How To Make Your Strategic Alliance, Merger, or Joint Venture Successful

The Art of the Merger

by Robert Hargrove

Part I. Welcome to the World of Partnerships

Peter Drucker has written that the chief strategic resource of the next ten years will be neither capital nor knowledge, but the ability to form powerful partnerships.

Winning the race to the future and the rest of world requires a strong sense of purpose and speed. Yet, few companies, if any, have what it takes to run the race on their own. The idea of racing as a team is somehow uplifting to the human spirit. The logic of bringing many heads (or sets of skills) together to achieve what was previously considered difficult or impossible on an individual basis is somehow compelling.

A powerful partnership with another firm can give your company the critical mass and momentum it needs to capture the attention of the world market, to develop the next generation of products and services, or to fill the gaps in your knowledge or skills in a just few months that would otherwise take years. To be sure, we have just witnessed some of the biggest strategic alliances and mergers that will ever happen. Daimler and Chrysler, Citicorp and Travelers, MCI and WorldCom, AT&T and TCI, Monsanto and Cargill, to mention only a few. In the past year, there have been a grand total of 10,401 worldwide deals, adding up to $1.3 trillion dollars.

It is not only mega mergers and powerful strategic alliances that are defining what the new partnerships are all about, it is that the line between companies and their customers has become blurred. In a world where producers and consumers are constantly intermingling to produce products and services neither could create on their own, it may be wise to consider every transaction an alliance.

Based on studying over 25 major mergers and dozens of strategic alliances, we at Robert Hargrove Consulting have seen that in the next ten years, business will be done in a fundamentally different way that represents a shift from the traditional hierarchy to the extended enterprise web or network.

A study by Andersen Consulting revealed that today's successful companies launch three to four times the number of collaborative initiatives than the medium or low performers. And yet, all that glitters is not gold. For every merger or alliance or outsourcing joint venture that succeeds, three fail to reach their objectives.

Why so many mergers and alliances fail to reach their goals.

There are two reasons why mergers and alliances fail. The first reason is that, although many CEOs and their executive groups are good at figuring out a deal that makes strategic sense, they often lack a realistic blueprint or step-by-step process for making the merger or alliance successful.

It starts with pre-merger planning. According to consultant, Joel Yanowitz of Arthur D. Little, "It may sound absurd, but many companies go into mergers without any clearly defined purpose or goals." They also tend to lack a step-by-step roadmap for dealing with the issues of post-merger integration. For example, *creating shared goals, creating organization alignment, working together at strategic and operational levels.* It was just this issue that made Bank of America's merger with Fidelity Bancorp extremely difficult.

The second reason is that the companies and their leaders often lack the necessary collaborative attitudes and skills. The human factors are often underestimated and can play a crucial role in the success of a merger or alliance. The more strategic a merger or alliance is, the more it is likely to bring together people who not only have large egos, but who also have differing goals and cultural orientations. While differences can lead to lighting creative sparks, they can also ignite conflict. This was the case with the IBM's acquisition of Lotus Development Corporation and AT&T's joint ventures with the Spanish and Swiss Telecom.

For a partnership to succeed, there not only needs to be a shared purpose that is big enough and compelling enough for people to subordinate their egos to, but also a major commitment to fostering collaborative attitudes and skills. When this doesn't happen, there can be major problems, such as power struggles.

Motorola is a prime example. In 1996, Motorola launched a project called Iridium. It began as an ambitious attempt to create the world's first global satellite phone network. By surrounding the planet with 66 low orbit satellites, Motorola planned to overcome the constraints of ground level cellular communications which basically involved putting relays on telephone poles. Iridium would use satellites to beam the signals directly to handsets.

Iridium was Motorola's $3.4 billion bet on the complete globalization of wireless telecommunications. To implement this ambitious project, Motorola created an exceptional consortium of 17 equity holding partners which included various national telecommunications companies and other companies like Raytheon, Lockheed Martin, Krunichev Enterprise (the Russian rocket supplier), and Nippon Iridium (itself an coalition of 18 Japanese partners). The first satellite launches took place in 1996, with wireless global communication services slated to begin in 1997.

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Yet, in January 1998, the Wall Street Journal was reporting delays in Motorola's launching of new products. In May, the touted Iridium satellite service was still not available. Also, a month later, the company's alliance with Compaq and IBM to build a computer chip that could compete with Intel fell apart. Wall Street reacted by dramatically reducing the price of Motorola's stock.

This led to a rare exercise of public soul searching by Motorola Chairman, Chris Galvin. What was the reason for the costly delays? How could Motorola let competitor Globalstar, led by Loral (a specialist in space communications), beat it to the punch in launching the first global satellite network? Why did the effort to build a powerful computer chip with other partners lead to bitter finger pointing and wrangling?

According to Galvin, "Our vice presidents and project leader engineers at Motorola come up with great ideas for strategic ventures that can lead to innovative products, but the truth is they don't collaborate or communicate well on a day-to-day basis." He said the reason for this was what he called a "warring tribes syndrome."

Galvin said that Motorola engineers struggled for power and dominance over each other, used a divide and conquer approach in forcing their will on their various partners, and were often downright uncooperative.

Why some company leaders are good at mergers, alliances, and joint ventures.

Yet, there are notable exceptions to the debacle above. The mergers of Asea, Brown & Boveri (ABB), Bank of America and Charles Schwabb; also the alliances of Corning and Siemens, and Cisco Systems and Dataquest. Does bigger equal better? No. The challenge for leadership is to bring two companies together so as to create something that never existed before—not just do the same thing better—or simply consolidate bricks and mortar.

Look at the joint venture between Shell and Mobil. It led to the formation of Aera, a creative, autonomous, highly profitable, amalgamation of two giants. It represents the successful cloning of the best DNA cells of both of its parents and the creation of a separate but effective network. Says Peter Senge, "While five people can pull off a merger, it takes aligning 100,000 people to make it work…" and collaborative attitudes and skills.

Roger Ackerman, Chairman of Corning Inc., is an excellent example of a leader who is good at creating innovative alliance partnerships where people from different cultures think and work together. Says Ackerman, "We have a passion for growth," which requires coming up with products that change everything. "In the 80's, we saw that we had the potential to transform telecommunications with fiber optics. We had invented fiber optics in the 60's, but we didn't know anything about cable or distribution. We knew in these situations you have to act fast before the window of opportunity closes. So went went looking for a partner.

"We went to AT&T, but they didn't see this incredible opportunity for business growth because they were too invested in fixing their wire based phone network. And they were not open, nor had a collaborative attitude. Instead, we went to Siemens where there was a whole different attitude." Today, Corning's fiber optic business is growing at a rate of 100% a year and says Ackerman, "half the world has still not received its first phone call."

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The experience with AT&T and other firms taught Ackerman and Corning a great deal about making sure Corning had the skills and attitudes necessary for future partnerships like the one with Siemens. Ackerman spent one day a month for a year in the mid 90's with his top management team coming up with a set of leadership practices that would poise Corning for dramatic growth in the year 2000 and beyond.

"Some of these leadership practices were a bit quirky," said Ackerman, "such as openness, rigor, curiosity, focus, tolerance of eccentricity. We looked in the mirror hard and asked ourselves: What does it mean to be an open person? What does it mean to be a rigorous person? tolerant? curious? and so on."

It seems that many other companies would be served to do something similar. A study by Arthur Andersen of 6000 company executives revealed that only four percent of today's leaders felt they had the skills and capabilities necessary to lead the virtual organizations of the 21st century.

The study emphasized that a critical skill that was missing was leading network organizations that, instead of being hierarchal, are egalitarian in nature.

Other skills included collaboration, communication, coaching, and managing relationships.

The art of the merger lies in being able to integrate the strategic focus and basic steps in building powerful partnerships with the necessary collaborative attitudes and skills. This report addresses itself to this. Part II of this report will look at the attitudes and skills needed to make various kinds of partnerships succeed. Part III will provide a step-by-step road map to follow.

Part II. The Skills and Attitudes of Successful Alliances, Mergers, JVs

We have found that the following skills and attitudes were crucial for success in alliances, mergers, and joint ventures: 1) Lateral Leadership, 2) Breakthrough Thinking, 3) Authentic Dialogue, 4) Attitude of Collaboration, 5) Coaching and Facilitation.

Skill 1: Lateral Leadership

In the past, the CEO was like an emperor who presided over the corporation with top-down control. Today, there is just as likely to be a Co-CEO (or leader) who must collaborate with others in order to manage an alliance, merger, or partnership. While the top-down leadership that we have inherited from the past is smoothly and quickly executed by most managers without even having to think about it, the new lateral leadership style required for alliances is often executed haltingly and with some awkwardness.

There are four aspects of lateral leadership that need to be developed: 1) Shifting from the old power of authority to the new power of collaboration; 2) Lateral thinking—reaching goals and solving problems by thinking differently which leads to doing different things; 3) Being a knowledge broker or bringing extraordinary combinations of people together in an extended enterprise web; 4) Being a "convener"—getting people to sit down at the table to discuss a merger takes leadership, it just doesn't happen.

Skills and attitudes crucial for success in alliances, mergers, and joint ventures:

1) Lateral Leadership

2) Breakthrough Thinking

3) Authentic Dialogue

4) Attitude of Collaboration

5) Coaching and Facilitation

For example, last year during the Frankfurt Auto Show, Juergen Schrempp, Chairman of Daimler-Benz, a man known more for authoritarian than collaborative leadership traits, pounded his fist on the table so hard in talking with executives that papers flew in all directions. He had been in strategy sessions with executives all day looking for ways to give Mercedes a competitive edge in the world auto market. He wasn't happy with the answers he heard.

That night, as he stood in his hotel room looking out the window at the gilded buildings that stood in the Schafhaussen Square, it came to him: a partnership with another firm. Schrempp was definitely thinking outside the box, when Chrysler entered his mind. Who would imagine a German company that held the benchmark for luxury autos would partner with an American company like Chrysler that sold K cars to middle Americans to keep itself out of bankruptcy? His next step was to convene a meeting.

In fact, the road to the biggest industrial merger in history started with a seventeen minute meeting on January 12th at Chrysler Corp's silvery, sleek, new headquarter complex in Detroit. It wound through luxury hotels in New York City, executive dining rooms at Deutsche Bank AG Frankfurt, and a secret rendezvous in Switzerland before concluding May

1st with a champagne toast at the Dorchester Hotel in London at 10:30 pm. In between, there were a dozen or more secret meetings between a handful of high level executives of Daimler Benz AG and Chrysler Corp shuttling across the Atlantic. There were tons of details to be worked out.

Getting people to sit down at the table to discuss a merger takes leadership, it just doesn't happen.

However, these nitty gritty's weren't what was on Juergen Schrempp's mind when he called Robert Eaton, Chrysler Chairman, while attending the Detroit Auto Show in January, 1998. The message was, would Mr. Eaton please sit down with him for a meeting? When they sat down, Mr. Schrempp's agenda was audacious, "I would like to explore with you the possibility of a merger." The merger would give the highly profitable Mercedes a stronger U.S. distribution channel and a core competence in light trucks and sports utility vehicles. It would provide the highly profitable Chrysler more international clout than it presently had.

The merger didn't come out of the blue. For about six months in 1995 and 96 the two companies had held many gatherings to discuss the possibility of a major joint venture in Latin America or Asia. Those talks came to nothing, but executives from both companies got to know each other and get comfortable with each other's corporate culture.

After the merger papers were signed and the smoke cleared, there were many pundits who wondered whether the tough guy Schrempp would be able to work as a successful CEO with Robert Eaton of Chrysler. Others who knew about Eaton's practiced skills at co-leadership thought differently. Eaton had already proven his ability to think and operate as a co-leader when Chrysler CEO, Lee Iacocca, resigned and made him CEO and Robert Lutz President. Lutz was an ex-Czech fighter pilot with a reputation for not getting along with CEOs. If Eaton had treated him as a subordinate, Lutz would have parachuted out fast. Instead, he treated him as an equal and the two became excellent partners.

Says leadership expert Warren Bennis, "Eaton's great skill is being able to submerge his own ego to get along with a difficult partner in order to reach the soaring goals he sets." It was Eaton who graciously offered to resign and let Schrempp take over as CEO. Instead, Schrempp felt moved to offer to resign as well. This created the opening for Eaton to pose the idea of being Co-CEO's. Both men agreed to make all major decisions by consensus or pass the torch to another leader.

Says Edward E. Lawler, a business professor at the University of Southern California, "If ever there was an ally with Schrempp, it is Bob Eaton."

The lessons in this story about lateral leadership not only apply to CEO's, but also to leaders at all levels of the organization who are going through a merger or alliance building process.

Skill 2. Breakthrough Thinking

How do you knit two organizations with differing goals and orientations into a single team?

As Nicholas Negroponte, of the MIT Media Lab, has said, "You see the future best through peripheral vision. Sometimes looking straight ahead just misses the big picture." Breakthrough ideas often come out of left field. As AT&T CEO Mike Armstrong said of the AT&T and TCI merger, "Why hack your way through the jungle doing everything yourself when there is a freeway ten feet to the right of you?" The merger not only gave AT&T a local line into your home, but also it opened up rich possibilities.

An Arthur D. Little study of 2000 executives revealed that by far the executive's biggest source of tension in various kinds of alliance partnerships and other business situations was being able to reconcile the tension between two necessary but seemingly contradictory goals, that could only be solved by breakthrough thinking or seeing things in a new way

• *How do I run my SBU and still find time to integrate with partners?*

• How do I create a structure that is decentralized enough to foster innovation, yet centralized enough to coordinate functions?

• How do I build worker confidence and trust, yet consolidate operations?

The study revealed that the managers also had to deal with another kind of tension — the tension between the need to be separate and the need to be integrated. Whether it's a matter of partners in a merger or alliance, business units of a large corporation, teams in business units, or even individuals on teams, there is always varying degrees of competition between the different parts and varying degrees of cooperation. The ability to manage this tension is the key to creating effective collaboration within an organization and between organizations.

The solution to both kinds of tension requires breakthrough thinking. This requires the ability to transform the tyranny of the "either or" into the genius of "both and." In other words, to transform "either or" dilemmas into "both and" propositions by seeing things in a new way. NUMMI, a joint venture of Toyota and General Motors, faced a dilemma which involved the need to improve customer service and the need to reduce inventory. Reframing the dilemma lead to a just-in-time approach to manufacturing. They looked for small changes that could make a big difference, such as reduction of change over time.

In essence, alliance partnerships require leaders who are capable of reframing issues and coming up with innovative solutions on a day-in, day-out basis.

Skill 3. Powerful Forums for Dialogue

Conversation is the vehicle for capturing collective intelligence of the group in attending to the complex issues and problems a merger presents.

Our research shows that a real quality of dialogue is a powerful vehicle for both exploring a potential alliance partnership or knitting two recently merged organizations together into a single team, and dealing with the complex issues involved. In many mergers, however, dialogue often shows up as missing: 1) There is a lack of forums that are powerful enough to bring stakeholders together and explore issues in depth; 2) The agendas of team meetings tend to be jam packed, keeping discussions of complex issues on a superficial level; 3) People mistakenly equate being a good "alliance partner" with nodding their heads in agreement or avoiding conflicts; 4) People do not have any training in the art and practice of collaborative conversations or, if they do, have not sufficiently mastered it.

Breakthrough thinking involves the ability to transform "either or" dilemmas into "both and" propositions by seeing things in a new way.

Collaborative Gatherings for bringing unlikely collaborators together. One way that leaders can foster dialogue is to sponsor collaborative gatherings that introduce people, lay out the goals of the partnership, as well as the roles involved. For example, the Mars Project landed a scientific payload called the Rover on the surface of the red planet on July 4th, 1997. This feat was made possible through lateral leadership and breakthrough thinking. NASA's Jet Propulsion Lab created an alliance with other NASA labs, Hughes Aerospace, and over a dozen other firms.

Early in the project, Mission Director Brian Moorhead held a collaborative gathering where he announced the goals of the project, then asked people from different professions and organizations (e.g., astro physicists, geologists, engineers, MBA's, etc.) to explain their job to a layperson. The informal dialogue that was created at this meeting had a lasting effect over the next two years.

Collaborative Conversations or "Deep Dives" for focused problem solving. There also needs to be a forum for focused problem solving on complex issues. AT&T Chairman, Mike Armstrong, regularly interrupted merger talks with TCI's John Malone and their staffs when he suspected a complex issue needed deeper reflection and said, "Wait a minute, let's do a deep dive on this." He and others would then discuss the issue for hours on end, if necessary.

These kinds of forums need to be consciously and intentionally created to foster collaboration. At Robert Hargrove Consulting, we have developed a process called a CollabLab—*an accelerated solutions environment* for helping clients gain the insights needed to deal with the complex issues of a merger or partnership.

Skill 4. A Universal Attitude of Collaboration

In most alliances, there are teams and processes. The distinguishing success factor is whether there is an attitude of collaboration.

As Charles Handy has written, in the future, organizations will be important as organizers, not employers. What that means is that in the future, most professionals are most likely to be working on some project with people from three or four different organizations. When your company is thinking about reaching its goals, it would be wise to be thinking in terms of bringing an extraordinary combination of people together in an extended enterprise web based on a scheme of semi-permeable boundaries.

In other words, what is required is a universal attitude of collaboration in which the notion of "insiders" and "outsiders" becomes blurred. If you call up a company looking for a partner in a win/win proposition and they are more interested in screening your call because you are an outsider than they are in finding out what you're up to, you are probably looking in the wrong place.

This universal attitude of collaboration not only means blurring the line between insiders and outsiders, it means being open to exploring new ideas, especially those that may initially seem like they may come out of left field and that may require doing something different. AT&T's early rejection of fiber optic cable was probably predicated on the fact that the company was heavily invested in its wire based phone network.

Although many organizations may try to get collaboration by setting up teams and processes, these teams and processes may not be collaborative in their attitude. It is possible to be part of a team and suffer from "silo mentality," "not invented here syndrome," or "Let George do it!"

The universal attitude of collaboration involves being a kind of alchemist, who delights in bringing together a crazy combination of people and creating something that never existed before. It involves creating a corporate culture where people look at being invited to a brainstorming session on a new product or service as an honor. It involves seeing yourself as having one piece of a puzzle that, combined with other pieces of a puzzle that others in your group may have, can create something truly extraordinary. The early invention of radar, for example, was made possible by an alliance that combined the skills of physicists and engineers in one team.

Finally, it is important to point out that, although many organizations may try to get collaboration by setting up teams and processes, these teams and processes may not be collaborative in their attitude. It is possible to be part of a team and suffer from "silo mentality," "not invented here syndrome," or "Let George do it!" For example, Ford Motor Company in Australia found that it was lagging behind most Ford operations in production, deliveries, and sales. They had set up teams and processes, but the real barriers to collaboration and communication remained, the ones in people's heads. The results did not improve.

The head of the factory set up a three day off-site with people from the factory, part suppliers, distributors, the ad agency, and outside design people. At the meeting, they decided that what was missing was a universal attitude of collaboration that would allow people to collaborate smoothly, whether they were on a team or not.

They began to instill an attitude of collaboration by: 1) Getting rid of their top down attitudes and treating everyone as a colleague; 2) Creating shared understood goals that gave everyone involved the feeling they were part of some great undertaking; 3) Creating a series of shared values, such as learning vs. knowing as embodied in the slogan, "You may not know as much as you think"; and 4) Providing transparency of information regarding production quotas, sales, etc. In six months, Ford Australia increased on-time deliveries by 85% and sales by 65%.

Skill 5. Coaching and Facilitation

Coaching is the vehicle for instilling each of the skills and attitudes mentioned above.

It is important not to underestimate the level of personal and organization learning involved in mergers, strategic alliances, or partnerships. Most managers were not born lateral leaders or systems thinkers, and collaborative attitudes often run counter to our business tradition. This learning will require more than a "talking head" in a corporate training room for two to three days. It will require masterful coaching and facilitation.

A book or classroom intervention can show you the leadership practices you need, but may not get to the underlying beliefs and assumptions which actually shape your behavior. One of the key things a coach does is to help people recognize when they are espousing a certain set of leadership practices, but acting in a way that is 180 degrees opposite.

To illustrate the point, in attempting to settle the recent GM strike, CEO John Smith began a conversation with Union Reps saying, "we have to find a better way to work together," citing the importance of collaboration and communication. Fifteen minutes later, there was a disagreement about something. Smith became very vocal about getting his way, lecturing the union folks about world class competition. He became so heated, he began pounding his fist on the table.

Executives can play a vital role as "conversation partners" to help local line leaders do the breakthrough thinking needed to reframe complex issues that the merger surfaces. Also, there is an often underestimated need for skilled facilitators in a merger process to help inter-organization groups with differing goals and differing orientations come into alignment.

At Robert Hargrove Consulting, we have observed that executives are the business people who receive the least amount of coaching, and who often need it the most. The same applies to executives providing coaching to others. Executives can play a vital role as "conversation partners" to help local line leaders do the breakthrough thinking needed to reframe complex issues that the merger surfaces. Then there's the often underestimated need for skilled facilitators in a merger process to help inter-organization groups with differing goals and differing orientations come into alignment.

You can almost guarantee that the merger will not roll out as planned. It can be highly effective for executives and line leaders to sponsor collaborative gatherings in order to build shared goals, make plans, launch projects, etc. Just as important is the need for other gatherings whose purpose is to document what happened, reflect on events, and modify actions in the face of unintended results. Skilled facilitation of such gatherings can lead to sharing insights into the merger process that are not only valuable now, but which can also be applied in the future.

Part III. A Five Step Process for Strategic Alliances, Mergers, Joint Ventures

The purpose of the steps is to put some fence posts in the swamp to allow leaders to map the territory.

As said earlier, the art of the merger lies in combining the attitudes and skills mentioned above with the tangible steps in the merger process. In this part, we are going to look at the specific steps in the merger process. This includes everything from pre-merger planning to post-merger integration and beyond. The purpose of the steps is to help you to map the territory in your own mind rather than provide answers to every question.

Step 1. Clarify Your Strategy: Identify Your Best Potential Partners

In most companies, people go about their business trying to reach strategies and objectives amidst difficult facts and circumstances. A strategic alliance can be smart move that can dramatically increase your leverage in reaching your goals on a chessboard that is shaped by change, complexity, and competition. Suddenly, where there were obstacles, there is a new opening for possibility and successful action.

In considering creating some kind of partnership, it is important to be clear about your own goals and motivations. A good question to ask is, "What new or existing opportunities could we realize more effectively by combining our own capabilities with those of an appropriate partner?" An insightful answer to this question requires a profound understanding of your company's strategic direction, markets, and core capabilities. It also tells you what kind of partner to look for.

A Five Step Alliance Process

1) ***Clarify Your Strategy—Identify Your Best Potential Partners***
2) ***Create Glue—Shared Goals, Values, Best Practices***
3) ***Build a Transition Structure—Multidisciplinary***
4) ***Seek Synergies that Multiply, Not Just Add Value***
5) ***Focusing on Collective Work Products—Quick Wins***

To clarify your goals and motivations for going into partnerships, a good question to ask at a collaborative gathering is: In the race to the future and the rest of the world, are we seeking to: 1) build critical mass, 2) reach new markets, or 3) plug different knowledge or skill gaps? Once we know what the basic purpose of the alliance is, there are certain types of partnerships that we can use to get there.

a) Co-option: We use this word to define creating a partnership that helps to build critical mass or to neutralize a competitive threat. For example, Royal Bank in Canada merged with Bank of Montreal, its number one competitor, in order to gain the critical mass needed to compete on the world stage.

A good question to ask is: What new or existing opportunities could we realize more effectively by combining our own capabilities with those of an appropriate partner?

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b) Co-specialization: Co-specialization can be used to create a new market or enter an existing one. It involves two companies with different, but complementary skills combining their strengths to create new value. Corning "co-specializing" with Siemens to launch the fiber optic cable business is a good example. It can also be a way to crack open a new market. Coca Cola knows about the beverage industry, but could only break into the Chinese market by forming alliances with people who understood China's distribution system.

c) Filling Gaps: This involves finding partners who can fill gaps in knowledge or skill that allow you to get there better, faster, cheaper than on your own. The CEO of Xerox in the 80's was amazed by the low number of defects in Fuji products when he visited their plant. Xerox then formed a partnership with Fuji Copiers to learn to improve the quality of copiers. This led to the Xerox quality program.

Once you figure out what your goals and motivations are, there are a few other questions to keep in mind when selecting a partner: 1) Which companies can become more successful by making us more successful? 2) Which companies have the skills and capabilities we need? 3) Which companies have a proven track record of success with alliances and are known for their attitude of collaboration? Keep in mind that once you select a partner, it is important to to develop a strong business case by rigorously thinking through the possible gains, as well as the drawbacks.

Step 2. Create Organization Glue—Shared Goals and Culture

While much of the headlines about mergers focuses on the strategic and financial factors that the deal hinges on, the art of the merger lies in focusing on the human factors that are essential to its success. It starts with recognizing that mergers bring together two firms that have differing goals and orientations, and people whose way of seeing and responding to the world varies greatly. There needs to be a way to create alignment or you will see as the quotation from William Butler Yeats says that, "Things fall apart, the center cannot hold."

Partners need to create some kind of glue that will hold the two organizations together. This could include using collaborative gatherings to: 1) create a shared vision, 2) build shared values, 3) adopt a few rules of governance, and 4) develop best practices.

Mergers bring together two firms that have differing goals and orientations, and people whose way of seeing and responding to the world varies greatly. Partners need to create a kind of glue that will hold the two organizations together.

1. Shared Understood Goals. A good example of where creating shared goals played an important role in making a merger successful was the Smith Kline and Beecham merger. Robert Bauman, Chairman of the Beecham Group, and Henry Wendt of Smith Kline came together before the transaction was completed and created a shared vision. The two CEO's plus about 20 senior managers from the two companies held a series of collaborative gathering for over two weeks in mid-November, 1997. To insure secrecy, they met in the basement of Smith Kline's New York lawyer's office. The various players got to know each other very well during the formal and informal discussions and came together around a vision of "integrated health care."

2. Shared Values. Another form of organization glue is to create a list of shared values that become the basis of leadership practices for both organizations. Honda Motor Company was a small motorcycle manufacturing company after World War II. But by the mid 80's, a Fortune article made a wry reference to the most popular family car in America: the Honda Accord. Honda was the first Japanese company to enter the luxury car market. It was the first to meet U.S. emission standards and the first to set up an integrated auto manufacturing plant in Marysville, Ohio.

This and other accomplishments were largely due to an innovative management culture that was based on a single value, “Let’s Gamble.” Honda not only actively cultivated this value in its own organization, but in its network of partners—advertising firms, parts suppliers, and distributors.

3. Adopt a Few Rules of Governance. In a network world, where people do not have traditional bosses the way they do in a hierarchy, the question of, “Who has control?” is less important than the question, “How do we govern?” A good answer comes from Dee Hock, former chairman of Visa International, a loose confederation of banks, merchants, and credit information suppliers. In spite of many overlapping boards and different management cultures, Visa is considered a very well run organization that can operate decisively.

The reason is that when Dee Hock took over as Chairman, he emphasized the importance of creating “a few rules” that would be used as a basis of making decisions. This occurred by convening a group of Visa’s initial members and creating a list of critical minimal specifications. Visa’s ongoing governance process ensures that these “specifications” are crafted and adjusted as the network grows and learns.

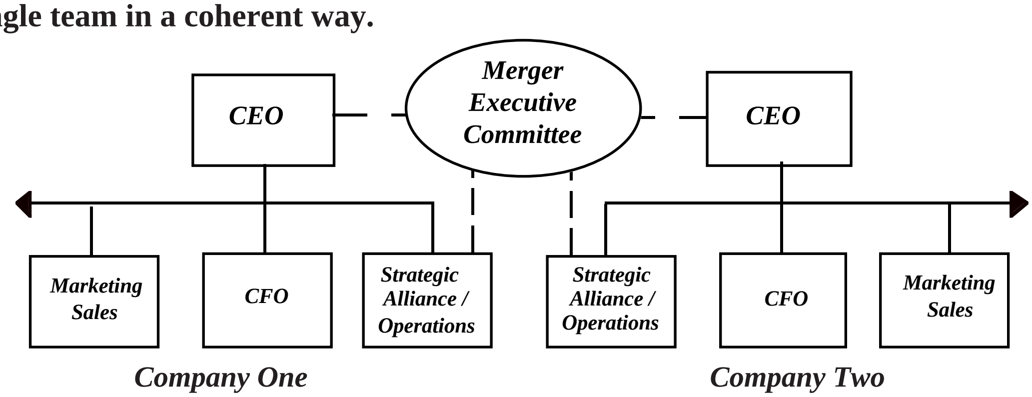
4. Best Practices. A fourth way to create organization glue is to hold a gathering of the two companies and ask people to explore best attitudes and practices in critical areas. Ask people from both sides: How do you run your business in the area of R&D? marketing? production? Also, look at how the people who are most successful in your industry do things, to give yourselves a benchmark. Then choose the best way that will fit your goals and objectives. This is a good way to craft a shared management culture. In the mergers we have helped with in financial services, auto, biotechnology and other fields, people begin to see, as a result of this, that the old way was not necessarily the best way.

Step 3. Create a Merger Transition Structure—From Hierarchies to a Fluid Network Organization

In designing a merger transition structure that will knit the two organizations together, it is important to keep in mind that today’s organizations were designed for functionality, not for complexity. People in a network of firms usually do not report to each other the way they do in a hierarchy. Breakthrough thinking and collaborative attitudes and communication skills are needed to create fluid network structures. At the same time, structure influences behavior. Putting into place structures can foster breakthrough thinking and the emergence of collaborative attitudes and skills.

For example, ABB (a merger of the Dutch Asea and the Swiss Brown and Boveri) represents a fluid network organization of 60 companies. This network is connected by a large number of counsels including an executive committee that makes broad gauged strategic decisions, a board for every business area,

A merger transition structure can provide the means to knit the two organizations into a single team in a coherent way.



country counsels to connect all companies in a country, and functional coordination teams that span a business area. In addition, executives travel constantly spreading the word about the importance of coordination. Average employees are connected by exchanging visits regularly with others from all over the world, and everyone in the company is connected through e-mail or its abacus system.

A good way to initiate a transition structure is to create a Merger Executive Committee (MEC) made up of people from both sides. The MEC plays a key role in insuring the vision and values, as well as few rules of governance will be upheld. In the case of a larger firm acquiring a smaller one, it makes sure that such statements "Don't worry. Nothing is going to change," actually is what happens. The MEC has the responsibility of providing a strategy that allows the latent synergies of two firm's partnership to be realized.

The MEC appoints a merger manager who works with a team to define projects, time schedules, monitor progress, and handle contingencies as they arise. Merger project managers are assigned key projects and are expected to deliver in a way that meets key performance parameters and time schedules. With coaching in collaboration and communication, as well as regular opportunities for feedback and learning from peers, these individuals can become increasingly adept at leading the organization in future acquisitions or alliances.

Step 4. Seek Synergies in Innovation and Cost that Multiply, Not Just Add Value

The idea behind an alliance partnership is to bring parties together whose differences represent the latent potential. Yet, this potential must actually be realized in order to justify managing a bigger and more complex organization. Therefore, it is important for managers to seek synergies in innovation and cost that multiply, not just add value. A good example comes from the $30.09 billion merger of Sandoz and Ciba-Geigy into a company called Novartis, which was announced in early 1996 amid a flurry of big deals in the pharmaceutical industry.

A collaborative approach to achieving cost synergies. At an early gathering of executives from both sides, Daniel Vasella, Novartis' president, previously head of Sandoz Pharma Division said, "The company has been created not through internal growth, but in a deal." Someone from the Ciba side responded, "The reinvention process that has to occur is one to change it from a leader in size to a leader in performance. We need to use the merger as a catalyst for change."

A collaborataive gathering is an effective way to bring diverse groups of people together from both companies to discover synergies in innovation and costs.

Novartis' management called for a company wide review and, where appropriate, the reengineering of all processes, from research and development to marketing and sales. "During negotiations, we didn't want to involve too many people, so we took a top-down approach," said Raymond Breu, Novartis' chief financial officer. "However, when it came time to arrive at goals for reducing costs and jobs, we decided to use a bottom-up approach."

Worldwide, Novartis deployed 600 task forces, each holding their own gathering to find cost synergies in specific areas, to identify possible cuts and to create a time plan. The groups were supplied competitor benchmarks for industry costs. This resulted in a target for cost reduction of two billion Swiss Francs, $500 million more than the benchmarks. "By the time we completed the merger," said Vasella "we had all these plans, done by the responsible managers, not MBA guys. So, on Jan. 1, 1997, we said, 'Okay, do it." It will take two years to implement the changes.

They committed themselves to a breakthrough in the oncology drugs. Pharmaceutical companies live or die by their research and development, so it is not surprising that these two sectors received the most scrutiny in Novartis' review. Research discovers new drug candidates, while Development shepherds these new chemical or molecular entities through the laboratory and clinical trials that lead to regulatory approval. From discovery to new drug approval often takes 10 years or more, and 9 out of 10 drug candidates fail somewhere along the way. Any increased efficiency in this process would pay disproportionate returns.

To further innovative breakthroughs, the number of drug development projects was reduced on both sides from 165 to 15. Then they weighted each of the remaining ones. For example, their first priority was to achieve a breakthrough in oncology drugs, a cure for certain kinds of cancers by 2005. They then needed to design an organization that would be much more focused so they could accomplish these goals.

It is important in a merger is to maintain the flexibility to have people from both sides shifting back and forth between strategy and operational accomplishments.

Traditionally, both Ciba Geigy practiced innovation in a serial (or sequential manner). Senior executives would decide which drugs to allocate capital investment to. The Research area would develop the drugs, then the Development area would test them, to be followed by the Quality Control Department, which administered more tests. Innovation was often slowed down by the fact that the Quality area did not have an opportunity to be involved until after six to seven months of testing. Then, they would start shooting holes in the testing methods or outcomes, requiring everyone to go back and start over.

According to Doctor Robert Herrling, the merger created an impetus for change that allowed them to implement a new approach, "We wanted to reduce hierarchical levels and be more collaborative, so we could increase the speed of drug development." In essence, they decided to get the Research, Development, and Quality areas all working concurrently. Training was provided in collaboration and communication. Getting everybody thinking and interacting together immediately lead to a rapid increase in speed and productivity.

Step 5. Focus on Collective Workproducts—*Quick Wins*

Each success becomes the nexus of an expanding circle of successes.

One of the most important things to keep in mind in a merger is to maintain the flexibility to have people from both sides shifting back and forth between strategy and operational accomplishments. Failure to do so can lead to disaster. In the 80's, there was joint venture between AT&T and Olivetti. AT&T was supposed to bring its advanced PC technology. Olivetti its marketing clout.

The two firms talked about how they would build a PC that would capture the world market by using AT&T's powerful machine and Olivetti's user friendly operating system. In the end, the two firms never moved from this strategy to learning something from each other about making and selling computers. Several years into the alliance, the computers of the two companies were totally incompatible.

The moral of the story is to move quickly from strategy to operational levels. A great way to translate latent synergies of a partnership into realities is to focus on collective workproducts. In the case of Olivetti and AT&T, it might have worked to jointly build a personal computer that combined their different strengths or perhaps a new service offering.

We have found in our work with companies that a shared assignment where there is individual and collective accountability for results is a great way to build team work and collaborative learning. It is important to have people from both sides involved in the teams and for there to be deadlines and clear deliverables.

It is a good idea to use what we call the "breakthrough technique" so as not to make the task overwhelming. This means focusing on quick wins—things that can be achieved in weeks, not months. For example, a prototype of a new product, a new service package that wows customers, a catalog that combines both company's products and prices, a sales presentation that combines both companies offering.

- *Quick wins are visible—large numbers of people on both sides of the house can tell the difference between tangible achievements and hype.*
- *Quick wins build a team across traditional boundaries.*
- *Each success can be transformed into a widening circle of successes that leads to both cost and growth synergies.*

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The Breakthrough Technique: Generating Quick Wins

1) ***Find a sponsor who identifies a high leverage project to spearhead the alliance partnership***
2) ***Select a team leader based on a proven track record of success, not title or status***
3) ***Set a measurable breakthrough goal that can be achieved in weeks, not months, e.g. a new prototype of a product or a process***
4) ***Create a written work plan where the goal can be achieved faster, better, cheaper i.e., with existing resources***
5) ***Get people going and produce a result now!***

The Art of the Merger

How To Do a Successful Strategic Alliance, Merger, or Joint Venture