Part 4: Building Strong Relationships Critical to Building Strong Companies

Strong businesses are built on strong relationships – relationships between the business and its leaders, employees, customers, suppliers, lenders, and advisors. The board of directors trusts leadership to make decisions that enhance the performance of the company. Managers trust employees to show up every day and do their jobs well. Employees trust that they will be paid on a regular schedule for the work they perform. Customers trust the company to provide consistent, high-quality products and services that meet their needs.

Successful companies focus on sustaining important relationships and developing new relationships that are important to the continuing growth and performance of the business. Typically, trusting relationships are developed person to person as individuals in a company gradually develop a network of contacts, associates, and advisors inside and outside of the company. Trust is a by-product of the responsiveness, reliability, and candor of those we reach out to. Long-term relationships can usually withstand real or perceived breaches of trust that are capable of destroying a short-term relationship.

The companies involved in a marriage initially establish trust by reducing their commitments to writing in the form of a letter of intent that includes warranties, representations, and covenants and also penalties in the event that a marriage proposal is withdrawn. The due diligence process is designed to confirm the accuracy of representations and viability of commitments. Both parties retain a team of advisors to assist with resolution of sensitive issues and negotiation of the pre-marital agreement. But once the deal has been finalized, the partners are "on their own" to sustain a trusting relationship and blend their business operations. They quickly discover that their marriage creates a myriad of trust issues.

One reason is the element of surprise. By their nature, M&A transactions are highly confidential from both a regulatory and a strategic perspective. SEC regulations prohibit publicly-held companies from making unauthorized disclosures about the deal. There are also compelling strategic reasons for maintaining strict confidentiality requirements, the foremost being control of the timing of the announcement. Because the sensitivity of these transactions prohibits advance, candid communication that would normally occur between decision-makers and trusted stakeholders, there is little opportunity for the CEO to set expectations about a significant change that will have a considerable impact on critical stakeholder relationships. As a result, immediately following announcement of the deal, top leaders are confronted with managing the impact of the surprise on all stakeholders.

Another reason for diminished trust is the top-down imposition of change. Unlike professional relationships that are individually developed, business marriages require linkages at all levels of the organization, sometimes between managers

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and entire groups of people or between two previously unrelated groups. In effect, M&A deals coerce relationships – relationships that may be perceived as undesirable or unnecessary. All of these new relationships must be initiated with little or no previous experience to generate the trust required for people to effectively work together.

Trust is also affected by the reality that these deals sever relationships. Venerable members of the leadership team may be retired. Loyal employees discover their jobs are considered to be “redundant” and their services no longer needed. Unaffected employees are left to consider whether, at some future point, their jobs may also be expendable.

All of this unwelcome change creates the expectation that, in the short term, there will be a compelling and visible advantage gained to offset the inconvenience, disruption, and adaptation required by the marriage. If the advantage does not materialize when expected or if its magnitude appears insufficient to justify the wholesale change that the organization must accommodate, trust in decision-makers is severely eroded.

Connie Barnaba, a Certified Merger & Acquisition Advisor and Global Professional in Human Resources, is a risk management consultant specializing in assessing and mitigating M&A integration risk. Her writing is based on interviews with 100 M&A practitioners in varying roles regarding the risk involved with post-deal integration.