

Kha Newsletter

Spring 2002

Most mergers fail..... so why do we keep doing them?

The sad fact is that the majority of mergers - 57% according to the latest research by Deloitte & Touche - fail to add any value; or worse, they increase the financial problems of the acquiring company. Another survey by KPMG Consulting indicates that more than a third of the largest international takeovers agreed at the height of the bull market are now being unravelled, and that 32% of chief executives or finance directors responsible for the original deals have been replaced.



None of this is new: all the research shows a consistent pattern - and it gets much worse when cross-national mergers are involved. You may think this is a bit irrelevant now that M&A activity has dwindled to a mere trickle. We think otherwise because: a) the markets will pick up again b) memories are short and c) there are still organisations out there struggling to integrate what they acquired in 2000 or 2001. So why are

At one level it is obvious. In increasingly global markets, there is a need to gain access to new markets; reduce competition; access technology; get benefits from economies of scale; and leverage obvious synergies. At another level, there is pressure for growth from shareholders *and* splendid rewards for CEOs and their close colleagues for pulling off the mega-deals. It's supremely good for their egos and so much easier than flogging away for years to achieve organic

Developing Directors -

various functions. The sample was relatively small and 'unscientific', but several messages stood out:

Science or Serendipity?

This was the theme of our private dinner at One Aldwych last November, and it produced an animated debate. In January, we went on to explore it in more detail for a forum hosted by the Financial Services Agency and organized by FiSSinG, a not-for-profit network of HR professionals in the financial services sector. We surveyed a number of directors in this sector, across

Few newly appointed directors thought that they had received any formal *preparation* or training for the role

It was the 'line', not HR, who were seen as *responsible* for board level development - typically the CEO or Chairman

- Most found their biggest challenge was *thinking strategically*
- The highest rated development needs were in the 'softer' areas of *relationships, influencing and change*

Clearly, senior people want more science and less serendipity. We believe that coaching has plenty to offer to close the gap.

If you would like details of this survey or want to *contribute* to the debate, don't hesitate to

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Why do so many mergers fail?

At the 'hard' end, this is often because the business case for merging is thought out so poorly. Maybe the synergies are not really there - or maybe both companies have the same needs and the merger just compounds the problem. It seems blindingly obvious, and yet some mergers fail precisely because the business imperative doesn't stand up to scrutiny. Sometimes, the due diligence is ignored or the target company has done a brilliant job of obscuring reality. Even when it becomes clear that the merger really would not be beneficial, a 'testosterone-charged' atmosphere can take

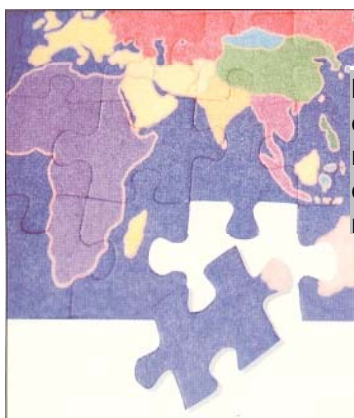
Even more likely, in our view, it is the 'soft issues' that lead to failure. The cultures don't fit; the leaders are not right; or not enough attention has been placed on post merger integration. Due diligence tends to focus on hard issues. Even when soft issues are uncovered, there is a remarkable tendency to assume 'it will be alright on the night'. How often have companies let the management of new mergers continue in splendid isolation without any attempt to integrate them? To make things work, you need the best and most experienced managers, clear about the business reasons for the merger and focussed on developing the leadership and culture that will deliver the benefits from

The depressing conclusion from the most recent and previous research is that, at least in the UK, we are still likely to make the same mistakes. The more optimistic conclusion is that one really can influence the probability of success. At kha, as coaches, and in our previous experience at the sharp end of mergers, we have seen the difference between a 'no-hoper' and a truly determined approach to add value by addressing the spectrum of soft and hard issues. Maybe, your company is one of the sizeable minority that *does* get it right - or maybe you too have been burnt by your merger experiences. Let us have your opinions

and knowledge and we will share these in subsequent newsletters - respecting anonymity, of course.

Worldwork

Have you ever felt uncomfortable doing business with 'foreigners'- or perhaps they have with you...? Last year we talked about an emerging tool to assess international competences. The plan was to complement any organisation's own set of general management competences.



Three years on from the original concept, and after thorough testing and refining it is now a fully functional cluster of products. The centrepiece is the International Profiler, which works in self-assessment and observer mode. Individuals can gain detailed feedback on how they work with others from differing national and cultural backgrounds. It is a superbly objective basis for any development programme. The International Profiler has a rigorous methodology and a significant 'normed' database for comparison purposes.

Supporting the Profiler is the Role Analysis Method, which helps specify the attributes needed for particular roles or assignments. Both these tools are available in 'paper' format and can also be internet-based.

If you think that this sort of exercise is only useful for those organisations that send people to work overseas, just consider how many people now have an international dimension to their role. For example, they may have international customers or suppliers; they may be in a cross-national project team, or they may need to make short visits to a range of different countries. All of these call for enhanced abilities to bridge the culture gap.

Please contact us if you would like to know more, or try out the International Profiler yourself.

Coaching - What's the argument?

Coaching in organisations was once an arcane activity. Now it is a widely accepted, and practiced, tool in the management development repertoire. It has become fashionable in some circles: something to boast about rather than be quietly self-satisfied with. Its recent popularity has sucked in a range of providers like moths around a flame. They have brought with them a wide range of different approaches. And it has penetrated into the consciousness of most levels of the management population. Yet the muddle over terminology has increased. Unnecessary debates about the boundaries between coaching, counselling and mentoring continue, and fundamental distinctions between internal and external coaching are sometimes missed altogether, let alone between performance and remedial coaching.

However, ask any HR professional or senior line manager what they think about coaching and most will now have an opinion. Many will probably say that it is generally 'a good thing'. Which gives coaches a nice warm feeling. But in the cold economic climate of 2002 warm feelings are not enough.

After decades of self-effacing effort many HR directors are trying hard to redefine their roles as business partners with a strategic agenda directly linked to the goals of the enterprise. Which is marvellous until the board asks a really tough question like: "Are we producing enough of the right executives to carry out our strategy?" The conventional response is to redouble efforts in things like appraisal, succession plans and reward schemes. The real need is clearly to accelerate the development of individual and team skills. And, critically, it is the ability of operating boards and project teams to deliver results in times of greater discontinuity and ambiguity.

$$X + Y = Z$$

Is traditional career development an adequate response in times of turbulence and shrinking time scales? To be credible to the business any solution needs a process and measurable outputs. Otherwise, it's unlikely to get the backing of the Finance Director or other board members used to

So, is there a *business case* for coaching? We think

- It is more cost-effective than business school programmes or mass training rollouts because it can be targeted very precisely around an individual or a team's needs.
- It is less disruptive than other development approaches and fits with the working patterns and learning styles of mature executives.
- It encourages individuals to take responsibility for their own development.
- It can complement and reinforce other organisational aims e.g. to change the operating culture.

These advantages of coaching are sensible, but they are relatively difficult to quantify. To pass the 'business case' test, several other things have to be in place.

- Successful people motivated to build on their

Some way of measuring the 'before' and the 'after'. Behavioural tools such as the ones kha use can help demonstrate progress by an individual or a whole team.

A process that others can understand and that the individual can follow. We have a methodology that starts with diagnosis and ends with a review of achievements and outputs.

A set of objectives that have a coherent link to the objectives for the enterprise as a whole. This means involving the sponsor of the coaching in the early stages of any programme.

An overall performance orientation to the programme of work, otherwise why should the business

nav for it?
If these pre-conditions sound a little rigid then that is not the intention. Often, we start with certain objectives and they get modified as circumstances change. The process itself is always flexed to fit individual needs. But the overall equation is the same: put something in and expect and plan to get something extra out.

Corporate governance just won't go away

In our previous newsletter last autumn, we speculated about another Marconi. In purely British terms, nothing further on this scale of corporate trauma has yet occurred. But KMart, Enron, Tyco, Elan, Global Crossing, Energis and Allied Irish Bank, amongst others, have occupied our attention - and who knows what else in the time interval between writing this piece and getting it to your desk. There is a new addition to the business lexicon: *Enronitis*. And we have the interesting spectacle of several accountancy firms hastily recognising that the advice they have given to so many of their clients just might apply to them too i.e. to de-



The broadsheets and more specialised commentators have had a field day being wise after the event, offering a battery of suggestions for reforming everything from auditing to the role of non-executive directors. It will be interesting to see just how much actually does change, because memories of unpleasant events are remarkably short. How many people can honestly recall the initials LTCM? Long Term Capital Management was the hedge fund that in 1998 caused panic in global financial markets. In The Observer of 10 February Professor Frank Partnoy of the University of San Diego School of Law thought that "Enron makes LTCM look like a lemonade stand". Is Enron so awful that it will trigger real change in the way that corporations behave and are valued? Only time will tell.

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Without searching for prescriptions, one can still see common threads running through these recent events. One pattern that strikes us is the sheer, glacial detachment that can occur in some individuals running big corporations. Partnoy quotes from an internal Enron manual: 'Risk management strategies are therefore aimed at accounting rather than economic performance'. In other words, never mind business fundamentals as long as the presentation to the gullible investors is slick and opaque enough.

We started by recalling Marconi. Its current management is labouring to maintain credibility under a crushing debt burden. Its people are continuing valiantly to make and sell products in a depressed market. Meanwhile, its former chief financial officer and deputy chief executive, John Mayo chose the Financial Times to justify his time with Marconi. In three articles, he scarcely mentioned customers, suppliers or products, and only in passing, the people who work for the company. He talked with apparent irritation about being prevented from selling the whole company at the right time. This was the story of a man of numbers - just numbers, apparently cut off from the normal emotional content of operating an enterprise. "Total

Thank heavens for those many big businesses that still have people with a 'heart' as well as a 'head' running them. Maybe, in future, shareholders and non-executive directors will pay more attention to the 'heart' when they assess the health of companies and their leadership, and somewhat less to arid ratios or cunning share option schemes. Or are we dreaming again?

If you would like further information on any of our services, whether it be our core coaching process or our new programmes and initiatives please do contact us or go to our site www.khacoach.co.uk.

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