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IDEA WATCH

The Leaders Who Make M&A Work

by J. Keith Dunbar

STRATEGIES by J. Keith Dunbar

The Leaders Who Make M&A Work

Despite the popularity of growth strategies based on mergers and acquisitions, the challenges of execution are substantial—40% to 80% of mergers fail to meet objectives.

To understand the high failure rate, prior researchers have examined financial characteristics, capability matches, and human factors such as culture. What was missing was substantive quantitative research on collective leadership capability as a driver of M&A success.

To fill that gap, I conducted a five-year study that aggregated individual leadership assessment data (obtained from Korn Ferry 360-degree evaluations) from acquiring and targeted companies in order to create a picture of collective leadership capability. My investigation encompassed

94 mergers that took place from 2004 to 2008 and sought to answer two questions: What leadership areas and competencies in acquiring and targeted companies affect the financial performance of a merger? and What is the relative importance of senior executive versus middle manager collective leadership capability in M&As? To measure financial performance, I compared total shareholder returns for each company with a large-cap index for the country where it is headquartered and with an industry index for the sector in which it operates.

The study revealed three major findings. First, leadership capabilities in acquiring companies (specifically, skill in the broad areas of thought leadership, results leadership, and people leadership) predict


M&A success, but leadership capabilities in targeted companies are equally important. Second, seven leadership competencies for acquirers and four for target companies predict success. Third, senior leadership capabilities in acquiring companies and middle management leadership in targeted companies have the greatest effect on success.

In a second part of the study, I examined the financial returns of M&A deals that had both positive and negative performance and evaluated how the seven leadership competencies affected those returns. Among positively performing deals, companies with all seven capabilities outperformed their country index by 8.4% and their industry index by 10.4%. Among negatively performing deals, companies without some of the seven capabilities suffered significantly more than other firms.

These results suggest that assessing the collective leadership capabilities of acquiring and target companies should be part of the due diligence that precedes an M&A offer and supports integration planning. It also suggests that middle managers at targeted companies are crucial to success, and efforts to retain them (through contracts typically given to higher-level leaders) could be beneficial. ♥

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<h2>Leadership Competencies That Predict M&A Success</h2> <p>A study of 94 mergers, using 360-degree evaluations of managers, identified these skills as the most crucial in acquiring and targeted companies:</p>	ACQUIRERS	TARGETS
	MOTIVATE OTHERS	MOTIVATE OTHERS
	INFLUENCE OTHERS	INFLUENCE OTHERS
	BUILD RELATIONSHIPS	BUILD RELATIONSHIPS
	DEVELOP OTHERS	PROVIDE DIRECTION
	ACT WITH INTEGRITY	
	SHOW ADAPTABILITY	
FOCUS ON CUSTOMER NEEDS		

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