



Merger Shmerger! There is No Such Thing as a Merger of Equals!

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Recently, Fort Lauderdale based Sports Authority (TSA) announced it will be merging with Gart Sports, a Denver based retail sporting goods chain. If you've been following this story then you have heard that this will be a merger of equals.

It must be a source of pride judging by the number of times it's been stated in press releases, audio shareholder reports, PowerPoint presentations and so forth. From a pure financial standpoint it seems plausible. The companies have a lot of complimentary qualities, including market penetration in mostly non-overlapping areas of the country. From a management standpoint it is way less plausible.

In this particular case there has been real effort made to maintain the "equality" along every step of the process. For example, the name of the new company will be "The Sports Authority" but it will be based in Denver, but the CEO will be Martin Hanaka, currently of TSA, but the "Vice" Chairman (whatever that is) and President will be John Douglas Morton of Gart, and so on. At least for the purposes of "The Deal" everything is equal.

The real inequalities and their impact are never felt at this point. They are seen and felt later, during the integration of the two organizations. It's at that point that so-called mergers of equals break down. This may be of interest to you if you are a stakeholder of any kind, such as a manager, an employee, a prospective employee, a vendor or other strategic partner. If you're an investor and nothing else you should still keep reading, because only 26% of mergers create any new value for the company within five years. So, consider that the deal and its parameters may not be the best place to look for whether or not a merger will work.

With regard to the TSA/Gart deal, the 580 people currently employed at TSA headquarters are unlikely to be re-located to the new Denver offices. Of course, the transition will take a few years, but it sure puts a damper on your career planning if you are part of that team right now. There are also the questions of management style, policies, hiring practices, training methods, and all of the other pesky details that make-up day-to-day life within any organization. They add up to a big, intangible phenomenon called culture. There is no such thing as a merged culture. There is our culture and their culture, us and them, old and new, or "but, we've always done things this way...". No matter how you do it, it is never a merger of equals, and it is never easy or smooth.

Having worked within many post-merger organizations to help transform the resulting cultural chaos into something that can accomplish the company's strategy, the difficulty and importance of the integration process can't be overstated.

Every organization, despite the lack of reference to it in SEC filings, is comprised of human beings. They are funny creatures, quirky in their reliance on relationships, loyalty and habit as elements of their comfort and sense of well-being. Merger documents and plans inevitably fail to mention anything about these issues. They are focused on financial, operational and market synergies. That isn't bad, but it is insufficient.

Typically, there is no assessment of the organizations' respective cultures, their management styles or their values, nor is there any plan for how to create a new culture, one that will be optimal for fulfilling on the promise of the merger. Furthermore, although synergies are quantified as cost savings, they are rarely communicated as actual numbers of employees to be made redundant. But not mentioning it doesn't stop employees of both companies from going into a pre-merger tailspin of fear and resume revision.

Along with the failure to translate "synergies" into human terms, there is typically no advanced concern for how to deal with the fallout from the redundancy process. Consider this, the Wachovia/First Union merger has an ultimate 7000 person redundancy planned. That's a lot of "cost savings", and a lot of fallout. After all, everyone who is left standing in the new organization will have lost friends, colleagues, bosses and subordinates in the process. Guilt and resentment can have an impact on morale, and therefore, on results.

If you dig into the reasons why so few mergers create any new value, you need to look at these areas. The integration process looks tidy on a balance sheet. But in actuality, the process is messy and requires explicit attention to the human factor, the unique traits of the respective organizations, and an explicit plan for whether and how they can be wedded. Doing so rarely has the same kind of allure for CEO's who can better sell their deal by avoiding those aspects of it. Besides, in the current reality of CEO musical chairs, he is unlikely to be around five years later when the merger's real value is assessed. But those who are still around would be awfully grateful for such an effort.

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