

The Neglected Importance of Leadership in Mergers and Acquisitions

Original Publication by Sim B. Sitkin and Amy L. Pablo

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Large and small companies often join with, purchase, or sell themselves to partners and competitors in order to improve their competitiveness within an industry and to earn higher profits. These consolidations can occur vertically or horizontally, as when a firm merges with another corporation at a different level in the supply chain or with one at the same level, respectively. Especially in today's global economy, the tools for merging or acquiring (M&A) other firms stand as potent and dynamic tools for corporate growth and diversification. The unfolding merger of XM-Sirius satellite radio providers and the dissolution of DaimlerChrysler exemplify the potential of mergers and acquisitions either to enhance or to undermine businesses, with the obvious downside exposure of turning assets into liabilities and profits into losses.

Although the direction of the individual managers involved with M&A processes maintains an enormous influence over the outcome of such deals, remarkably little literature exists to study the actions of those managers, as leaders, or to suggest optimal courses of leadership. The few scholarly articles available about leadership in relation to M&A even posit that strong direction is detrimental to such transactions because domineering administration stifles the integration of the two firms. In response to such absence of discussion or criticism of strong leaders in M&A deals, Professors Sim B. Sitkin and Amy L. Pablo advocate the benefits of leadership during mergers and the tumultuous times that often accompany them.

Sitkin and Pablo comment on six aspects or domains of leadership that ought to be employed together throughout M&A operations, including personal, relational, contextual, inspirational, and supportive manners of administration as well as stewardship. The authors define personal leadership as clearly stating the officer's beliefs, goals, and visions for the organization and for employees. The authors detail how unsteady circumstances that frequently surround M&A deals call for the reassuring orchestration of a consistent and expressive official, especially on the acquirer side who will take over a second firm. Johnson and Johnson's acquisition of Depay represents a good example of seamless integration through personal leadership and contact with workers. Similarly, relational leadership involves building bonds with employees of both the officer's own company and the merging counterpart in order to demonstrate clear intentions of partnership and cooperation. The authors cite Texas Instruments' acquisition of Unitrode to represent the benefits of establishing ties with the employees of the acquired by the management of an acquirer. Contextual leadership is instance specific, but helps to achieve a strong sense of identity in order to help the workers of

both firms produce more effectively and efficiently. Electrolux's purchase of Zanussi exhibited successful integration of corporate processes due to both parties' dedication to contextual direction.

Inspirational administration challenges employees to perform at their full potential by building their enthusiasm, confidence, and expectations. Prior to his downfall as Chief Executive of Tyco International, Dennis Koslowski achieved success through inspiring his subordinates by performing small acquisitions before entering into larger mergers to ready and comfort his employees during the changes that regularly follow such deals. The authors explain that supportive leadership and stewardship give clear feedback to workers on their performance and direct corporate leaders to make ethical decisions so that employees believe that they too are working to promote the general good. Utilizing supportive leadership and stewardship allows employees, in completing the transactions, to consider their actions as integral to its success and as upholding morality in their industry. During the creation of Verizon Communications in 2000 from the merger of Bell Atlantic and GTE, new Verizon CEO Ivan Seidenberg expedited the process by supporting and including the workers of both communications giants to make them feel a part of the process and thus work more effectively.

The examples provided by Sitkin and Pablo describe an array of leadership behaviors that allow for success in M&A deals across all kinds of industries. The professors add that combining varied administrative approaches provides even more ease of integration and therefore greater success for the new single entity. The authors engage in practical discussions on the benefits of effective leadership styles within varying corporate synergies, illustrated by the success or failure of recent examples. Sitkin and Pablo offer an excellent introduction to a subject of great importance that deserves more attention from economic and financial literatures.