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The Role of Identity in Successful Post-merger Integration

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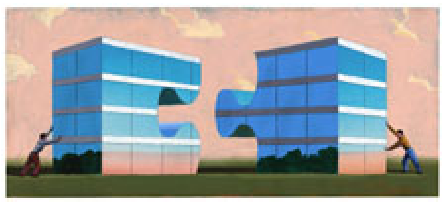

In an elementary school math class, stating that 1+1=1 would quickly incur markings from a teacher's red grading pen. But in the world of mergers and acquisitions, 1+1=1 is the goal: Taking two (or more) companies and seamlessly integrating processes, products and people.

When trying to pull off a successful deal, however, many senior executives focus their attention on the financial aspects of a merger and fail to consider their psychological implications, Wharton management professor John Kimberly says. In a new paper, "Making 1+1=1: The Central Role of Identity in Merger Math," Kimberly and co-author Hamid Bouchikhi, a professor at ESSEC Business School in France, discuss the common mistakes firms make in their efforts at identity integration and offer four approaches for ensuring that deals work on an emotional level.

According to Kimberly, the traditional "merger math" is that one plus one will be greater than two, that merging two companies will create an entity that is greater than the sum of its parts financially. Executives tend to pay the most attention to that principle, he says, focusing on the financial architecture of the deal. But he notes that the "new" merger math has two pieces to it — economic synergy and psychological synergy.

In addition, says Kimberly, firms should not confuse identity with culture. “Culture has to do with ‘the way we do things around here.’ Culture is very powerful and very important, and the cultural differences between one organization and another need to be taken into account in any sort of effort to combine operations.” But Kimberly says identity issues are more deeply embedded in the fabric of organizations as a whole, and in how individual employees see themselves. “It’s the answer to the question, ‘Who are we?’ It’s the areas of agreement around ‘who we are’ that are the basis of the identity of any company.”

Merging two or more firms “seriously disrupts the identities of the two involved organizations, generates fear of identity loss on one or both sides, and raises questions about the identity of the new combination, which may hinder trust in and identification with it,” the authors note. Integration “cannot succeed before employees of the merged entity feel a sense of belonging to a single enterprise with which they can identify and to which they are motivated to contribute.”

In some cases, the identities of players in a potential merger may be so at odds that “no matter what you do in the post-merger integration phase, it’s just not going to work,” Kimberly says, noting that this is particularly true, for example, when the two organizations contemplating a merger have been fierce competitors for decades. “To expect that the employees of the two will suddenly become willing and enthusiastic collaborators is a stretch, to say the least.” Another thing to watch out for is when the two organizations have served different customer segments that have different service needs and require different organizational and managerial approaches. While the rationale of broadening the customer segments served by the firm may be seductive from an economic perspective, deeply embedded organizational routines and their psychological consequences may get in the way, Kimberly warns.

The unhappy merger of Dean Witter and Morgan Stanley illustrates the danger of underestimating the significance of the psychological dimension, Kimberly says. That’s why the researchers stress that firms need to begin thinking about the issue at the start of any merger process. Delving deeply into a firm’s (particularly a competitor’s) identity can be difficult during the secretive early stages of acquisitions. “You bring in some outside resources that are skilled in making these determinations and you listen to what they have to say because they’ll have access to data that you don’t,” Kimberly notes. “Then you have to make a judgment about whether what they come up with is convincing.”

Potential Pitfalls

Once executives determine that identity issues are a barrier that can be overcome, Kimberly advises that they think early on about what type of integration strategy they plan to use. In the paper, he and Bouchikhi use several real-world examples to detail the common mistakes that businesses tend to make when dealing with the emotional impact of mergers and acquisitions.

Many firms simply choose to ignore identity as a factor. The researchers write about SSL International, a company they worked with that came about as a result of a three-way merger. The firm waited more than two years after the deal was completed to deliberately focus on identity integration — and only after a severe crisis caused the board to bring in a CEO from the outside.

Once the company began to think about identity, executives realized that, although all of the merged businesses had operated in the same sector, there was a disconnect because some employees had spent their careers making and selling products for large professional clients, while others were used to manufacturing and marketing branded goods through retailers. "Ultimately, management divested the businesses serving professional customers in order to focus on the integration of those operating in consumer branded products," the researchers write.

In other cases, firms may make the error of mistaking culture for identity. To illustrate this pitfall, the authors point to the attempted merger of the local branches of French savings bank Caisses d'Epargne. Employees shared similar values and ways of working — but a key part of their identities was viewing their branch as independent and distinct from the other branches. The merger created "'Us vs. Them' reactions that culture was not sufficient to preempt," the researchers write.

Another common pitfall is confusing outward characteristics, such as a firm's name or logo, for its identity. For example, the authors write that when SBC Communications took over AT&T in 2005, the former opted to use the latter's name for the merged entity. But the majority of the post-merger executive team, including the chairman and CEO and the heads of finance, strategy and human resources, were from SBC. Thus, it was that firm's identity that prevailed, the researchers say.

Executives also can become so caught up in selling the merger to external audiences, such as stockholders and the public, that they forget about gathering support internally. Companies may also run into trouble if leadership sends mixed signals about identity integration — verbally detailing one plan, while taking actions that suggest a completely different approach.

"They're trying to get something past the public, and they do it without thinking about the implications," Kimberly notes. "When they shift gears and do a turnabout, all of a sudden there's a set of consequences, both internal and external, that they have to deal with."

In the paper, the authors point to the example of Kraft's purchase of United Kingdom-based Cadbury. Although Kraft executives have publicly stated their intentions to preserve Cadbury's identity, "early decisions regarding the dismantling of Cadbury's corporate headquarters and the transfer of decision making to Kraft's European headquarters in Zurich, Switzerland, suggest that the Cadbury organization is set to die."

Solutions

Kimberly and Bouchikhi offer four potential approaches for achieving identity integration: assimilation, confederation, federation and metamorphosis. Assimilation occurs when one firm is completely absorbed into the other's operations and identity. At the other extreme, confederation allows both organizations to preserve their identities, names, management structure and autonomous decision-making. Falling somewhere in between are federations, in which the merged firms keep their identities but also develop an overarching character that both can thrive in. Finally, a metamorphosis involves both firms dissolving their former identities and creating a new entity that did not exist prior to the merger.

Before deciding what avenue to take, company leadership must consider to what extent they want, and to what extent it is strategically prudent, to preserve the identities of each firm involved in the merger. "It's important for senior management to understand those four different approaches and what they mean with respect to how much you need to know about your partner in the operational sense and in an identity sense before the merger is consummated," Kimberly notes. Merging identities more tightly — for example, through assimilation — often achieves the most cost savings, he adds, but those methods also require that more attention be paid to identity issues.

Kimberly cites the merger of Japanese automaker Nissan with French car company Renault and that of Air France and Dutch air carrier KLM as examples of confederations where the acquiring firm (in those cases, Renault and Air France) left the acquired companies' identities intact, while at the same time introducing new manufacturing and managerial practices. "At some point down the road in both cases, these firms will become more fully merged entities," he notes. "At that point, leadership will have to again confront this identity issue of who are they going to be. Are they going to be KLM or Air France? Are they going to be Renault or Nissan, or are they going to keep the brands differentiated?"

Often the deciding factor in such a debate is the relative costs of remaining separate as compared to the value generated by keeping either or both firms' identities intact. For example, Unilever purchased American ice cream company Ben & Jerry's in 2000, but has gone to great lengths to preserve its autonomy — to the point where it is difficult to find a mention of the British-Dutch conglomerate on the Vermont-based brand's website. "Ben & Jerry's has a very distinctive identity and a very distinct sense of who they are and how they are separate from and different from other people in the same business of producing ice cream," Kimberly says. "It's a very clear, distinct and value-creating identity."
