Why Do Mergers and Reorganizations Fail?

I'll always remember the immortal words of Murray Smyth, at the time CFO of one of the largest subsidiaries of a major distribution and manufacturing company, "If we haven't reorganized in the last six months, it's because someone missed a deadline."

Why do reorganizations fail, and what is most critical for success? Strategic clarity and follow-though.

I've been involved in a number of major mergers and reorganizations. In my experience the most important differentiator between success and failure is whether the company's top management creates a new strategy that would not have been possible without the merger or reorganization. In the absence of this, the company's factions simply focus on squabbling about "who wins."

Companies reorganize or merge because a significant market opportunity arises that could not be fully met under the former structure. The company must change its organization and structure to meet the new opportunity, and to realize the profitability, growth, and strategic advantage it offers. The new organization necessarily must draw parts of the old organization or merged company that fit the new strategy, drop parts that don't fit, and combine them in a new way to do critical new things.

Success requires three essential elements: (1) clarity about why the merger or reorganization is needed and what specific new advantage will result; (2) a VERY SHORT LIST of the things that the new organization must get right to accomplish the new strategy; and (3) relentless top-management follow-though with a clear focus (repeated message) on the reasons for the new strategy and a series of "report cards" on the organization's progress toward implementing the very short list of things that must be done right – coupled with significant compensation behind it (not just "retention bonuses").

Here are two instances of successful reorganizations/mergers. In the 1980s, Baxter developed a new business, called ValueLink (now part of Cardinal Health) that was a role-model for the vendor-managed systems that followed. In it, Baxter developed a way to control the movement of its products not just to the hospital loading dock, but all the way to the patient-care areas. This created great savings both for the hospitals and for Baxter, and high barriers to entry as well. When Baxter's top managers saw the power of this relationship, they acquired American Hospital Supply in large part to have a much broader set of products to pump through the new channel.

For the new strategy to work, Baxter had to reorganize the old companies to service its focus accounts in a new way. For example, a question arose as to whether Baxter should distribute competitors' products through its new system. The product managers argued strenuously against this, claiming correctly that it would hurt their product sales. The responsible General Manager wisely overruled them, seeing that the new strategy of developing the dominant channel was more important keeping the old strategy of simply maximizing the sales of each

product manager's products. New opportunity – new strategy – new policies and organization – rigorous follow-through – huge lasting success.

In a similar situation, when P&G developed its now-famous partnership with Wal-Mart, in which P&G drives sales and profit growth by developing supply chain and marketing efficiencies that give Wal-Mart higher returns on its sales of P&G profits, it had to radically change its account management process. In a novel move, P&G changed the structure of its account teams to feature four co-equal functions: (1) sales/marketing; (2) supply chain management; (3) IT; and (4) finance. This reorganization enabled P&G to create critical new efficiencies both for Wal-Mart and for its own business – and in the process both P&G and Wal-Mart achieved lasting success.

In both of these examples, numerous other companies, including direct competitors, tried to replicate the innovator's success. But they faltered because they did not successfully reorganize to create the necessary foundation for success. The top managers of these companies lacked the clarity and follow-through that makes all the difference.