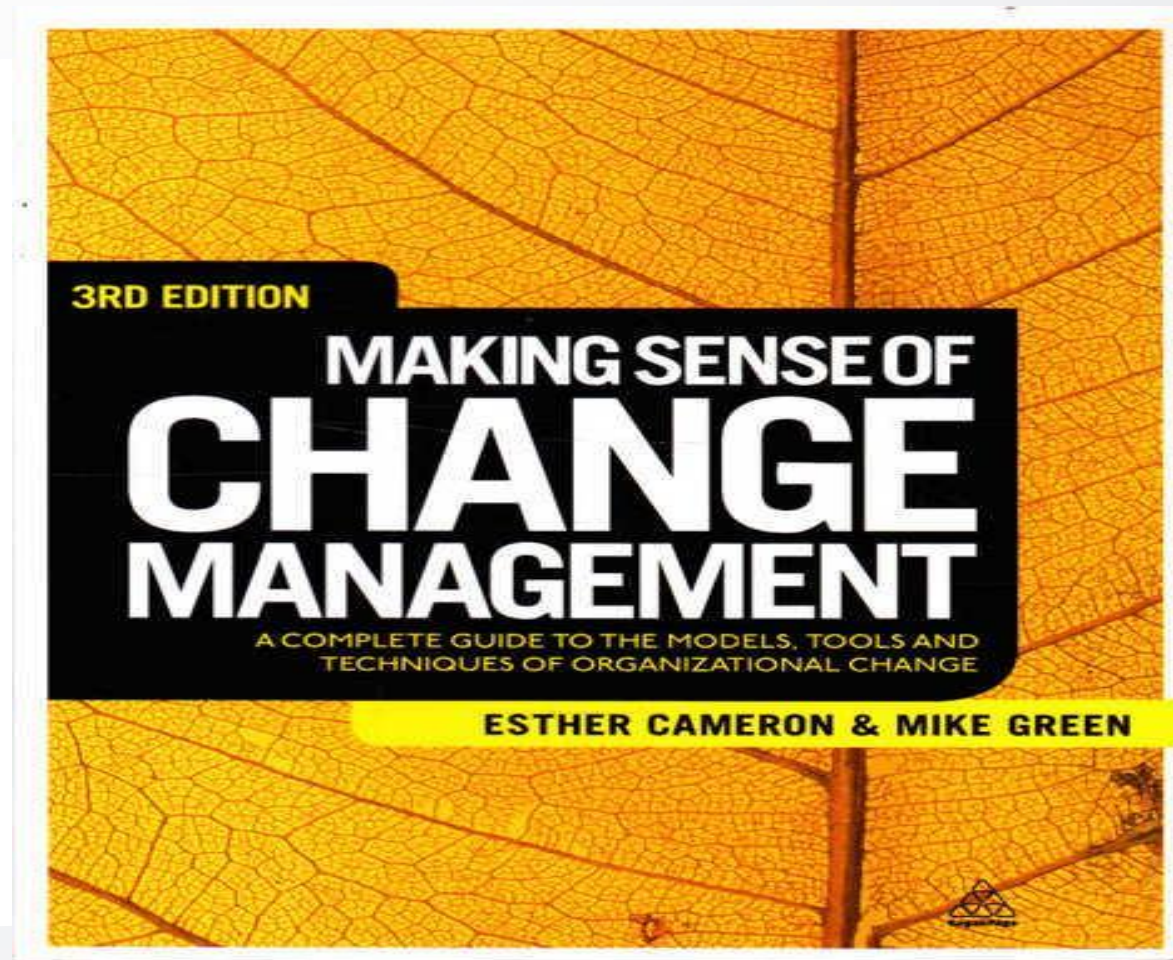
How to manage the development of a merged team

4- Stage “Performing”- Advice for leaders

- Delegate more.
- Stretch people.
- Encourage innovation.



Textbook



Thank You

