

Corporations as stepfamilies: A new metaphor for explaining the fate of merged and acquired companies

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Executive Overview

Economic explanations of mergers and acquisitions tend to focus on issues of efficiency and strategic fit. When acquisitions fail, economic arguments tend to dominate the reasoning and explanations. While cohesive theory exists, empirical studies of acquisitions and divestitures of failed acquisitions based upon economic models are inconsistent and have poor explanatory power to identify clear success or failure factors. Non-economic explanations, on the other hand, generally lack an integration that goes much beyond suggesting that non-economic differences create integration problems and cannot explain why the economic synergies that organizations hope for often fail to materialize.

In an attempt to address these challenges, we draw upon the stepfamily literature to propose several new concepts that provide insights into the factors that influence the success of acquisition execution and implementation. Since diversified corporations bear a striking resemblance to human stepfamilies, stepfamily theory can provide new managerial insights and prescriptions. Three main perspectives frame our view of merger and acquisition success: Biological Discrimination, Incomplete Institutionalization, and Deficit-Comparison. From these perspectives, we propose important factors and characteristics that can strongly influence the ultimate success or failure of a merger or acquisition. From this metaphor, we provide managerial prescriptions for firms engaged in merger and acquisition activities to improve the probability for ultimate success.

Corporations As Stepfamilies

I will tell you that the literature on putting together two families speaks volumes to me. The problems of stepparents, the descriptions of some children rejecting one parent, and other children rejecting other parents, and all of the children being generally ticked off, is all meaningful.¹

—John S. Reed, former Chairman and CEO of Citibank and Citicorp.

In April 1998 Citicorp and Travelers Group announced the largest merger in history, creating what would become the world's largest financial services company with assets of over \$700 billion. The honeymoon period quickly faded with the re-

ality of making the merger work. The challenges of integrating two huge corporations into an effective financial behemoth created clashes of culture, strategy, operations, and personalities. In the end, John Reed, quoted above, was eased out of the merged entity. Meanwhile, other equally high-profile mergers, such as AOL and Time Warner, are still searching for many of the synergies that motivated their union. In fact, this deal may "enter the realm of dis-synergy disasters," having already experienced \$99 billion in write-downs.²

The challenges facing mergers and acquisitions (M&As) involve first, survival, and then achievement of results that were anticipated in the analysis that led up to the deal. While the motives for merging businesses may seem apparent, the rea-

sons why they succeed or fail are anything but obvious. The causes for success or failure, which often go into territory that is quite different from the motives initially cited for the combination, are the subject of this article.

Why Is There Such a High Failure Rate for Mergers & Acquisitions?

Most mergers and acquisitions do not enjoy the success eventually experienced by the Citicorp-Travelers Group merger. Roughly half of all mergers and acquisitions fail.³ The reasons are many and varied, but those stated often focus on economic rationale (e.g., anticipated synergies and cost savings not achieved, incompatible facilities and technologies). But a simpler explanation is perhaps closer to the real issue – the merged entities did not fit together or the integration could not be made to work effectively. The real causes of M&A failure are seldom clear, but the painful aftermath of failed mergers is all too clear – divestiture or dissolution of underperforming units. Consider these two news flashes from C|Net News.com:

October 25, 1999: Excite@Home today said it would acquire popular online greeting card site Blue Mountain Arts for about \$780 million in cash and stock, hoping to accelerate the adoption of its broadband strategy.

September 13, 2001: American Greetings said that it has acquired Blue Mountain Arts, the struggling online greeting division of Excite@Home, for \$35 million in cash.

This is a tricky example to interpret because it is intertwined with the market behavior of the dot-coms during a very dynamic period. However, \$745 million in value evaporated, despite the fact that during this two-year period Blue Mountain steadily grew its traffic and share. While it may be tempting to attribute this to Excite@Home's irrational exuberance in overpaying for Blue Mountain Arts during the run up to the information technology bubble, and their subsequent irrational panicking in divesting Blue Mountain when the bubble burst, the overpayment was a sunk cost. The more likely problem was that the future value of Blue Mountain's growing traffic and share that was anticipated when it was acquired could not be extracted, i.e., the acquisition could not be managed to provide real value. Similar stories abound from less turbulent times, with even larger numbers. In 1997, Quaker Oats sold Snapple for \$1.4 billion less than they paid for it two and one-half years earlier. AT&T's acquisition and divestiture of NCR resulted

in a loss of \$4.0 billion. Just recently, Mellon CEO Martin McGuinn announced the divestiture of its struggling human resources consulting and outsourcing business, a unit built from failed acquisitions, to expand the company's existing businesses and make "disciplined" acquisitions. According to Richard X. Bove, an analyst at Punk, Ziegel & Co. "Management has taken positive steps to address a problem that it created."⁴

Even acquisitions that do not end in divestiture are often fraught with difficulty. "Study after study has shown that about two-thirds of buyers (in corporate acquisitions) fall behind their corporate peers in returns to shareholders . . . in many cases it takes years for investors in the "winning" company to get back to the price where they started."⁵ The Daimler Chrysler merger is a good example of this. A recent McKinsey & Co. study found that 70 percent of mergers failed to achieve anticipated revenue synergies and 40 percent did not meet cost synergies goals.⁶

Although economic reasons are often used to justify why firms pursue mergers and acquisitions, they do not provide consistent explanations of their outcomes.⁷ The successful integration of merged and acquired companies involves non-economic factors. Organizational issues such as style or cultural differences might explain success or failure, but they are difficult to codify. The reliance on economic rationale has limited our ability to find a useful framework for integrating non-economic factors into a holistic view of M&A fates. We suggest that a valuable metaphor and organizing principle is to view firms as families, or more specifically stepfamilies.

John Reed's quote suggests that merged companies bear a striking resemblance to human stepfamilies. When viewed as stepfamilies, the dynamics that come into play and influence integration and long-term success are dramatically different from the dynamics surrounding traditional economic explanations. Regarding the Citigroup merger, John Reed went on to say,

Sandy (Weill) and I both have the problem that our "children" look up to us as they never did before, and reject the other parent with equal vigor, saying "Sandy wouldn't want to do this, so what do I care what John wants."⁸

One detail in the Citicorp/Travelers merger was that Reed and Weill would occupy "co" CEO and Chairman roles. Problems between the co-CEOs quickly surfaced and relationship challenges among Citigroup executives and board members escalated the difficulty. Less than one and one-half years after the merger, Reed, the chairman of the

former Citicorp, was pushed into retirement and Sandy Weill from the Travelers Group side took over completely. To better understand why such problems emerge, we propose that the adoption of the metaphor of corporations as stepfamilies provides a more holistic view of corporate M&A outcomes. To better understand the total environment, we first offer a brief discussion of conventional economic motivations.

Economic Explanations of Mergers & Acquisitions

Traditional explanations for M&As deal mostly with economic and market logic. For example, Porter presents three tests for whether a merger or acquisition is poised to create shareholder value: 1) the firm must enter an attractive industry; 2) the deal must be affordable; and 3) the new entity must perform better together than apart.⁹ The problem here is not so much with economic reasoning, as it is with generality. Porter's third point, for example, does not highlight the many social sources of value creation (or value diminution) that must be managed in a merger. Including such sources, attempting to measure them, and carefully considering their impact on the performance of the merged organization is what we are calling for here.

According to economic logic, firms are thought of as markets and M&As are often referred to as a market for corporate control,¹⁰ with a focus on performance. If a poorly performing firm's management can be replaced by a better team, the purchasing party can create shareholder value. Standing in contrast to the corporate control model, strategic M&As seek strategic, economic, and organizational fit. Related mergers and acquisitions seek fit that reduces long-run costs through scale and scope economies in manufacturing, purchasing, R&D, etc. The acquisition of Compaq Computer by Hewlett-Packard is a good example. Consider HP's justification for the acquisition:¹¹

- Enhance our competitive position
- Improve the breadth and depth of our product portfolio
- Generate significant cost synergies and improve operating margins
- Improve and accelerate our direct distribution capability
- Improve our relationship with strategic partners
- Strengthen our sales force and relationships with strategic customer bases

The recent acquisition of Sears by Kmart is another example that points to desired synergies and economies. Kmart forecasts that within three years this union will result in cost and revenue synergies

of \$500 million.¹² As noted earlier, history suggests that this outcome is not certain, but will be needed in order to compete with Wal-Mart's supply chain and inventory management scale advantages. These objectives are consistent with the resource-based view of strategy, in which unique and valuable resources, difficult to imitate or substitute resources, and processes for managing those resources are the key to strategic success.¹³ Whereas the resource-based view would suggest that related diversifications and acquisitions would achieve significant economies of scale and scope, many do not. In our view, it is not a failure of the strategy view or concept. Rather, it is the inability of the merged entities to achieve the sharing or transfer of resource-based competencies. Such sharing and transfers involve human interaction, and here is where attention to relationships, structure, and corporate familial and step-familial concerns can pay the biggest dividends.

Given the energy and resources devoted to the acquisition process, the alarmingly high failure rate, and the destruction of shareholder value associated with early divestiture, why do some mergers succeed and others fail? What can managers do to improve the likelihood of success? The literature holds some clues, again mostly based on economic and market logic, but there is no clear, consistent advice that can be widely applied. Here is a good attempt at clear advice from a CEO in the technology industry.¹⁴

Many technology mergers have failed because of:

- Mergers of diversification, not consolidation
- Laggards coming together
- Mergers done in "hot markets" at "hot prices"—requiring lots of revenue synergies to cover the bet
- No detailed pre- or post-close integration programs

On the other hand, mergers have succeeded when the combination:

- Brings like businesses together
- Helps create market leadership
- Is a stock-only deal, providing a strong post-merger balance sheet
- Results in strong costs savings
- Meets the criteria for smooth and effective integration

While cost savings, market leadership, and strong balance sheets refer to economic rationale, *pre- and post-close integration programs* and *criteria for smooth and effective integration* are more

intangible, yet very important factors. Integration is not merely a technical process; it is achieved primarily by individuals and groups who must work through complex relationship issues – much like stepfamilies must do. Here, the non-economic challenges begin to emerge. If we consider why so many M&As have difficulty, it is seldom the integration of the mechanistic aspects that cause the difficulty. Rather, it is organizational culture, interpersonal dynamics, and personal status issues that block successful integration.

The stepfamily metaphor specifically provides an encompassing framework and explanation for why this is true. Understanding the challenges and dynamics found in stepfamilies can shed light on the behavior and outcomes of corporations that engage in M&A activity. This is important, since it can help fill the gaps unaccounted for by economic explanations regarding M&A outcomes.

Corporations as Families/Stepfamilies

We turn now to the stepfamily literature in sociology to build the case that understanding stepfamilies helps explain the actions and fate of corporate M&As. The power and value of the stepfamily metaphor is found in its ability not only to complement and augment economic explanations, but also to provide a framework for understanding non-economic problems encountered in integrating newly combined organizations. In addition, it is a metaphor corporate executives can relate to, since many are personally involved in stepfamily relationships.¹⁵

Corporations are often referred to as families. Dun & Bradstreet use this term in their directory of corporate holdings, *America's Corporate Families*. This directory provides a listing that outlines the relationships between a parent company and its divisions and subsidiaries (children). Mergers and divestitures in the corporate world are often represented as marriages and divorces. The parallel between corporate M&As, divestitures and stepfamilies is intriguing. M&A and stepfamilies both experience failure rates near 50 percent.¹⁶ Nearly 80 percent of divorced persons remarry,¹⁷ but 60 percent of these marriages fail, and do so at a pace more quickly than first marriages.¹⁸ Sixty percent of remarriages involve the custody of a child, creating a stepfamily. Divorce rates are 50 percent higher in stepfamilies than in remarriage relationships without stepchildren.¹⁹ It is estimated that one-third of the U.S. population is in a stepfamily relationship. Thus, the level of activity and number of people involved in stepfamilies has become commonplace.

Corporations are not thought of as individuals. Rather, they are viewed as a group of individuals with hierarchical and reciprocal interrelationships – in other words, like a family. As in human families, the creation of a parent-child corporate relationship can come about through different mechanisms such as internal creation or acquisition. The increasing prevalence of non-traditional families in society, such as stepfamilies, single parent homes, or adoption by gay couples, indicates that fewer children are living in traditional homes. Stepfamilies can take on a variety of structural arrangements, with or without children from previous unions and with or without joint custody and property agreements. Jointly, they may produce new offspring. The resulting, often complex, structures are not unlike those of corporations.²⁰

Neither families nor corporations are static entities. They experience life cycles as stepfamily and corporate compositions change, and as individual members take on different roles and enter into different relationships. In an M&A situation, the bidding and target firms generally take on the role of parents. Whether the transaction is a merger or an acquisition, the bidding firm typically takes on the dominant parent role. The acquired firm assumes the subordinate role with its subsidiaries and employees acting in the role of stepchildren.²¹ Thus, both corporations and stepfamilies often look like more traditional families in terms of a unity of command. Even when the combination is presented as a “merger of equals,” as was the merger of Daimler and Chrysler, a dominant parent usually emerges. In this example, Daimler quickly moved to assert its dominant position after the merger, which resulted in a law suit from an aggrieved Chrysler shareholder.²²

While there are different types of M&As and motives for pursuing them, we consider those for achieving long term benefits in which there is an expectation of interaction, synergy, and mutual learning.²³ In these cases, there is generally a desire to retain the target, as well as its management and subsidiaries.²⁴ Our analysis assumes that there is an intention to keep both organizations in the merger relatively intact, as seen in Newell-Rubbermaid's “fix-up-and-keep” strategy for over 30 years. There are, of course, situations where this is not true, as seen in “fix-up-and-sell” strategies such as Hanson Trust pursued during the 1980s and 1990s. Since M&A activity has become a dominant method for growth in large corporations, corporations are looking and behaving more like stepfamilies.

Learning from Stepfamily Theory

Because of the similarities between stepfamilies and corporations, it is important to explore the challenges and dynamics that lead up to dissolution. Families and corporations share many related characteristics and deal with similar tasks and issues. For example, individuals involved in both stepfamilies and corporations engaged in M&As experience high stress levels, culture shock, role ambiguity, limited shared history, and complex structures. To resolve problems created by these differences, both must form new traditions, create new coalitions, and establish new relationships. In order to achieve this, stepfamilies and corporations must effectively deal with issues such as high failure rates, boundary problems, information asymmetries, loyalty conflicts, etc. These similarities are summarized in Table 1.

Prior research on non-economic explanations tends to focus on issues related to how different characteristics (e.g., human resources, managerial style, culture, organizational structure, etc.), create problems of operational fit in the integration of firms and thus "explain" why the economic synergies organizations hope for fail to materialize.²⁵ Unfortunately, these non-economic explanations lack an integrative theoretical model that goes beyond a general conclusion that important non-economic differences matter. The successful completion of many of these tasks requires linkages or relationships. Creating those linkages with stepparents is often difficult for stepchildren, and the same is true for corporate stepchildren. Just as stepchildren do not have a biological link to both parents in the home, acquired firm subsidiaries and employees lack clear linkages to the acquiring parent corporation.

Considering the goal of strategic fit, we see another similarity between corporate M&A and step-

family formation. Both are often driven by strategic and economic motives, with limited consideration given to operational fit. Remarriages tend to focus on the partners' needs, often without regard to the needs of children brought into the relationship.²⁶ This can become an important issue, since children are the primary destabilizing force in stepfamilies.

The value of evoking the stepfamily metaphor comes from its ability to provide a better understanding of the challenges facing corporations and how M&A success can be improved. We turn next to three stepfamily models to explain the problems and issues facing stepfamilies and the relationship between stepparents and stepsiblings. We then apply these models to corporations engaging in M&A activity. From these models we present three key areas that predict the success or failure of a merger or acquisition. Finally, we provide prescriptions for how a corporation can better deal with these problems in order to improve the chances of success and to achieve the objectives originally set out for pursuing the merger or acquisition.

The Biological Discrimination Approach

Why are stepfamilies more susceptible to disruption than nuclear families? Why is the same phenomenon found in corporations? The corporate diversification literature discusses the positive contributions that the dominant parent brings to an acquisition.²⁷ While these *parenting advantages* can be significant, the literature generally does not recognize the negative effects.²⁸ The stepfamily literature suggests that the emotional and motivational component of a parent is absent between the stepparent and stepchild.²⁹ This results in less positive interaction between the stepparent and stepchild, increasing the likelihood of neglect

Table 1
Similarities Between Stepfamilies and Corporations Engaged in M&A Activity

Characteristics	Tasks	Issues
High Stress Levels	Forming New Traditions	High Failure Rates
Culture Shock	Creating New Coalitions	Power Issues
Role Ambiguity	Establishing New Relationships	Coping with Loss and Change
Limited Shared History		Life Cycle Discrepancies
Complex Structures		Boundary Problems
		Unrealistic Beliefs
		Information Asymmetries
		Insiders versus Outsiders
		Loyalty Conflicts
		Buyers Remorse

and abuse of the stepchild.³⁰ Biological parents invest more resources in their children than in stepchildren, for things such as education, and for both current and future needs.³¹ Stepchildren have less influence on decision-making in the family than the biological children of the dominant parent.³² They are also more loyal to their biological parents.

After a merger or acquisition, challenges often arise regarding resource deployment. The dominant parent's business units typically have stronger ties, more positive relationships, greater access to resources, and more influence in decision making. Employees of the biological business units often have greater promotional opportunities, moving up or even over to the acquired business units to take on greater responsibility, than their acquired counterparts. This point is highlighted in the American Airlines' acquisition of TWA. While integrating the two airlines' operations, American placed 60 percent of the 2,100 TWA pilots at the bottom of American's seniority system, failing to fully credit TWA's pilots with their appropriate time in service.³³

The acquired firm's executives may be the primary subjects of biological discrimination, manifested by the tendency for managerial movement from acquiring to target firm and not the other way around.³⁴ Such movement is justified as an attempt at fixing problems in the target firm or achieving necessary control. However, such moves often work poorly³⁵ and the emphasis on control rather than integration often results in dysfunctional behaviors.³⁶ Interestingly, while moving personnel from acquirer to target has not been as helpful to M&A success, movement in the opposite direction may be quite beneficial, as institutional knowledge, expertise, and a different way of thinking is infused into the acquiring firm.

The Incomplete Institutionalization Approach

Stepfamilies face greater stress than nuclear families because parents and children lack clear guidelines for role definition, appropriate behavior, and procedures for dealing with problems. Problems develop when too many things are open to question.³⁷ A major problem facing stepfamilies is developing a *thick middle ground* on which new norms are established.³⁸ From these norms, new rules are created to govern the new entity. Three polarizing differences make realizing this middle ground difficult: Differences between being an insider versus an outsider, differences in culture, and differences in attachment. In a stepfamily, one

individual may experience a family event as an insider, while another as an outsider. The dominant biological parent-child relationships generally enjoy the role of insiders in a stepfamily. These relationships typically have their wants and needs more readily articulated and acted upon.

Differences in culture based on age, race, religion, experience, etc., lead to increased misunderstanding and conflict. Even the manner in which understanding is achieved and conflict is resolved can be the basis for such differences. Differences in attachment manifest themselves in the ability to compete for time, attention, and resources. The shift towards a common middle ground can be difficult and may require that certain elements of individual identity be abandoned in favor of a new, possibly undesired identity. Loyalty bonds may be challenged or threatened. Ultimately, without a common ground, unfinished business brought into the relationship can act as an invisible barrier to integration, preventing stepfamilies from acknowledging and addressing their concerns. The incomplete institutionalization approach suggests that after a merger or acquisition, in and out groups arise among employees and business units along the lines of the acquiring and target company. Jealousy, competition, conflict, and even sabotage can result.

Economic motives often give way to emotional and relationship issues after the merger's completion. Merger fate is dependent on successful integration, effective decision-making, and coordination across new boundaries. Earlier we noted that one of the reasons for technology merger failure is the lack of detailed pre- or post-close integration programs. Problems in leading the successful integration of HP and Compaq that eventually led to Carly Fiorina's dismissal as CEO of HP point out how truly challenging this task is.

Corporations are often seen as reflections of their top managers' beliefs and values.³⁹ The decision to acquire and/or divest may be more deeply rooted in the acquiring firm's leader or leaders' core attitudes and values than on economic rationale.⁴⁰ Values communicated and shared across business units allow employees and managers in acquired firms to move more easily towards an insider capacity. Otherwise, an outsider stigma may linger and fester, increasing the likelihood of failure. Even if the dominant parent attempts to overcome barriers to incomplete institutionalization, it may be done so in an unintentionally biologically discriminatory manner. The institutional structure, rules, and atmosphere of the new corporation are often imposed, rather than negotiated. The *aura of conquest* which is frequently associ-

ated with an acquisition promotes challenges that inhibit the acquisition and sharing of knowledge and intensify problems associated with incomplete institutionalization.⁴¹

The Deficit-Comparison Approach

The stepfamily literature states that stepchildren may be deficient when compared to children in nuclear families.⁴² This deficiency can be emotional or physical and is evident in low self-esteem and behavioral problems. Stepchildren may be denied certain resources or benefits from stepparents, leaving them deficient in comparison to children in traditional families. Although deficiencies that are physical in nature are often easier to identify, emotional deficiencies may be more damaging and can have longer-lasting effects. In these cases, the stepchild is denied emotional support or is emotionally abused. When this occurs, the injury goes much deeper and may be harder to recognize and resolve. For stepfamilies, an actual deficiency need not exist for stepchildren to engage in a comparison with traditional families. The stepchild only has to believe that there is something lacking for potential problems to begin to appear.

For corporations, the natural children of the dominant parent usually have greater security and resource availability than acquired stepchildren. These stepchildren are deficient compared to the natural children. Since "acquisitions are often surrounded by an aura of conquest,"⁴³ and spoils go

the victor, the acquiring firm and its subsidiaries would generally have a stronger claim on executive attention, resource allocation, and organizational positioning. The target firm and its subsidiaries would immediately be at a disadvantage, or a deficient position. This results in diminished status for the top management team in the target firm. Since senior managers' attitudes and perceptions permeate throughout the organization, there will be a negative effect on the attitudes and perceptions of lower level employees which can result in low commitment and cooperation of the acquired employees.⁴⁴ Table 2 summarizes these three stepfamily approaches and the implications for firms engaged in M&A activity.

Using the Stepfamily Metaphor to Predict M&A Fate

The value gained from employing the stepfamily metaphor comes from insight regarding the ultimate fate of a merger or acquisition and the prescriptions for actions that improve success. To achieve this, we first consider factors influencing stepfamily survival to better predict whether a merger or acquisition will succeed or fail. We then provide prescriptions regarding how corporations can employ the stepfamily metaphor to increase the chances of M&A success.

As shown above, stepfamilies have greater stress, are less cohesive than nuclear families, and are more susceptible to disruption and failure.⁴⁵

Table 2
Overview of Key Approaches in the Stepfamily Literature and Implications for M&As

Biological Discrimination	Incomplete Institutionalization	Deficit-Comparison
The emotional and motivational component of parenting is generally absent between a stepparent and stepchild.	Stepfamilies are under greater stress than traditional families because parents and children lack clear guidelines of role definition.	Stepchildren, particularly those of the subordinate parent, will be deficient when compared to children in traditional families.
Implications for Stepfamilies		
As a result, biological children (particularly of the dominant parent) will be favored, whereas the stepchild is more likely to suffer neglect or abuse.	This leads to a lack of common rules and norms to govern the new stepfamily and often results in insiders vs. outsiders problems and with differences in attachment and culture.	Stepchildren from the subordinate parent have less security and resource availability compared to children in traditional families or even the natural children of the dominant stepparent.
Implications for firms engaged in M&A Activity		
The dominant firm's subunits and employees will be favored in terms of resource allocation, brand and personnel promotions, and long term commitment.	Differences in attachment and culture and the definition of insiders versus outsiders will lead to increased role ambiguity, misunderstanding, and conflict.	As a result of the lack of security and control over resources, the acquired firms and its subunits will find themselves in a disadvantageous position to not only other subunits, but also competitors.

The fate of the stepfamily relationship is influenced by many factors. Expanding the stepfamily metaphor, we present three concepts that arise from the initial conditions that both parents and their children bring to the new stepfamily union and that contribute to stepfamily stability or disruption.

Dissimilarity. Similarity between members of a stepfamily can result in relationship harmony.⁴⁶ Dissimilarity between marriage partners can be a source of conflict, value discord, and power imbalance that can induce instability in a stepfamily.⁴⁷ The initial characteristics of the individual partners play a crucial role in setting the tone of the relationship. Differences in age, education, religion, race, etc., can result in value conflicts, generate imbalances of power, and inhibit role definition within the newly merged family.⁴⁸ These differences can heighten the instability of the relationship and increase the disruption rate.

Similar to stepfamilies, acquiring and target firm characteristics play an important role influencing the relationship and fate of the union. M&A activity fundamentally changes the structure, organization, and culture of the new entity. Differences in human resource policies, culture, management style, strategy, and organization structure can play an important role in M&A outcomes and have been the focus of previous research. One of these differences, size, we think creates special problems. While it might be expected that the merger of similar sized organizations leads to higher disruption rates due to factors such as power battles and turf wars, the opposite is true.⁴⁹ Size equality can increase cooperation and compromise on decisions that shape the final entity and one partner is less likely to take the more dominant role. As the size differential increases, so does the likelihood of eventual failure. In these cases, both a more dominant and subordinate parent emerge, increasing the potential for power imbalance and biological discrimination, resulting in increased target firm insecurity and uncertainty. A target's smaller size may also make it easier, emotionally and financially, to be divested, especially if the strategic objectives of the acquiring firm are not being met. Differences in size create blind spots and hopelessness in dealing with other differences. The larger firm sees no need to accommodate the smaller firm by focusing on integration issues, yet expects loyalty. The smaller firm has no voice in influencing integration issues. The end result is exit or divestiture.

Whether the joining firms are competing in related industries is another factor resulting in dissimilarity and influencing disruption. Mergers of

diversification, not consolidation, have failed, while mergers that bring like business together to create market leadership have succeeded. Merger partners that competed in related industries share similar points of view about products, markets, strategies, customers, etc. Such similarity can assist the development of strategic fit, increased market power, and economies of scale or scope.⁵⁰ In addition, these similarities can lead to an earlier and shared understanding of the merger's potential, creating a shared vision of opportunity and a foundation of trust for how to exploit it. Since organizational culture is more stable and similar within than across industries,⁵¹ conflicts decrease and the likelihood of survival increases. Joining firms from unrelated industries presents a host of challenges that increase the chances that the acquired firm, or pieces of it, will be divested. In a contemporary example, despite the press' negative reaction, the merger of Oracle and PeopleSoft would seem to benefit from their lack of dissimilarity.

Problem Children. As with dissimilarity challenges, potential behavioral problems may be brought into the stepfamily relationship and influence its fate. This is particularly true for stepchildren, who have more internalizing behavioral problems, such as depression or anxiety, and more externalizing behavioral problems, such as poor peer relationships and fighting, than children in traditional families.⁵² Stepchildren generally have experiences that children in conventional families do not, such as being caught in the middle of a painful divorce, living with a single parent, and transitioning to a new family environment. It is no wonder that stepchildren may have problems, some clearly evident, and others more subtle, but potentially more damaging. Since tensions over stepchildren are a principle destabilizing element of remarriages, bringing a problem child into the relationship almost always has detrimental effects.

Integrating dysfunctional firms and subsidiaries is difficult and increases the probability of failure. Problems lead not only to increased stress in the relationship, but also may be transferred from the problem child directly to the acquiring parent. For example, corporations typically assume legal responsibility and liability for past actions of acquired firms. Even if they can shield themselves from litigation, the public backlash from an acquired firm's past misdeeds can be difficult to overcome. While it is expected that the acquirer's due diligence would discover potential problems, this is not always the case. Such problems are often difficult to detect and may be manifest at

different levels of the organization. Given the difficulty of achieving integration, both target and acquiring firm employees who are dissatisfied, have low job involvement, and lack organizational commitment are less likely to go the extra mile to solve integration problems and may see little benefit from working with the employees of the other firm.⁵³ In fact, such assistance may be seen as collaborating with the enemy or worse, helping to destroy something they have worked so hard to help create, including their own jobs and careers. This may result in acting-out behavior, such as absenteeism, sabotage, providing misinformation, etc. Such actions can influence performance and affect the union's fate. For M&As motivated by the desire to acquire human capital and learning capacity, the acquisition of organizations filled with unhappy or resentful employees interferes with the M&As' potential from the beginning.

Other target firm problem behaviors may be operational or financial. Since economic distress increases the likelihood of disruption of the human family, the same can be expected for corporate stepfamilies.⁵⁴ Financial dysfunctions increase the stress on the acquiring parent, requiring undue attention or shifting problems upward. Financially sound acquisitions do not carry such troubles and should result in more successful relationships. Although appropriate due diligence may identify potential problem children, the presence of financial distress may be a motive for the acquisition, especially if the target is seen as a good turnaround candidate. But in these cases, the likelihood of failure remains high. While the acquiring firm may be able to bail out and financially assist the distressed target, stepfamily concepts indicate that such support may emerge slowly and the dominant parent's own subsidiaries would be favored if resources become scarce. In addition, financial distress may be a sign of even larger problems that the acquiring firm may not be able to detect or cannot correct. Managers tend to be overly optimistic in their beliefs they can extract value where others can not.⁵⁵ The criterion for smooth integration implicitly recognizes that hidden motivational and attitudinal problems among stepchild unit managers can result in the inability to capture synergies.

Commitment. Changing social norms and laws have made discontinuing marital relationships easier and more acceptable. Since many do not view marriage relationships as permanent, marriages are vulnerable when difficulties arise or personal needs or goals change. This is especially true for stepfamilies.⁵⁶ The increased use of prenuptial agreements provides illuminating evi-

dence. When one or both parties, usually the dominant partner, feel they need to protect their (usually financial) interests, this legal document lays out the termination provisions. For such a joyous event, the partners have already agreed to the conditions of a possible divorce. Because marriages that create stepfamilies are fragile, the level of commitment to the success and survival of a relationship should play an important role in whether it thrives or fails.

Commitment to the relationship can be viewed at three levels: *personal*, *moral*, and *structural*.⁵⁷ Personal commitment derives from the desire for the relationship to succeed. It stems from the attraction to the partner and identification with the relationship. Moral commitment is built on the feeling that the relationship ought to continue out of a sense of moral obligation, the value of consistency, and relationship person-specific obligations to others. Structural commitment is founded on constraining factors on the fate of the relationship, including the lack of attractive alternatives, social reaction, irretrievable investments, and procedures for termination. Once a course of action is started, psychological, social, and economic pressures are employed that make it difficult or costly to terminate that course of action, regardless of whether the continuation of the relationship is desired or not.⁵⁸

Similar to the commitment observed in the creation of stepfamilies, M&As may be completed with varying levels of commitment towards the success of integration and retention. Commitment matters because it promotes opportunities for cooperation and a deepening trust, without which stable social relations are not possible.⁵⁹ Effective communication helps combat uncertainty in the M&A process and leads to negotiated belief structures, resulting in a new middle ground that reduces the typical problems associated with incomplete institutionalization.

Even though commitment for M&As could be evident at personal or moral levels, corporations primarily deal with the strategic and financial implications of structural commitment. The costs associated with an acquisition and subsequent termination can deter divestiture.⁶⁰ Accordingly, the level of commitment that the acquiring firm makes towards the target firm and the relationship are important predictors of success. For example, the greater the financial commitment that the acquiring firm makes, in terms of acquisition size and subsequent resources expended for integration and future growth, the higher the likelihood of success.⁶¹

From the above discussion, we have shown that

stepfamily disruption is affected by issues of dissimilarity, problem children, and commitment. Corporate M&A failure or success is influenced by similar issues. We turn now to insights and prescriptions that help to improve M&A success.

Improving Merger and Acquisition Success

Pre-Merger or Acquisition. Focusing on factors that lead to M&A failure may seem pessimistic, but understanding the negative realities allows managers to shift attention to factors that lead to greater success during due diligence phases and eventually to the success and survival of the merger or acquisition.

First, we prescribe that when identifying M&A targets, those similar in size, industry, culture, and strategy should be sought. Similarity allows for a quicker and smoother transition and can result in achieving an acceptable *middle ground* between joining entities more rapidly. The stepfamily literature suggests that families have about six months to create this middle ground. Similarly, the organizational commitment literature proposes that such attachments are formed within the first year. Avoiding or quickly resolving problems of incomplete institutionalization, which are magnified by dissimilarities, should take center stage. The lesson here is that companies should search for and exploit similarity in size, in structure, in understanding of potential fit, in management vision, and in realistic assessments of the cost of extracting synergies. While similarity, however defined and highlighted in advance, can increase the potential for organizational fit, it is important to recognize that perceived similarities can blind organizations to the challenges of creating new traditions and establishing new coalitions and relationships. As the blended organization copes with problems related to power differences, information asymmetries, boundary conditions, change, loss, and unrealistic expectations, perceived similarities should heighten rather than decrease the need to pay active attention to integration issues.

When dissimilarities exist, a minimal mode of intrusive integration that allows each firm maximum autonomy is recommended to preserve cultures and systems and to allow new insights and definitions of value to emerge naturally from the acquired firm.⁶² To achieve success, minimal integration does not mean minimal communication. Active, routinized communication around goal- and strategy-sharing and clear metrics for business and management performance can assist greatly in overcoming dissimilarities in the

merged firms. Minimizing the immediate effects of dissimilarity is worth considerable effort and cost.

Most management teams leave these issues for the post acquisition phase of the M&A. However, we suggest that solving problems created by incomplete institutionalization must begin in the analysis and early courtship phases of any M&A. The involvement of people at various levels of the organization during the pre-merger phase reduces barriers and subsequent resistance, and results in better integration.

Second, firms should conduct thorough due diligence to determine what types of problems and dysfunctions a target and its subsidiaries might have. This due diligence must extend beyond simply checking for financial concerns, and should encompass potential problem behaviors in management, employees, culture, and ethical standards. Important internal sources of this information would be employee surveys, absenteeism and turnover rates, and quality control records. External sources, such as newspaper or trade press articles or trade associations, can also provide valuable information. Years ago, the CEO of the acquiring company in one of the largest acquisitions at that time, told one of the authors "a five-year-old article in *Fortune* magazine was one of my most valuable resources in our analysis of the target company."

Third, a high level of commitment must be adopted and conveyed to the target firm and its employees. Communication and trust must be established. General indications for investment plans are important (e.g., the opposite of the early comments of Oracle's CEO about plans to not invest in the PeopleSoft's software platform), since a subsidiary's ability to become a center of excellence and positively affect firm performance is a function of investment by the parent.⁶³ Such commitment has both real and symbolic implications as employees of acquiring and target firms become more comfortable with the relationship and with emerging roles and expectations.

Post-Merger or Acquisition. While the use of the stepfamily metaphor can provide managers a better understanding of factors predicting M&A fate, it is often the case that the need or desire for the merger overrules potential concerns. For example, the choice of acquisition targets may be limited or the industry may be consolidating, as is currently the case in the brewing, media, steel, and banking industries. Acquisitions may be pursued to access critical technology, products, customers, distribution networks, or even to keep competitors from acquiring them first. When the motives for M&As extend beyond basic financial and efficiency rea-

sons, other issues come into play. In these cases, problems associated with dissimilarity between units, the presence of problem children, or lack of commitment may be either impossible to anticipate or simply unavoidable. This requires that additional managerial prescriptions be provided to assist firms to improve their chances of M&A success after the transaction is completed, since they may face challenges similar to those of stepfamilies.

While dissimilarity between firms is a source of disruption, it may be that such dissimilarity motivates the transaction. For example, a firm may wish to grow through acquiring smaller competitors or expand into unrelated markets to alleviate aggregate investment risks. An established firm may wish to acquire younger, more agile firms to infuse it with specific technologies or progressive business approaches. While these motives result in dissimilarity, the challenges of joining two dissimilar firms remain. In fact, they may be heightened if the need or purpose of the acquisition is to facilitate critical change in the acquiring firm, since its employees and management may resist such changes. The acquiring company must determine whether the cost of extracting any anticipated synergies outweigh the synergy's value.

A challenge for joining dissimilar firms is recognizing the source of dissimilarity. Dissimilarity in size or industry membership have quite different implications. Other dissimilarities can also cause problems, such as differences in management style or HR policies. Intentions should be communicated and understood by all parties involved. If the acquiring firm does not intend to keep the target firm intact or in its current form, it is better to make this known early. While this approach is not without problems, it should allow for a smoother transaction and eliminate future distrust and bitterness that results from feelings of being betrayed. If the target is to become an important part of the new organization, the commitment prescriptions below can aid the firm in overcoming the problems of dissimilarity and increase the chances for success.

Target firms may bring problems at several different levels. While these problems should be discovered during thorough due diligence, the merger may still proceed for strategic or other reasons. Unfortunately, some problems only become evident afterwards. Either way, the acquiring firm must find ways to resolve, minimize, or eliminate them. This is especially important, since these problems must be kept from entering the combined organization.

Stepfamily theory suggests that employees in

the target firm (i.e., children) are likely to be the primary destabilizing force in M&As. Understanding and knowing how to deal with them is critical to M&A success. Disgruntled employees have two options: Exit or voice.⁶⁴ Exit is an economic response available to high-potential employees with options – they often have high job involvement but low organizational commitment. Voice is a political response of employees in two general categories: Those who have no options (and are often not the most attractive to retain), or those who are high in job involvement and high in organizational commitment (attractive people to retain). A variety of incentives, not necessarily monetary, to promote loyalty need to be provided for high quality employees to exercise voice before resorting to exit after a merger. Especially challenging are employees who are low in job involvement and commitment and resort to alternative forms of withdrawal (e.g., lateness, absenteeism, and theft). Employees who are high in organizational commitment, but not job involvement tend to accept changes.

While dissimilarity and problem children issues require strong actions to keep dysfunctions from entering or becoming entrenched in the relationship, commitment is something that can be addressed before, during, and after a merger takes place. Although the initial level and nature of commitment is important, subsequent commitment-related actions may have an even more important bearing on the merger's fate. In fact, the three levels of commitment discussed above (personal, moral, and structural) are generally visible after completion of a merger. Accordingly, to increase the probability of success, the acquiring firm must engage in activities that continually communicate its commitment to the target firm. A general sense of commitment must be fostered to facilitate not only a smooth transition, but establish a long-term relationship.

Personal and moral commitment should be developed within the employees at all levels of the organizations. Since personal commitment is based on a desire for the relationship to succeed, employees must be attracted to the relationship in order to identify with it and each other. Acquired company employees must not be marginalized to an outsider role. Instead, they should be quickly integrated and gain a sense of belonging and inclusion. Employees of the acquiring company must also be nurtured to develop a sense of acceptance of change and an appreciation of value in the acquired organization so the integration can proceed as desired. The effective development of personal commitment can lead to a sense of moral commitment, where all parties gain a sense that

the relationship ought to continue, based on the value of consistency, relationship-type values, and person-specific obligation to others.

Gateway’s acquisition of eMachines serves as a good example of improving employee commitment. Gateway’s appointment of eMachines CEO as the CEO of the newly combined company not only serves Gateway in its efforts to effectively manage costs, but should also result in a greater sense of personal and moral commitment to eMachine’s employees, since it is their leader who will now run the combined organization. Much of the success in integrating newly-merged companies lies in the acquisition and dissemination of learning. Firms can facilitate the sharing of both explicit and tacit knowledge and the adoption of newly-learned ideas by moving key personnel across company and business boundaries. Structural commitment factors can also be enacted to improve the likelihood of success. Mechanisms that limit attractive alternatives, affect social reaction, initiate irretrievable investments, and put into place complex procedures for termination can protect against failure in the short term and encourage longer-term actions to ensure success by limiting the ease with which the relationship can be discontinued. Table 3 summarizes the prescriptions for improving pre- and post-merger and acquisition success.

Why Adopt the Stepfamily Metaphor for Understanding Merger and Acquisition Fate?

Despite an historically high failure rate, M&A activity is booming. Traditional economic and efficiency explanations of M&A outcomes do not capture critical nuances and challenges that senior managers face when attempting to join two enti-

ties. The similarities between stepfamilies and firms engaged in M&As are remarkable. This similarity is not lost on either executives or employees, as shown by earlier quotes. For example, a dissatisfied employee of a recently acquired chemical plant stated, “I feel I’ve gone from a family to a stepfamily.”⁶⁵ Accordingly, we have introduced the stepfamily metaphor to better understand the fate and improve the chances of M&A success.

The stepfamily metaphor provides a richer integrative explanation of the non-economic challenges faced when engaging in M&As while complementing economic explanations. Regardless of the initial motives, integrating companies is fraught with hazards. These hazards may be anticipated or become manifest only after a merger. If anticipated, the acquiring firm can either avoid the transaction or enact mechanisms to overcome expected challenges. If not anticipated, different means must be implemented to facilitate a smooth transition and successful union. The stepfamily metaphor provides unique and valuable insights in each of these cases.

Research on mergers and acquisitions has primarily focused on the underlying economic logic and been concerned with organizational goals, scope, competitive strategy, and performance. The stepfamily metaphor should not to be viewed as competing with, but rather complementary to this approach, as it provides an overarching model for how M&A decisions can be formulated and implemented. In reality, managers need both perspectives, as neither will fully explain M&A behavior and fate.

Chief executives are increasingly aware that the ability to integrate newly acquired companies requires an understanding beyond traditional economic considerations. We suggest that viewing the

**Table 3
Prescriptions for Improving Merger and Acquisition Success**

Integration Challenge	Pre-Acquisition/Due Diligence Stage	Post Acquisition/Integration Stage
Similarity/Dissimilarity	Seek out merger or acquisition targets that are similar in terms of size, industry, culture, strategy, etc.	Recognize the potential sources of dissimilarity discord, communicate with all parties and work to create a sense of community and commitment.
Problem Children	Conduct thorough due diligence to identify both financial and other organizational dysfunctions, such as managerial, cultural, ethical, etc.	Identify existing and potential problem children, in terms of management, employees, culture, etc., and attempt to resolve, minimize, or eliminate them.
Commitment	Make both real and symbolic commitments in terms of initial financial investment and subsequent resource allocation, trust, communication etc. that employees from both the target and acquired firm understand and buy into.	Develop personal commitment from employees on the part of employees of joining entities. Establish structural mechanisms that increase the likelihood of success and create barriers for union failure.

process from a stepfamily perspective will help them anticipate potential problems, and equip them with a new set of conceptual tools with which to approach the task of successful integration. In addition to the value of the stepfamily metaphor in explaining M&A fate and providing prescriptions for improving their success, we believe the stepfamily metaphor is particularly salient for many executives and managers. The high rate of divorce and stepfamily formation has not eluded the business elite. In fact, it may be even more pronounced the higher one rises in the executive hierarchy. Accordingly, the stepfamily metaphor not only provides management key insights for improving the success of their M&A activities, but it is one many executives can personally relate to.

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Endnotes

¹ John Reed's comments on the challenges that occurred during the merger between Citicorp and Travelers Group are found in Huff, A.S., Ed. 2000. Citigroup's John Reed and Stanford's James March on management research and practice. *Academy of Management Executive*, 2000, 14(1): 61.

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⁹ Porter, M. E. 1987. From competitive advantage to corporate strategy. *Harvard Business Review*, 45(3): 46-49.

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¹¹ Carly Fiorina, Feb. 4, 2002, "Hallmarks of a Successful Merger," presentation to Goldman Sachs Technology Conference.

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¹³ The resource view or Resource-Based View (RBV) of the firm considers the firm as a set of resources that can be combined to create distinctive competencies and sustainable competitive advantages. See Wernerfelt, B. 1984. A resource-based view of the firm. *Strategic Management Journal*, 5(2): 171-180; Barney, J. 1991. Firm resources and sustained competitive advantage. *Journal of Management*, 17(1): 99-120; Collis, D. J., & Montgomery, C. A. 1995. Competing on resources: Strategy in the 1990s. *Harvard Business Review*, 73(4): 118-128.

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¹⁵ Specific data on business executive divorce rates and involvement in stepfamily relationships are unavailable. The authors believe that business executives are equally, if not more, susceptible to marriage disruption pressures than society in general. If societal statistics for divorce and stepfamilies hold for business executives, a significant number of executives are currently in stepfamily situations.

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