



# Success in Mergers and Acquisitions

## Lessons from M&A analysis since 1967

*"Those who don't know history are destined to repeat it."\**



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## 1. Summary

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This report reviews the factors which affect the success and failure of mergers. The information is taken from the academic and industrial literature since 1967. The review focuses on the post acquisition, merger phase.

To be successful, the merging companies should:

- Be explicit about how the merger fits into the corporate strategies of the two companies and make sure those criteria remain visible throughout.
- Plan the integration in detail.
- Have clear and tight management control of all the interfaces.
- Communicate clearly, honestly and frequently to the whole work force to set expectations. Management credibility will depend on whether it does what it says.
- Do not try to simply merge the two companies but build a new company, with an identifiable brand, logo and name.
- Build on the best practices and approaches of both companies to create the new company and position those as the New Company's procedures. This will help to avoid the winners and losers syndrome.
- Focus on a few major issues which deliver the major synergies and cost savings. Detail can distract the senior management from the key task.
- Move quickly. Speed is one way of reducing resistance. Remember, most mergers take twice as long as expected. Therefore integrate selectively.
- Spend a time to make the systems inter-work quickly and plan a fuller integration later.
- Above all, remember you are dealing with people. They are the resource which will make the merger work at every level and need to be treated with respect and sensitivity. Mergers across geographic boundaries always create the potential for extra cultural clash. US and UK mergers often appear to be easier because of language and business process. However there are still national differences

## 2. Introduction

In the “depression” year of 2009, the top 10 M&A deals all exceeded \$1 billion in value (Brodkin (2009)). To ensure those deals deliver the benefits expected will require very careful implementation. So it seems timely to review the all literature on mergers since 1967 from academic and consultancy sources and determine what makes mergers a success or failure.

The literature often uses the term “merger” interchangeably with the “post-acquisition integration process”. In some cases, the literature also reports that merger management has much in common with JV management (Norburn and Schoenberg (1990)).

The emphasis in this report is on what makes mergers work (in the post acquisition phase) and includes the relevant literature on mergers, acquisitions and JVs.

The success rate of acquiring and merging companies is between 40% and 50% measured over a range of criteria (Kitching (1974), Egon Zehnder (1987), Norburn and Schoenberg (1987), Bishop and Kay (1993)). The purpose of this review is to extract the key themes which are associated with successes or failures, to be used as background to the BT/MCI merger discussions.

Several authors state that there is no merger manual with a set of *do's and don'ts* (Ernst and Young (1994), Sudarsanam (1995)) because no two mergers are the same and no two companies are the same.

However, this report shows that there are recurring issues which are key to improving the likelihood of success in a merger. There is evidence also that there is at least an order or approach if not a detailed methodology (Mitchell (1988), Coopers and Lybrand (1993)).

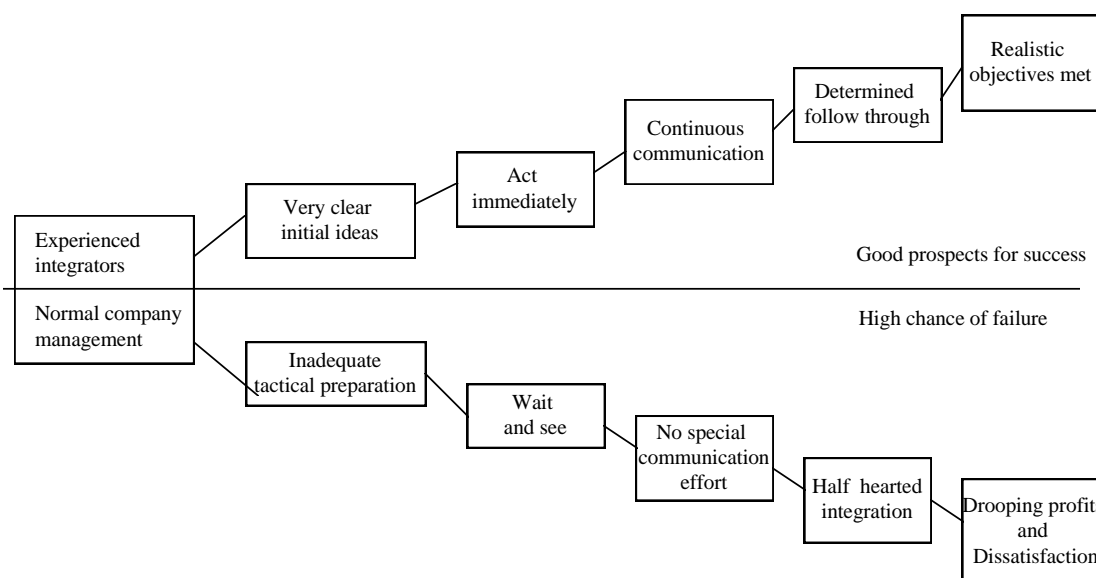


Figure 1. Achieving objectives cannot be done as a sideline

Mitchell's (op cit) flow diagram shows the skill sets and activities which he said indicated the likely success failure making an acquisition work.

Ernst and Young (1994) have a slightly different approach and state that there are three elements to consider in a successful merger - people, processes and technology/systems.

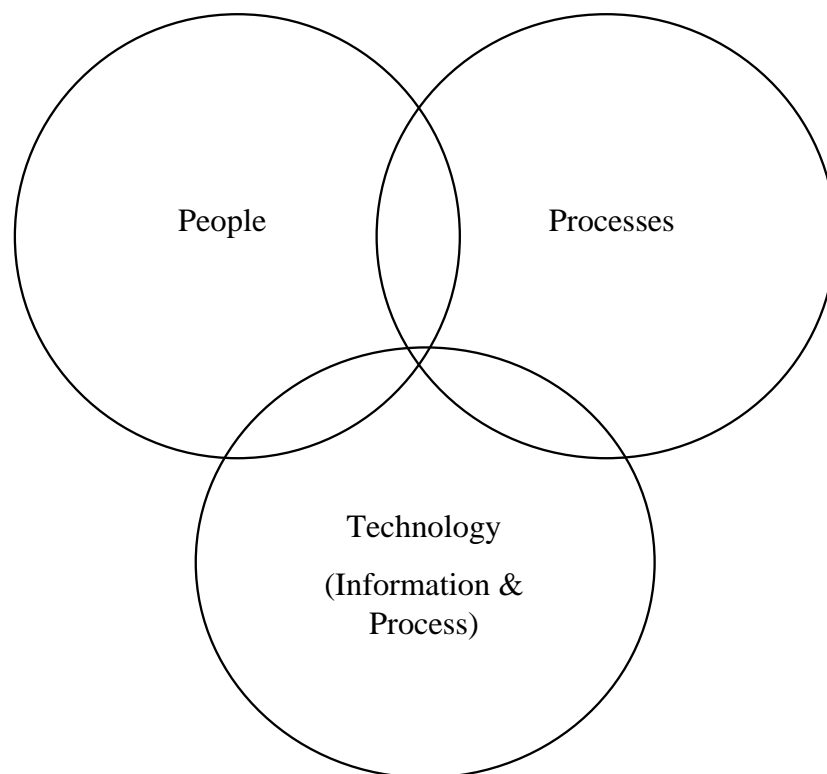


Figure 2. Point of integration in a merger

Source: Ernst and Young (1994)

A merger must have a plan but “what issues should be addressed in the plan?” write Ernst and Young (1994). They believed that “the performance of any company rests squarely on the closely interrelated factors - its processes, people and technology. A successful strategy must address all three.” (P220)

The report has been divided into two parts.

- Success - i.e. What should a Company do to maximise success
- Failure - i.e. What should a Company avoid doing to avert failure

Within these sections, the key points in the literature have been sub-divided into;

- People
- Processes
- Technology

as described by Ernst and Young (1994). The main points are brought together in the Discussion which includes additional material from the literature.

Finally the Conclusion, whilst accepting that it is not possible to write a definitive merger manual, extracts key points from the literature and presents a table of Do's and Don'ts.

## 3. Success

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### 3.1 People

#### 3.1.1 Remember the Human Factor

In the middle of merging companies, with all the complexities of organisation, business process, budgeting etc. it is often easy to be insensitive to the human factor. Sudarsanam (1995) reviewed the literature and noted that “the human factor emerges as a key dimension of both pre-acquisition planning and post-acquisition management.” Hunt et al (1987) studied 40 companies in the UK and US and listed the human factors most often associated with success.

	(%)
Interface between companies perceived as well managed	77
Clear Vision Communicated	68
Incentives and benefits to target staff improved	68
Perceived business benefit to acquirer	64
Honourable rhetoric	59
Buyer Management earns credibility and respect	55

Table 1. Factors associated with successful acquisitions

Source: Hunt et al (1987)

Kristie (2009) notes that the human factor is present at every stage of doing and implementing a deal, and what is important to each individual varies significantly.

#### 3.1.2 Manage Relationships

Kitching (1974) in his study of 22 companies said the most successful acquisitions seemed to be distinguished by three characteristics in the relationship between the companies.

- Firstly, the parent company appoints a top executive to “ride herd” immediately after the acquisition. The executive not only sets the directions but is sensitive to the local conditions.
- The second characteristic is that the reporting procedures and relationship between people in the new merged company are made clear.
- Finally, the emphasis is placed on *information* reporting rather than on *budgets*.

Norburn and Schoenberg (1990) agree that one of the means of building success is the clear and early thought about the appropriate form of management hierarchy and control structure (p86). In their review, they call the issue of hierarchy and control *Sovereignty*.

#### 3.1.3 Manage Change

“In the time period immediately following the merger, the quality of management talent determines the success or failure of the venture, and it is this time that careful planning allows the synergy potential to be released, if it is to be released at all”

Kitching (1967) (p94). The managers implementing the merger plan and building the merged company are managing change. A successful company prepares its people to do this effectively so that the top level objectives can be achieved.

### 3.1.4 Manage Expectations

Mergers can be won or lost before any real integration work ever begins write Pritchett and Associates (1995). They advocate that a company should move swiftly and purposefully to shape opinions and expectations.

Following the first announcement from top management, which they note usually puts heavy emphasis on the merger's appealing aspects, comes the beginning of the reaction from media, the industry and staff who start looking thinking about the downside too. It is important for the senior management to protect their credibility because long term "you have got be believable." Top managers must only make promises that can be kept and Pritchett and Associates (1995) give examples of promises and the problems inherent in them. These include;

Promise	Problem
This is a win-win situation	Somewhere people will feel like they have lost and they'll say you reneged.
We plan to complete the integration by 1998	Most mergers take twice as long as expected.
We plan to continue business as usual	If it were true, why merge?

Table 2. Examples of Promises that are harder to keep than they appear

Source: Pritchett and Associates (1995)

### 3.1.5 Eliminate the Winners and Losers polarisation

Merging companies inevitably means that people's jobs, responsibilities and priorities change. In the process section, there is a description of taking the best practices from the two merging organisations to give the new company the benefit of the 'best of both worlds' (Estin and Demeure (1997). The human side of this is that the teams in company who are judged not to have the best practices feel as though they are the losers and have the winners processes imposed on them. The skill of management is to find the right way to make the changes without building a culture of winners and losers (Bengtsson (1992) (p53); Ernst and Young (1994) (p225)). If the management can address this issue successfully then one of the contributing factors to long term culture clash (which can kill mergers) can be avoided.

### 3.1.6 Rethink incentives

Estin and Demeure (1997) suggested a short list of factors important in merger management. They noted that "any merger is a threat to existing jobs as well as to the careers of the managers involved. It is pointless, and dangerous, to hope that managers will initiate and execute ambitious and, by definition, destabilising action plans without fundamental changes in their incentives. Performance measurements and rewards need to be adapted to the new situation and should reflect the additional

risks to individual staff members. Well-defined transitional objectives need to be established in addition to longer-term business goals.”

### **3.1.7 Socialise the people**

Hunt et al (1987) in their research stated that “business life and social life are more closely intertwined” in America “with a consequent requirement to undertake more social mixing than would be expected in Britain” (p53). Bringing the BT and MCI teams together to develop working relationships should also include an element of planned social interaction and the UK people should be made aware that this is part of the job.

### **3.1.8 Communicate with the employees**

Pritchett and Associates (1995) advise that companies who are merging should communicate to employees at “E-speed” (i.e. electronic mail). They note that a merger is “high drama... and everybody has an opinion.” They suggest to beat the rumour mill, the companies’ “ambition should be to over-communicate. Silence is a major sin.” They also state, “Don’t shave the truth, don’t play the propaganda game... build your credibility by levelling with them” both good and bad news.

Other authors (Estin & Demeure (1997)) agree with the need for a regular communication plan but note that it has to be focused and controlled.

## **3.2 Processes**

### **3.2.1 Ensure Strategic Consistency**

Norburn and Schoenberg (1990) state that it is “widely recognised that the starting point for a successful acquisition or joint venture is a clear corporate strategy” (p82). The reason for this is the reasons that motivated the deal, the strategic objectives of the companies and the planned synergies, must be followed through the implementation to ensure both direction and consistency.

### **3.2.2 Build Shared Values**

“Once a deal has been made, the commitment of the top management team alone is insufficient to ensure that it turns out successfully. Their vision and energy must also be shared throughout the new organisation to guarantee that everybody shares the same objectives at all levels” (Gryner and Norburn (1975), Bourgeois (1980)).

“Since responsibility for day to day implementation resides at the organisational strata below the levels at which the deal would have been negotiated, employees of a newly acquired company need to feel comfortable about their future role within a larger group. Those assigned to work within a joint venture organisation, must have mutual confidence and a desire to collaborate” Norburn and Schoenberg (1990) (p85).

In Hunt et al.’s study (1987), they concluded that success is likely to come from a “climate that is characterised by clear directions and co-operation rather than competition between acquirer and acquired.”

### 3.2.3 Prepare a detailed merger plan

Ernst and Young (1994) wrote “If there is any axiom for engineering a successful acquisition it is this: the acquisition must make sense for the acquirer from the beginning. A close second is that there must be a carefully prepared plan for integrating the acquisition” (p216).

“Effective implementation is more likely to be achieved if both companies have clear expectations about their post deal roles and responsibilities right from the outset” Norburn and Schoenberg (1990) (p85).

Cooper and Lybrand (1993) studied 50 cases and put a detailed post acquisition integration plan at the top of the list of factors that they associated with success (see table 3)

	(%)
Detailed post-acquisition integration plans	76
Clarity of acquisition purpose	76
Good cultural fit	59
High degree of target management co-operation	41
Knowledge of target and its industry	41

Table 3. Factors associated with success

Source: Cooper and Lybrand (1993)

### 3.2.4 Analyse Future Needs

Kitching (1974) builds on the need for a detailed merger plan by reporting that his study showed that “successful companies make a careful analysis of their subsidiaries future requirements for parent company funds” (p100).

### 3.2.5 Agree what should be integrated

“What should be integrated in a merger?” ask Ernst and Young (1994). They suggest that a ‘current state assessment’ of both companies in the merger should be carried out. By this they mean that the acquiring company should prepare a “map” of the processes, assess how well they are performing from the perspective of time, resources, and quality and determine how compatible the corresponding processes are.

The assessment will mean answering the following questions;

- what are the costs, benefits, risks and barriers to integrating individual business processes of the two companies?
- which processes should be integrated and when?
- for the processes to be integrated, how should the combined processes be structured (i.e. adopt the process from one of the companies, a hybrid of both, or a totally new re-engineered process)?

Ernst and Young (1994) conclude that “most successful managers realise that asking the right questions is often the toughest part of management. Asking questions from

the perspective of process rather than organisation adds clarity to the post-merger integration procedure.

### **3.2.6 Establish a strong interface team**

A number of authors (Hunt et al. (1988), Bengtsson (1992), Coopers & Lybrand (1993)) agree that a strong interface team is required. Advanced management interfaces and the clarity of communication and direction significantly influence the outcome of the merger.

### **3.2.7 Focus on the major issues**

Many companies get lost in the minutiae of integrating two, often very different operations. 'The secret is to focus your fire' write Estin and Demeure (1997) who found that, in many cases, only a small number of initiatives - usually between three and six - were necessary to achieve 75% of the merger's potential value. They say that merging companies need to quickly identify these high payoff actions and carry those out.

### **3.2.8 Establish the new company identity**

"Successful companies explain the benefits of presenting the scheme for the first months and a continually up-dated calendar for Manned Change (Bengtsson (1992)). Short term goals include business principles, short term product structures logo and name. All are factors which mould merging companies into a single entity

### **3.2.9 Keep the transfer period to a minimum**

'What do you think is the best single predictor of a successful merger integration?' asks Pritchett and Associates (1995) in their booklet *Mergers: Life in the Fast Lane*. The answer they suggest is "the length of the transition period."

Estin and Demeure (1997) write the important thing, therefore, is not to try to put together a comprehensive plan for achieving 100% of the potential value-added; rather, you should concentrate on what can be done quickly

### **3.2.10 Integrate Selectively**

"The aim of an acquisition is to enhance profitability and bolster growth. It is not to "integrate" at any cost. Different areas of the companies should be handled differently, depending on whether full integration is necessary or whether a pooling of resources or simple co-ordination would provide equal or near-equal value. Reorganisation costs, disruption, and time should all be kept to a minimum." Estin and Demeure (1997).

"An analysis of some basic economic variables - economies of scale, run lengths, product range effects, brand values, managerial costs, discretionary costs, etc - will allow you to quantify the value of various degrees of integration at each stage and for each function, product, or service. The value to be gained can then be weighed against the difficulty and cost of implementation, enabling you to focus on only those battles that are worth fighting" (Estin and Demeure (1997)).

“A key factor for success is having acquisition criteria that are consistent and rigorously applied. Otherwise acquisitions are likely to be distorted by impulses and emotions” Kitching (1974) (p99).

### 3.2.11 Differentiate and De-average

An important complement to value-based planning is best-practice analysis. Looking across both organisations, Estin and Demeure (1997) recommend that “companies involved in mergers should pinpoint the best performer on each key business activity and then, wherever possible, introduce the best practices throughout the merged entity. In this way, the entire organisation will build on its strengths rather than compromising around averages. Moreover, internal benchmarking will enable you to pinpoint the best-performing managers - those who most warrant development and rewards.”

### 3.2.12 Achieve “Quick Wins”

Estin and Demeure (1997) and Pritchett and Associates (1995) advise that the merging companies aim for quick wins. Pritchett and Associates give some practical examples (see Table 4) of what early wins look like and the reactions that they get.

The two company leaders have met and get along.	<i>“They are real people”</i>
A new name and logo are rolled out.	<i>“Its pretty snappy.”</i>
Employee benefits packages are consolidated.	<i>“We are not forgotten.”</i>
A big sale is completed.	<i>“We can work together.”</i>
Deserving candidates are promoted.	<i>“There’s room for winners here.”</i>
Unpopular product lines are killed off.	<i>“Its about time.”</i>
One company adopts another’s best practices.	<i>“We can learn from them.”</i>
Onerous policies and procedures are discontinued.	<i>“Finally!”</i>

Table 4. Examples of Quick Wins

Source: Pritchett and Associates (1995)

They conclude that “far more convincing than all that [i.e. quick wins] though are financial victories. As the saying goes, money doesn’t talk, it screams.”

## 3.3 Technology

### 3.3.1 Integrate the Systems

People must be able to communicate quickly and easily to share information and work together on the common aims of the new company. Integrating the telephone systems and the internal directories, and the electronic mail systems must be an early consideration Simmons (1988).

## 4. Failure

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### 4.1 People

#### 4.1.1 Don't be insensitive towards people.

"The integration process is fraught with uncertainty, fear and anxiety among target company staff, which may lead to withdrawal of their commitment and loss of morale. The acquirer's implementation team must handle these concerns with tact, sympathy and understanding in order to instil confidence and trust between the two companies personnel" (Sudarsanam (1995)).

Poor timing and insensitivity in implementing change repeatedly emerge as one of the main causes of post-acquisition trouble (Bengtsson (1992) (p31)).

#### 4.1.2 Beware of who and how many are leaving

"After almost every acquisition, people leave. Some get fed up after being at the low end of a winner-loser situation. Some ... would prefer to leave than adapt to the new corporate culture..." Ernst and Young (1994). The failure is if the wrong people leave or too many leave. In both instances, the post merger integration plan should indicate which people are critical to keep and time and effort must be expended to retain them.

#### 4.1.3 Corporate Culture Clashes

The most often cited reason for failed merger is the clash between corporate culture and the inability of the senior officers of the two organisations to reduce it. Mitchell (1988) and Coopers and Lybrand (1993) in their studies rated it as having a greater negative impact on the outcome than the absence of a plan (see table 5). Bengtsson (1992) described the problem not as 'clashes' but as "corporate culture shock" (p36). She said the shock was "the reason given in many companies for their failure to reap the full benefits of otherwise promising deals." She noted the shock arose at a variety of levels from harmonising management styles, routines, privileges, informal chains of command etc. through to the less measurable company roots, traditions, reputations and relative ages of the companies.

	(%)
Target management attitudes and cultural difference	85
No post-acquisition integration planning	80
Lack of knowledge of knowledge of industry or target	45
Poor management of target	45
No prior acquisition experience	30

Table 5. Causes of failure

Source: Coopers and Lybrand (1993)

## 4.2 Processes

### 4.2.1 Don't Lose Control

In a review of 10 British Companies disastrous mergers, Nisse (1991) concludes that "lack of control is the principle theme" (p12). Failing to control companies is all the more acute when the merger involves an overseas company. Nisse (op cit) cites Midland Bank's attempt to merger with Crocker in the USA and describes the crucial role of the regulator and inability of Midland to control Crocker 'spending' the anticipated capital from Midland (See Case Studies).

Hunt et al. (1988) in their study of 40 companies also supported the notion of unclear direction and weak interfaces leading to failure (see table 6).

	(%)
Buyer Management fails to impress	72
No Clear Vision	67
Incentives and benefits to target staff reduced	67
Changes confined to business	61
Interface lax	58
No perceived business benefit to acquirer	44
Assurances broken	39

Table 6. Factors associated with unsuccessful acquisitions

Source: Hunt et al. (1988)

### 4.2.1 Avoid Opportunistic Deals

Norburn and Schoenberg (1990) in their review of the literature state that one of the three main factors associated with failed mergers is 'Opportunistic Deals.' They write that "many authors have noted that opportunistic acquisitions or joint ventures - those made outside the framework of an agreed corporate strategy - carry the danger of taking the company down a strategic path that is unsound" (p79). They cite Renault's "hastily arranged agreement" with American Motors Corporation as an example.

### 4.2.2 Ensure adequate Partner Evaluation

Poor evaluation of a partner can have significant effects on a company according to Norburn and Schoenberg (1990). In acquisitions, it can lead to unrealistic evaluations. They noted that UK public take-overs have "been inclined to pay an average forty percent premium over their target company's pre-bid stock market valuation (citing Acquisitions Monthly, August 1989) (p78). The existence of bid premiums of 40% can only be justified in cases where the post merger benefits have been solidly defined" (p80). The fate of Coloroll who bought John Crowther in 1998 is put down to the effects of an unrealistic valuation.

### **4.2.3 Poor Implementation**

Kitching (1974) noted that “a carefully devised strategy does not by itself make a successful acquisition programme. The post merger battle has to be won by the ‘managers of change in the parent company.’”

## ***4.3 Technology***

### **4.3.1 Don't let long term R&D slow down**

Post (1994) reported that one of the effects of a merger is that both companies' R&D slows down. Long term R&D may not impact on short term profitability but it may result in loss of people and skills development, and it is also an indication to the customer and the industry at large that there is a loss of purpose and direction.

## 5. Discussion

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The literature described in this report covers 40 years of studies. It is evident that the same key themes re-emerge.

The most important are;

- The necessity of a detailed merger plan
- The setting, following and communication of very clear business objectives
- Sensitivity towards people and cultural issues

The reason that the same issues span the decades is that mergers are essentially about people. The basic motivation and fears are always similar. Mergers may be seen as the natural progression for the senior officers of a company but to many employees it means change and change is stressful and uncomfortable to many (Cartwright and Cooper (1996)).

The literature reports that some people will always leave but the majority will stay if they believe in the future of the merged company. The way to win through, according to the literature is to make sure that the “rhetoric” is “honourable” (Hunt et al 1988) and that the staff can see that the objectives are achievable. This latter point requires quick wins (Pritchett o& Associates (1995), Estin & Demeure (1997) and visible progress.

Progress can be slow, and at a given moment in the merger, the long term outcome may look poor. From a senior management point of view, it is important to see it as a moment in history and be able to express this to the staff. A good example of how the perspective on a merger can change comes from two papers in the literature on status of the merger between Siemens and Plessey.

The first authors (Norburn and Schoenberg) writing in 1990 said that the cultural differences were causing significant and perhaps irreconcilable differences between the partners. However, a later text Sudarsanam (1995) described the situation in significantly improved terms. He wrote;

“Siemens allowed the UK companies to choose their own consultants. UK managers were sent to Germany for inter-cultural training. The British senior executives feel that without Siemens their company would not have survived, and appreciate the greater autonomy and long-term financial support they have received from Siemens.”

American ‘merger consultants’, Pritchett and Associates (1995), talk about pushing through the yield point. They say that senior managers experience the greatest resistance and problems at super-critical junctures in the merger integration process. “Remember, although this can be painful, one is not on the verge of *breakdown* but *break though*.”

The literature also reports that related industry mergers, such as BT and MCI, do better than unrelated ones (Kay (1995))

“It is conventional wisdom that related acquisitions outperform related ones” according to Kay (1995). However, he says that it is important to understand what ‘relatedness’ means. The relatedness that creates value is not simply that the companies are

engaged in broadly comparable businesses. “Benefits are likely to accrue from the merger only if the acquirer can deploy its distinctive capability effectively in the acquired case” and vice versa in full mergers.

A Final observation in the literature is about culture. According to Nisse (1991), Hanson and other conglomerates have learned “how to integrate new subsidiaries successfully through ruthless ‘post-acquisition’ procedures designed to re-mould the company culture and to install tight financial control” (p12).

The alternative is to let the culture set itself. The risk is the culture of the more aggressive, entrepreneurial management-styled company (as in Burrough and Helyar (1990) wins through irrespective of the merits of individuals or processes. This can work and produce a successful, larger company as in Cieber-Giegy (see Case Studies) but it fails to take advantage of the strengths of both companies. The alternative approach is to try to mesh the cultures (and form a new culture) by selecting the best people from both companies and have them select the best people from both organisations as their subordinates. ABB is an example of this type of merger (see case study at the end of the review) and was voted the most respected European Company in 1996 across a range of criteria (in the FT/KPMG review).

## 6. Conclusions

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The literature says there is no merger manual but this review has found recurring themes which appear key making mergers successful. The main points from these themes are presented in two tables below as a series of DOs and DON'Ts.

### DO

- Have and articulate a very clear set of strategic objectives
- Prepare a detailed Merger Plan
- Focus on major issues
- Establish an agenda of quick wins
- Prepare a clear and honest communications plan for all employees
- Communicate frequently and quickly to reduce speculation
- Establish a strong and visible interface team
- Follow through on plans even when there appears to be resistance
- Move quickly
- Re-think the incentives for the people in the new company
- Plan work packages and social events to create the new teams
- Establish the merged company's identity quickly
- Migrate people to the new company quickly
- Take the best ideas from both companies and ...
- Make those the values of the new company
- Avoid actions which obviously create winners and losers
- Integrate the systems selectively
- Remember that you are dealing with people

### DON'T

- Allow the two Corporate Culture to clash - establish the new company values quickly
- Let too many people or the wrong people leave - find out why people want to leave
- Let the interface drift - have tight control over it
- Assume that a good plan means good implementation - check the implementation
- Become tactical - keep sight of the overall strategic objectives at all times and follow through on those
- Let long term R&D drift - it can be taken as a sign of lost direction

Whilst these may be useful as guides, the literature indicates that there is no guarantee for ensuring success.

In the end, success is achieved through clear vision, good planning and a strong execution. Visible and humane leadership engenders loyalty builds enthusiasm. The human factor is critical.

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## 9. Short Case Studies

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### 9.1 Crocker Bank

In the annals of acquisition history, nothing quite compares to Midland's purchase of Crocker, a Californian bank. Midland paid too much for Crocker, ran it poorly and sold it for too little. The deal also shows the dangers of trying to beat the regulators. Midland was keen to buy in the US ahead of moves made by Congress to stop American banks falling under foreign control. But the regulators had the last laugh.

In summer 1980, Midland paid \$820m for a 57% stake in Crocker. But the US regulators held up the deal for a fatal 14 months, during which time Crocker's chairman, Tom Wilcox, anticipating a capital injection from Midland, accelerated the growth of its loan book, lending an extra \$1.5bn.

The two operations were never integrated, and Crocker actually held back Midland's own growth in some US markets. During 1982 problems started emerging, and by the end of that year the problem loans had grown 75% to \$770m. This did not stop Midland paying the last £113m of its investment in January 1993.

The rug was pulled when the US banking regulator ordered provisions that plunged Crocker into loss two years running, and in 1984 he told Midland to inject another \$375m.

Midland transferred its problem loans to a new subsidiary, and the Latin American loans were taken on to its own loan books. Then in May 1985, it started the process of selling Crocker to another Californian bank, Wells Fargo. It received \$1.1bn, nearly recouping the cash cost of Crocker, but ignoring the \$760m of problem Crocker loans it had taken in, the management time and the damage to Midland's own credibility.

Source: Nisse (1991)

### 9.2 Ciba-Geigy

In the early 1970's, Ciba and Geigy joined hands across the Rhine in Basel. This was to be a historic merger. However, although both were Swiss, knowledgeable outsiders relate that there were important differences in culture. Ciba was more traditional and conservative, with what might be called a certain rigidity. Geigy was more open, aggressive and performance-oriented.

When the merger was implemented, extreme care was taken to divide up the jobs equitably between the executives of the two companies. This was done on a 50/50 basis. The objective was that it should be a true merger, with neither company taking a major share of the spoils.

It didn't work out like that. Industry observers state that within a short while the Geigy people began to show up in the majority of the important jobs. Over time the quality derived from the different backgrounds had told. The attempt at artificially imposed equality had crumbled. The winners had simply emerged.

Source: Mitchell (1988)

### **9.3 Asea/Brown Boveri**

Today we are watching another mega-merger taking place, this time on a European scale involving the Swiss giant Brown Boveri and the Swedish Asea. Both are in heavy engineering, both have numerous subsidiaries in different countries. Many observers believe this is a prototype Euro-company.

What is remarkable is the speed with which the merger is taking shape. Agreement was reached in early August 1987 and the entire restructuring and staffing was completed by the following January. Where each company had about 30 business units, the merged company will have about 35. The emphasis is on performance-oriented decentralisation with numerous semi-autonomous units.

The choice of managers in this case follows a very different line. As far as Business Internal can ascertain, the assumption has been made that if merit is the criteria, rough parity will probably be the outcome, taking the company as a whole. Each new appointee chooses his subordinates from both companies, using advice from both as well as the knowledge each company had of the other. This approach avoids a winners-and-losers situation and it is likely to last if most of the judgements are good.

Outsiders maintain that the countries of these two engineering groups are very similar. Some, however, are curious to see how well the national characteristics will merge. In any event it is a visionary step toward a new kind of supranational company.

Source: Mitchell (1988)

## 10. About the author

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Nick Milner, PhD is the Managing Partner at Milner Company Marketing LLP. He has over 20 years experience in the international telecoms and IT industry with Azure, BT, FirstMark Communications and Brightstar.

Nick has had significant strategy and marketing experience across a range of enterprises from small start-ups to companies listed on the London and Indian Stock Exchanges. He spent four years in BT's M&A function and at Brightstar's Corporate Technology Incubator. He is a Fellow of the Chartered Institute of Marketing, a Freeman of the Worshipful Company of Marketors, a Chartered Marketer and a Chartered Psychologist. He won the Company of Marketors Mais Bursary for his study on Silicon Valley Marketing.