

The importance of leadership throughout the M&A process

By *Taco Reus*

As the current global health crisis continues to unfold, it has become clear that organisations in nearly all industries and countries around the world need to change their operations and strategies, and change them rapidly. There are no precedents that come close to the kind of economic and societal change we are experiencing. But luckily there are organisational experiences that can provide insights into how to navigate through this period.

I think that research and managerial experiences in mergers and acquisitions (M&A) can be particularly useful because these events are among the most common and consequential examples of strategic transformation that companies go through.

Much analysis and due diligence goes into these events to make the best choices based on the facts and figures. Yet, decisions are inevitably made by individuals with biases, emotions and personalities affecting other individuals with similar biases, emotions and personalities. When considering M&A, success in large part depends on a leader's ability to understand, recognise, screen, and attend to the hard facts and figures as well as these human factors that shape, and are shaped by, the transformation.

While focusing on the facts and figures can be difficult enough, the "softer" human factors of these major transformations are often misunderstood, not recognised, and as a result poorly screened and attended to, with very hard consequences for effective leadership throughout the M&A process.

The M&A process is a delicate, personal and interpersonal process that

needs to be led through a variety of leadership roles. I would suggest there are three principal practical implications for managers and businesses. One, the identification and optimisation of these different leadership roles. Two, effectively timing the switching of roles. Three, being receptive to leadership from across the structural levels of the organisation, and from across fading and newly emerging organisational boundaries.

Different stages, changing roles

Leadership takes different forms at different stages of the M&A process: leaders are sensemakers, sensegivers, direction givers and direction takers. Excellence in all is essential.

As sensemakers, leaders need to interpret diverse elements of information originating from many different internal and external sources and stakeholders. This information processing is important to distil critical strategic questions, such as whether the decision to buy or sell is right, which target to select, what price to pay and how to integrate units. As sensegivers, leaders shape the interpretations that others have of the acquisition

and influence the way they see the future combined firm. In rapid transformations, this sense-giving might require sense-breaking, involving the destruction or breaking down of meaning. As direction givers, leaders transform strategy into concrete action and courses of action. And lastly, as direction takers, leaders make it clear that they value and pursue the action and courses of action voiced by others.

Leaders as sensemakers

In the pre-deal stage, leaders need to take a central position in the interpretation of information, as sensemakers.

Much uncertainty and ambiguity surrounds acquisition decisions. While uncertainty can fairly easily be resolved by obtaining more information, ambiguity can actually grow with more information when it feeds diverse meanings.

In order to resolve ambiguity, leaders need to interpret and closely engage with highly complex and often contradictory information. It is therefore important that the leader takes an active role in this information gathering process. Biases pop up most viciously when leaders keep the information processing mostly at a distance, to a team of middle managers, analysts and consultants, without deeply engaging with the information itself.

This requires an understanding of not only the financial and strategic qualities of a deal but also of the organisational, legal, social and psychological implications of the deal. With such deep understanding of the information, leaders can be better interpreters and can best make sense of the specific opportuni-



“The M&A process is a delicate, personal and interpersonal process that requires smart shifts in leadership roles.”

ties and caveats in a deal. Without such deep understanding of the information, bias-driven mishaps can give a false start to the M&A process that is difficult or impossible to overcome.

Since top management tends to receive information in highly condensed, customised information packages, biases creep in more readily in the final decision-making stage at the top. Sense-making leaders understand their own vulnerabilities in this effort, and develop meta-techniques to rely on the sense-making efforts of others, such as middle managers who more directly engage with the information.

Leaders as sensegivers

As the pre-deal stage evolves, the leader increasingly needs to switch from acting as central sensemaker of complex information to becoming an effective sensegiver. The leader needs to give a sense to key members of the target and of their own organisation of what future lies ahead for them in a newly combined organisation. Ultimately, this sense-giving role should shine through very publicly in the official announcement of the deal. However, it requires

full attention for some time thereafter. Diverse stakeholders need to be aligned to the motives and plans. This takes the form of inspiring and genuine construction of meaning in communication and negotiations.

Good sense-giving can only be effective if it is preceded by good sense-making. This is highly important because of the high levels of uncertainty and ambiguity, but also because of the bad reputation of M&As fuelled by widely publicised acquisitions in the past. The classic example here is Daimler’s acquisition of Chrysler in 1998; its US\$35bn value making it the largest industrial merger in history at that time. The deal was done in a matter of months. Considering the size of the deal, this was sense-making on speed at best. Jurgen Schrempp, Daimler’s CEO at the time, could not resist the quick move to sense-giving. While he inspired various stakeholders, cracks in the story quickly showed – most vividly, he initially gave sense of the deal as a merger of equals but then showed a leadership takeover that was more akin to an invasion than to an alliance. The label “merger of equals” lost its meaning because of this deal.

Leaders as direction givers

Early in the post-deal phase, the leader needs to prioritise direction-giving. The role of information processing continues to be key. It is important to manage the intense levels of uncertainty that organisation members and other stakeholders are likely to experience.

Organisation members, customers, shareholders and the media will look for leadership to give direction for the proposed transaction, and how promises of synergy potential will indeed translate into synergy realisations. Without justification and transparent direction-giving, the morale of organisational members will likely plummet. Effective leaders will take the opportunity to demonstrate through clear and genuine justifications that they have a thorough understanding of the target unit and its place in the newly combined firm.

Leaders as direction takers

Once the uncertainty and ambiguity of the early post-deal period is reduced, the role as direction giver diminishes; otherwise the leader risks becoming domineering or repetitive. Target managers might not expect to have a loud voice early on. Yet after some time they will expect it, and need it, to help realise synergies, identify unexpected opportunities, and fulfil their desire to play a role in the shared future of their newly combined firm. Leaders then need to be ready to switch gears to receive direction from others. Acquisition implementation success depends on key members across fading firm boundaries having a voice in the direction of the newly combined company. ▶

The importance of leadership throughout the M&A process *(continued)*

By **Taco Reus**

“As shifts in emphasis occur at different levels and across former firm boundaries, organising the roll-out of these different forms of leadership is very difficult.”

An overall insight we take from researching a wide variety of large acquisitions, foreign deals, and acquired divested units, is that the process is greatly affected by the extent to which the direction of target managers is taken into consideration or not. Acquiring managers' conscious or unconscious sense of superiority in terms of managerial styles and the need for direction-giving early on often constrains the ability of managers to become effective direction takers. Such dynamics destabilise organisations, and often weakens post-deal performance. Fortune comes more readily to the leader who is sensitive to the need to switch between giving and taking direction.

The challenge of switching

A great challenge of leadership is knowing when and how to switch between these different roles. It is tough because the different roles are driven by the distinct, even instinctively contradictory, activities of sense-making and sense-giving, and direction-giving and direction-taking – particularly because switching roles might be needed very quickly.

As shifts in emphasis occur at different levels and across former firm boundaries, organising the roll-out of

these different forms of leadership is very difficult. The dark side is that leadership routines of one kind quickly run deep in terms of personal and interpersonal preferences and expectations, thus complicating switching roles. The bright side is that leaders can train for these roles and anticipate when they become more and less important.

In conclusion

As I noted at the start of this article, organisational transformations are likely because of the health crisis that has shaken the world in recent months. M&A activity has come to a grinding halt in the first half of 2020, and likely remains risky for some time to come, particularly because sense-making, for example through due diligence, is greatly constrained. A rebound is likely when wealthier buyers go shopping for good deals. Yet, if buyers and sellers aim to regain financial and organisational health, they need extraordinary sense-making, sense-giving, direction-giving, and direction-taking. Particularly in times of social distancing, constrained travel and limited communication channels, leaders, now more than ever, need to be innovative and collaborative in the ways they take on these roles. ■

Taco Reus is Professor in Global Strategy, Department of Strategic Management and Entrepreneurship, Rotterdam School of Management, Erasmus University.
EMAIL treus@rsm.nl

This article draws its inspiration from the papers:

Sensemaking and sensegiving in strategic change initiation, written by Dennis A. Gioia and Kumar Chittipeddi, and published in *Strategic Management Journal*, 1991, 12: 433-448. DOI: <https://doi.org/10.1002/smj.4250120604>

The effects of procedural and informational justice in the integration of related acquisitions, written by Kimberly M. Ellis, Taco H. Reus, and Bruce T. Lamont, and published in *Strategic Management Journal*, 2008, 30(2): 137-161. DOI: <https://doi.org/10.1002/smj.728>

Transfer effects in large acquisitions: how size-specific experience matters, written by Kimberly M. Ellis, Taco H. Reus, Bruce T. Lamont, and Annette L. Ranft, and published in *Academy of Management Journal* 2011, Vol. 54, No. 6, 1261–1276. DOI: <http://dx.doi.org/10.5465/amj.2009.0122>

A darker side of knowledge transfer following international acquisitions, written by Taco H. Reus, Bruce T. Lamont, and Kimberly M. Ellis, and published in *Strategic Management Journal*, *Strat. Mgmt. J.*, 37: 932–944 (2016). DOI: <http://dx.doi.org/10.1002/smj.2373>