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Presentation
on
Key Transformation, Merger & Acquisition Success Drivers from a Management
Perspective

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■ **Background**

Over a period of 18 months research was done on a selected panel identified from international and local companies who went through transformation, or a merger or an acquisition. With reference to the panel from the international companies the focus was specifically on electricity distribution utilities. The aim of the research was to understand from a practical point of view what work and yield the desired results and what did not work. Furthermore a range of hypothesis were evaluated both from a theoretical and practical perspective. In general when dealing with transformation or a merger and acquisition there is significant focus, and rightly so, on the core business related matters such synergies, technical dimensions, financial matters, systems etc. However what this research focused on was to understand some of the other key success factors which are most of the time not effectively managed and the research therefore focused amongst others on:

- Key success drivers from a management perspective
- Key drivers behind failures
- The role and selection of Leadership
- The role of Executive Sponsors

This presentation only deals with a limited section of the total research and the aim is to provide a very high level perspective on the key transformation, Merger and Acquisition success drivers from a management perspective.

■ **Transformation, Mergers and Acquisitions**

Transformation, Mergers and Acquisitions (M&A) initiatives are a world wide phenomenon. These initiatives are viewed by various people as best practice world trends and essential for a business to survive in an ever changing and very competitive environment. There are however also those people who express the view that this is not necessary the most preferable business practice. Irrespective of the differing views;

transformation, merger and acquisitions are taking place at an increasing rate, and cannot be ignored. It is however clear that the challenges facing the business world brings amongst many of the other challenges also the challenge to continuously look for ways and means to ensure business sustainability and growth. The Electricity Distribution Industry (EDI), while historically regarded as a “different type of business”, has also experienced world wide an increase in these initiatives. South Africa is no exception and the current EDI transformation raised the question; what are the success drivers for an effective business transformation or merger and acquisition? While investors are looking for financial returns, the shareholders are looking for shareholder value creation and the employees are looking for careers and job opportunities. There is clearly a significant interdependency should the ultimate goal be a successful business transformation and addressing the current inefficiencies of the EDI. The challenge is to create wholeness.

Many people, inclusive of some leaders simply do not have the confidence to embrace the change and make that necessary leap into the future despite all the compelling reasons for change. Kotter (1996:185) states: “For a lot of reasons, many people are still embracing the twentieth-century career and growth model. Sometimes complacency is the problem. They have been successful, so why change? Sometimes they have no clear vision, and so they don’t know how they could change. But often fear is a key issue. They see jobs seeming to disappear all round them. They hear horror stories about people who have been downsized or reengineered out of work. They worry about health insurance and the cost of college for their children. So they don’t think about growth”.

■ **The Drivers behind Successful Transformation, Mergers and Acquisitions**

Based on the research results and the feedback from the respondents in the target population the following points were highlighted as key drivers for successful transformation initiatives or mergers and acquisitions:

- Effective leadership
 - Transformation Leadership
 - Leadership Sustainability
 - Executive Sponsor
- Realistic vision
- Setting realistic goals and managing the transformation tightly
- Communication
- Motivation
- Persistence
- Business/Culture Acumen

The visibility of effective leadership and the ability to communicate the transformation vision and goals clearly stands out as mission critical in ensuring transformation success. Should this learning point therefore be applied to the EDI transformation in South Africa, then it suggests that it is critical that the leadership at Government level as well as

industry level urgently come to an agreement on the way forward. It is essential to recognise that people play a critical role in the ultimate success of the transformation initiative. Credible and visible leadership is critical to the success of any process. Without proactive leadership it is most unlikely that any process will yield the desired outcomes. It is through effective leadership that people are inspired and that stakeholders are willing to buy into a process even if the potential outcome is not that certain. “Leaders inspire others, provide emotional support, and try to get employees to rally around a common goal” (Kreitner, 2001:551). Without visible leadership, tangible commitment and consistency, any process runs the risk of failure.

The ultimate success of the transformation process is dependent on the ability of the leadership and the key industry stakeholders to respond to the transformation challenge and to direct the limited resources available. The difference between successful and less successful transformation initiatives could also be linked to the level of staff engagement. Failure looms in the absence of staff commitment and their lack of belief in the transformation journey. Staff must appreciate their role and understand their accountability towards delivery. Without effective staff contributions and delivery of outputs on time and at minimum, within the agreed to quality parameters, the potential of a successful transformation could fade away. It is therefore essential that clear and realistic goals are set and the deliverables are managed tightly. Effective delivery requires focus and a sound interpretation of the mandate, understanding the expectations of the decision makers, having clarity on the delivery time lines and agreement on the key assumptions. Uncertainty in terms of the deliverables provides excellent opportunities for people to negatively influence the direction and the speed of a process, more so, should the perceived outcome conflict with their personal agendas or perceived benefits. It is also important that the deliverables and time lines set should match the execution capacity and capability available. Bossidy (2002:30) states: “No matter how well you execute, the risk of failure increases markedly when the ideas you develop don’t fit with your existing capabilities, or force you to acquire those capabilities at too high a cost”.

The research results suggest that the creation of vision should preferable not be a bottom-up process; it is a leadership accountability and must be driven from the highest level. Furthermore that vision is about promoting a leap of faith into the future. The vision must create a sense of urgency in all people associated with the business or the process. “Without a sense of urgency, people won’t give the extra effort that is often essential” (Kotter, 1996:5). Ultimately the vision must be owned by the stakeholders and they must be able to relate to the vision and they must be comfortable with it. Frequent changes in direction or changes in terms of deliverables is cited as a contributor to the lack of buy-in from the stakeholders or resulting in the stakeholders losing confidence and interest in the initiative. The frequency of changes and the level, to which stakeholders’ interest is lost, could also be regarded as “failure potential” indicators and therefore it deserves close monitoring and management attention. The energy of the staff must be directed towards constructive contributions and impatience about the lack of progress must be managed. Failure to direct the energy could escalate the transformation failure rate.

The research results suggest that it is important to identify and agree upfront to specific areas to be measured and the associated quality criteria. Agreed to measurement areas and the relevant metrics facilitate effective reporting and progress tracking while it also contributes in providing focus to the people. In aligning the outputs of the people with the agreed to measurements and measurement areas, provide purpose to the people i.e. they can see how their contributions impact on the transformation.

Communication must be proactive, consistent, and reliable while the origin must be trustworthy. Poor communication before the start of initiative is regarded as just as bad as poor communication during and after the initiative. To generate trust, motivate and instill confidence in the process, the communication channels must be open and work effectively upwards and downwards. From a communications perspective there is a need for simple messages which are easy to understand and which could be released on a regular and proactive basis. Some messages might have to be repeated since repetition is sometimes needed to get a message accepted. Potential inconsistencies and conflicting messages must be addressed head on, to protect the credibility of the communication and the transformation process in general. Uncoordinated communication or communication not received on time or not ahead of key events, is an important contributor to the less than desired results of transformation initiatives and mergers and acquisitions.

Based on the response received it suggest that to motivate people, whether employees or otherwise, requires the treatment of people with integrity, dignity, respect and a sense of appreciation and value must be created. People in general expect good treatment; however they do not expect that firm measures should not be taken against deviations from agreed to performance standards. You clearly cannot buy motivation and commitment or force motivation and commitment onto people through threats or whatever other means. Like respect is earned; generating commitment and motivating people calls for leadership and management commitment, listening skills, being trustworthy and the treatment of people with dignity and respect. Nelson (2005:14) indicates the need to manage your own opinions and view points and states: "Do not let your own opinions and points of view interfere with hearing what someone else is saying". The surest way of killing contributions or to stifle motivation is to adopt the so called; I know it all style.

Leadership commitment to reaching the goals, underpinned by a strong work ethic, is cited by some of the respondents as characteristics of persistent leaders. While there is an observation that leaders who demonstrate being persistent would accommodate a level of flexibility, the response also indicates that these leaders are decisive in the implementation of the transformation strategy. The secret could be in their ability to learn and leverage best practices and effectively work with people.

As wide and as diverse as the scope of business/governance/cultural dynamics might sound, the research indicated that these components are vital elements in the success of transformation. These factors all contribute to the ultimate business environment. The business environment in turn could impact on the business performance and the attitude

of the people. “The environment shapes people’s attitudes and feelings. The right environment will encourage, motivate, and liberate people to perform” (Hammer, 1996:105). The business culture is influenced by its leadership, how it is governed, the business values and how it is managed. The leadership to a large extent shapes the business culture. The research results indicate that leaders who plays a positive role in helping people to sustain their ability to contribute in a positive manner and who are regarded as a key source of inspiration behind the successful transformation, are people who encourage innovation and who respect cultural and social differences. These leaders are people who can leverage diversity and have the ability to align activities with the vision. Understanding the business and financial imperatives were rated by the respondents as contributors that could lead to transformation failure if not effectively managed. The absence of appropriate quantification of the expected financial returns and the lack of effective management controls to realise the benefits, could contribute to transformation failures. It is therefore to be expected that in successful transformation initiatives systems, financial targets, goals and controls are well defined and effectively managed. It is essential that the potential liabilities are well defined and that appropriate risk mitigating strategies are developed well in advance to avoid the potential of a negative impact on the transformation success rate. In the absence of appropriate ringfencing of the business to be transformed or merged, the risk of not understanding the systems, financial and contractual obligations could increase significantly.

The lack of appropriate business information, benchmarks, and reliable financial statistics could complicate the transformation process significantly and could further increase the failure potential. Without proper financial analyses and a well defined transitional plan the initiative cannot be successful. Elements highlighted with reference to business governance and cultures, as deciding factors in determining the potential level of transformation success or failure are:

- Business
 - Due diligence
 - Systems integration
 - Labour relations
 - Flexibility
 - Resource allocation and task alignment
- Governance
 - Legislative compliance
 - Contractual obligations
 - Transformation implementation strategy
 - Speed of decision making
 - Speed at which change is implemented
- Cultural dynamics
 - Cultural differences
 - Change management
 - Staff empowerment

■ Leadership Dimension

Based on the research results it can be concluded that there are specific leadership dimension which enhance the degree of transformation, mergers and acquisition success. These dimensions can be summarised as:

- Motivation and directing
 - Leadership
 - Creating vision
 - Networking
- Situational analyses
 - Exploring opportunities
 - Evaluating
 - How to communicate
 - When to communicate
- Decision making
 - Taking decisions in time and in specific during times of uncertainty
 - Follow through
- Deliver on the mandate
 - How to retain focus
 - Recognition and reward
- Power
 - Responsible use of authority
 - Competitiveness and will to succeed
 - Retain and build credibility

■ Leadership Attributes to Ensure Sustainability

Not surprising was that the research suggested that leaders plays a significant role in ensuring sustainability and providing an anchor to stakeholders during times of transformation, mergers and acquisitions. The research also indicated a marked correlation between the leadership attributes to ensure sustainability and the drivers behind successful transformation, mergers and acquisitions. If staff, for example, is not empowered, trusted and actively participating in the transformation process, the failure risk could become a reality. Empowered staff will demonstrate their commitment to the process through their behaviour and contributions. Powerless staff will however also demonstrate their lack of commitment through their behaviour and lack of quality contributions. “The most important things managers can do to develop and maintain motivated, energized employees have no cost, but rather are a function of how employees are treated on a daily basis” (Nelson, 2005:63). The research results suggest in leading a successful transformation initiative, the leadership must fully appreciate the differences in cultures of the businesses to be transformed, merged or acquired. A sound appreciation

is required of the way in which the different businesses are operated, their value systems, what could be leveraged, what could be terminated and by when.

The five key leadership dimensions identified which sustained motivation and supported the ability of individuals to contribute to the transformation success are as follows:

- Communication
- Vision
- Motivation
- Persistence
- Business/Culture acumen

■ **Selecting a Leader**

The early appointment of the leadership provides focus, direction and confidence in the process. Early appointment of the leadership also brings about a level of stability and removes the position jogging and politicking to a certain degree. Since the importance of effective leadership was clearly highlighted as a very essential dimension for success, it was necessary to explore through the research what could be regarded as the essential dimensions in selecting a leader. It is important to note that these dimensions were derived from the real experience of the respondents and were tested and verified against supporting theory. Essential qualities of the leadership, particularly during transformation, are the ability to direct and to motivate people.

The criteria for the selection of an effective leader to lead a transformation, merger and acquisition initiative should, based on the research, include the following:

- Relationship strengths
 - Ability to foster sound relationships
 - Ability to comfortably interact at all levels
 - Effective communicator
 - Strong ability to motivate and lead
- Business acumen
 - Sound overall business understanding
 - Sound appreciation for governance and compliance requirements
 - Sound ability to set business direction
- Strategic thinker
 - Ability to create vision and purpose
 - Ability to proactively identify and explore opportunities
- Industry knowledge and expertise
 - Knowledge of the industry
 - Appreciation for the industry challenges and opportunities

Executive Sponsor

The research results suggested that the importance of an executive sponsors and the role that such a person can play should not be underestimated for success. In the normal business operation an executive sponsor would be a person at an executive level nominated to act as the sponsor for a specific output or project. By way of example, the executive sponsor will represent the board of directors and will manage the relationship at the most senior level, facilitate the decision making, nourish and direct the project team and take ownership for access to the resources required to ensure the effective execution of the project. The concept of an Executive Sponsor becomes essential specifically when the transformation initiative cuts across an industry where all participants do not fall under the same governance regime.

The typical roles which an executive sponsor will fulfill include:

- Paving the way for the effective execution of the project
- Generate support for the project amongst the ultimate decision makers
- Provide strategic guidance and direction to the transformation leadership
- Ensure transformation alignment with the shareholders vision
- Advocacy of the project through active and visible support

The EDI transformation is a classic example of a National Government initiative driven in the national interest but dealing with a multitude of stakeholders and at least four Government Departments. Clearly it is essential that effective integration must take place amongst the relevant four Ministers and that agreement is reached at this level on the national imperatives to be derived from the EDI transformation. For a project of national dimension, the classic business approach cannot be followed in terms of the appointment of the executive sponsor, due to the level at which the incumbent must interface. It could be argued that since the Government charged the Honourable Minister Minerals and Energy with the accountability to lead the EDI transformation that the Honourable Minister, by default, becomes the Executive Sponsor for the EDI transformation.

■ Early Stage Transformation, M&A Failure Indicators

Successful transformation requires high levels of commitment and focus on the effective management of all the diverse challenges. Even when things are going well, there is no room for complacency. “Complacency is the number one threat because it breeds overconfidence and inattentiveness” (Kreitner, 2001: 636).

Not surprising is that the research suggest a significant correlation between the drivers for successful transformations and the fundamental reasons for transformation failures. The

following dimensions were identified through the research as potential early stage transformation, merger and acquisition failure indicators:

- Poor communication
 - Lack of communication
 - Lack of change management
 - Lack of feedback

- Lack of vision
 - Lack of detail in the vision
 - Vague or changing end state goals

- Lack of stakeholder buy-in
 - Lack of stakeholder commitment
 - Lack of political support
 - Lack of organised labour support
 - Lack of staff support
 - Cultural differences not respected
 - Disconnect between transformation success and employee interests

- Financial
 - Lack of financial analyses and controls
 - Lack of defined financial targets
 - Lack of reliable business & financial information
 - Ineffective due diligence

- Other
 - Ineffective business governance structure
 - Lack of legislative support
 - Lack of legal compliance
 - Contractual obligations which could not be honoured
 - Incompatible/ lack of system integration
 - Ineffective programme management
 - Speed of transformation too slow
 - Lack of transformation flexibility

■ **Early Stage Transformation, M&A Success Indicators**

The research results equally identified very distinctive dimensions which could be used to determine at an early stage the potential transformation, merger and acquisition success rate.

These dimensions include:

- Visible Executive Sponsorship
- Strong Leadership
- Effective Communication
- Motivation
 - Managing of cultural/social differences
 - Encourage innovation
- Vision
 - Buy- in
 - Alignment of activities to the vision
- Due diligence
- Effective programme management
- Effective and Proactive Measurement

■ Conclusion

In general the transformation, merger and acquisition failure rate is regarded as high. However in unpacking the failures most of them suggest not a failure in the concept, but rather in the way it was researched, planned, managed and implemented. The different approaches taken around the globe clearly indicates that there are many ways to facilitate a relatively fast and successful transformation process which will realise the desired benefits. To obtain this, however, requires effective leadership, thorough planning, well designed and communicated implementation plans, commitment, an effective change management programme, effective programme management and resources. Whether it is a transformation initiative, a merger or an acquisition, they all have in common a defined goal and a defined time line within which it must be executed. Furthermore transformation initiatives, mergers and acquisitions consist of multiple activities and projects cutting across the business and involve people of various and different disciplines and skills. The challenge however remains to create something which will present long-term sustainability and complement both the pure business requirements as well as the socio-political requirements. “Without change, organizations would not progress, they would not have an opportunity to serve new customers and take advantage of new markets, and employees would not be able to move forward in their careers. Change allows all this and much more” (Nelson, 2005:24). At times there is a need to take a position or stand and with conviction and integrity to step forward and provide direction. This is, in many cases, required when there is uncertainty and perceived lack of direction. This paper and the supporting presentation represent only a fraction of the research results. However in the time available this is about as comprehensive as what one can deal with the subject. The author of this document is however available to respond to any other requirements relating to the topic of: Key success drivers behind successful transformation initiatives, mergers or acquisitions.