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Let's Face Facts: It's Never a "Merger of Equals"

DaimlerChrysler. AOL Time Warner. Exxon-Mobil.
These are just some of the high profile case studies (some good, most disastrous) that spring to mind whenever companies start discussing a "merger of equals." From a strictly technical standpoint, a merger of equals occurs whenever stockholders of both companies trade in their old stock for ownership in a newly created company. But even in transactions where one company is clearly subsuming the other, executives still trot out the "MOE" terminology for purely psychological reasons that have little to do with finance. Even with the lessons of past failures fresh in their minds, corporate leaders continue to peddle new math where 1+1=3.

Don't believe the press release headlines – here are four reasons why it's time to retire the notion of the perfect corporate marriage:

- **Because no one believes it anyway.** More often than not, executives and marketers use merger of equals-type language for its optics, attempting to put employees, investors, customers and partners at ease. Just as often, the spin only results in more skepticism from all parties. Companies may want their workforce to share their long-term vision for a combined entity, but everyone knows that mergers involve endlessly shifting variables. There's too many examples of cost-cuttings and sweeping reductions in force for most employees to see past the immediate impact on their daily lives.
- **Politics, politics, politics.** In the first months of a merger, there's plenty of talk about cooperation, integration, synergies, about setting aside egos and coming together to leverage the strengths of both entities in an unbiased manner. Hogwash. Combining two entrenched hierarchies into a single, fully functioning executive team – all done without hurt feelings, or bruised egos? Sorry, doesn't happen. And don't even look twice at terms like "two in a box." At the end of the day, someone wins and someone loses, and you can usually tell who once you start asking questions like "Who is In Charge of What?"
- **Culture clash.** In sports, it isn't uncommon for competitors to change from adversaries to teammates overnight. In a corporate merger, that scenario is played out on a large scale. What baseball teams might refer to as "good clubhouse chemistry" exists for companies as well, and that environment is often impossible to mass produce or force into existence. Companies have established personalities and values that cannot be morphed into one simply by combining names with a hyphen. One culture will almost always subsume the other, leaving one legacy company feeling alienated.
- **Square pegs and round holes.** Even if cultural, language, and financial barriers are overcome in the course of an MOE, there's often plain and simple infrastructure and technology integration issues that need to be addressed. What happens to one company's HR system when a bigger and more expensive system is in use at the other? Can they integrate and, even if they can, does it even make sense to try and force employees to adapt? The larger, more established platforms almost always win out in these situations, with the legacy systems (and the morale of the employees trained on them) often discarded.

What makes more sense

Given the high stakes, sensitivities and potential pitfalls of any corporate transformation, companies should set a sensible tone at the outset of merger – one that prioritizes facts over feelings.

- **Identify strengths; accept weaknesses:** Well ahead of any big announcements, corporate boards and management teams should identify redundancies, recognize their disparate organizations' strengths and weaknesses and make the tough calls on how to make the combined entity most efficient and profitable.
- **Establish leadership – it won't just sort itself out:** To avoid giving competitors an opportunity to pounce, internal communication of leadership roles should happen immediately, before politics and in-fighting poison the environment. Forget the sunshine and synergy: employees are always better off when they know the chain of command and overall corporate objectives.
- **Be real:** As transformations take place, it's up to corporate leaders to maintain employee morale and engagement. They need to establish fact-based messaging that validates the purpose and potential of the combined entity and enables employees to feel pride of ownership over more than just the company's financial status. "Merger of equal" messaging makes it nearly impossible for that new mission to establish. "Happy talk" costs employees and company valuable time, when the best practice is to rip off the BandAid of uncertainty and get on with it.

Here to help

M&A continues to be a fundamental way to drive growth – it's not always a bad thing. Prudent companies, however, will take a more thoughtful approach when considering this course and will engage the help of business experts who bring together companies, people and systems together on a daily basis – not just every couple years. If the right advisors are chosen, and used correctly, these experts can create a sensible plan that's heavy on execution, devoid of emotional attachment and able to meet realistic expectations from all involved.

—By Mark Newhall, ESG Founder and CEO