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(liste at May1, 2002)

**MEGA-MERGERS :  
THE AFTERMATH OF THE STOCK MARKET BATTLE**

by

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Comments by

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**Overview**

Mega-mergers are on the increase and receive wide publicity, although half of them come to nothing ! The management methods of creating mega-mergers are well known but David Bouchoucha shows us how these erudite methods can fail in real-life. His investigation also reveals that mergers between equals in different confrontations consume much energy. On the other hand, when a victor emerges, integration seems more efficient providing that the victor behaves with magnanimity. Guy Chassang and Claude Bébéar, both familiar with mergers, complete the analysis of factors leading to successful mergers, by stressing, in particular, the preparation and negotiations necessary before the operation.

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## TALK : David BOUCHOUCHA

Although I am presenting this talk on mega-mergers today alone, I should point out that this work was carried out in conjunction with my colleague, Barthélemy Ménayas, who cannot be here as he is studying in California.

As the subtitle of our work suggests<sup>1</sup>, we have concentrated on the aftermath of the stock market battle, in other words, the integration phase which begins once the contract, which seals the merger between the companies, has been signed.

### The paradox

The headlines in the press concerning mergers make reference to “ bloody monopolies ”, battles, raids, attacks, and so forth. War references are legion and, in general, the resulting merger is portrayed as a great victory for the company which carried it out, while predicting better days ahead. Yet, one can regularly read in newspapers about similar findings in a number of studies that mergers result in a fall in share value in about 58 % of cases. Although the public seems to know that the majority of mergers fail, they are nevertheless on the increase and are always publicised triumphantly ! Why is there such discrepancy ? Cynics argue that mergers are like marriages : they begin enthusiastically but one in two ends in divorce. This explanation does not satisfy us...

### Shedding light on the paradox

Firstly, the figures should be interpreted with caution. It is difficult to measure precisely the rate of success or failure. The criteria vary and the choice of criteria may well reflect ulterior motives. Showing a high failure rate is an indirect way of promoting the sale of management methods which aim to manage mergers in a better way. There are also good and bad reasons for merging. Bad reasons suggest that one can expect bad results : *garbage in, garbage out...* I will not go any further into these explanations but they should be kept in mind to help shed light on the paradoxical situation.

### Theory versus reality

The interviews we carried out, as well as a literature review we made, led us to set out the paradox in a different way. Experience of more than a century of mega-mergers, has helped the development of management methods. These can be referred to in books, via consultancies, and are known by managers of large companies. However, these theoretical methods clash with real-life situations. I shall present the recommended methods as well as the obstacles which make the implementation of these methods difficult. I shall end by discussing the question of the balance of power : do mergers really take place between equals, or between a winner and a loser ? In the latter case, are mergers not easier to carry out ?

### *A framework for rules*

As far as mergers and acquisitions are concerned, Jack Welch and his methods at General Electric Capital act as a reference. As head of GE, he carried out a considerable number of mergers and acquisitions, gradually developing broad outlines of efficient management methods. I will refer to just four of his ‘rules’ most often cited, namely planning, speed of execution, frank communication and the implementation of an

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<sup>1</sup> David Bouchoucha, Barthélemy Ménayas, *Les mégafusions ; les lendemains de la bataille boursière*, (Mega mergers ; the aftermath of the stock market battle) published by the École des mines de Paris, October 2000.

organisation which allows the plan to be carried out. So much for the rules ; let us see the practical problems...

### *Planning*

Planning allows the establishment of a good line of management in the context of the running of a project. It also helps with external communication, notably with financial markets. A good example of this is the BNP-Paribas merger in which the planning and the timetable of deadlines was the backbone of the communication strategy. The slogan used in the publicity was the three sixes : six days to appoint the members of the executive committee, six weeks to appoint the heads of the different business units, and six months for the teams to begin working together. Between six weeks and six months, the work-groups defined the synergies to be put in place and the organisation of the different divisions. This communication showed that the company was well prepared for the merger and that progress was being made.

### *Technical and human hazards*

The reality is that hazards hinder plans. The merger of computer systems is technically difficult and is largely under-estimated. It is not a small detail but a key success factor in view of the way in which companies operate today. Moreover, one of the arguments used during the battle between Société Générale and Paribas was precisely the time necessary for the merger of computer systems. Generally speaking, it takes much longer than is estimated. In 2000, it was estimated that three years after the merger of Axa with UAP, the merger of the computer systems was finally complete. At TotalFina, one of the sources of team demoralisation pointed out by an executive was that six months after the merger, there was still poor exchange of data and transmission of electronic mail and this prevented them working properly on a daily basis. Another frequently cited hazard is the human factor. At Aventis, an executive admitted to us that the delay in the execution of the plan was due to the fact that it had taken forty-seven meetings of the works council before the organisation project was accepted.

### *Structuring*

I shall illustrate the process of structuring by taking the example of the TotalFina merger and its refinery branch. At the top, the integration team includes the synergy programme which is attached to general management. The work document used at this level consisted of a page which summarised the potential synergies, assessed on the basis of benchmarking taken from the examples of similar-type mergers. The synergy programme then listed a hundred or so work-groups. Each group drew up a document of about thirty pages laying out a list of projects, the money which could be saved, as well as a timetable of deadlines for the implementation of these synergies and a timetable of meetings to ensure the monitoring. This type of organisation not only had the merit of structuring the operation but also of drawing upon language common to both companies. Each group put into practice a scheme of large refinery projects which had already been shared before the merger. When all the work-groups had put the finishing touches to their projects, the operation was implemented in the field. For example, when two refineries are side by side in the field, one can create a refinery hub which enables an efficient exchange of components and reduces the functioning costs. At this stage, all the personnel are involved.

### *The Joule effect*

In reality, this structuring theory clashes with the Joule effect, according to the theory proposed by Guy Chassang which represents the energy consumed in a non-constructive way. In fact, mergers are particularly conducive to internal political struggles as the following example shows. A merger between company A and company B led to the creation of mixed work-groups whose aim was to select management methods from A or B for each division. To achieve this, the work-groups had to evaluate the strengths

and weaknesses of each method and give an objective and impartial report. However, outside of this formal procedure, the employees of A sent the executive committee members, whom they knew well, secret notes which explained why in their business A was easily the best and that therefore they ought to remain in charge. However, the employees of B had spies who managed to intercept these notes. Later on, when everyone was gathered around the meeting table, the Joule effect had a high reading ...

### *Dangerous doubles*

According to a Turkish proverb, when there is more than one captain on board, the ship will soon sink. In mergers, at the highest level, there is often just one position for two perfectly qualified people and it is not easy to eliminate one of them. As a result, there is often a system of joint presidency or 'doubles' with a number one, and a number two who proves to be just as powerful as the number one. The effectiveness of the system depends on whether the two people concerned get on with each other. When applied to a presidency, as in the case of Citycorp-Traveler or Daimler-Chrysler, this creates some uncertainty due to the speculation about the respective powers of each of the joint presidents. At TotalFinaElf, the president is clearly Thierry Desmarest but further down the company's hierarchy, there are doubles, with numbers one and two having different cultures and career paths. In numerous cases, the people get on well and power is divided up naturally. In other cases, animosity has led to upheaval in the relevant business unit.

### *Harmonious unification of cultures*

When one asks managers why a merger did not have the desired result, they mention cultural differences. Of course, this reason may be an easy excuse to avoid admitting possible deficiencies in the strategy or in the organisation of the integration, but disregarding these aspects, let us examine the concept of organisational culture. When the merger took place, TotalFina defined culture as a collection of answers to key questions :

- Who decides ? Is power concentrated in the hands of the executive committee or do the branch managers have a great deal of autonomy ? With respect to the structure of the organisation, do the decisions of the people in charge of geographical areas prevail over those who are in charge of the business units ? In terms of human resources, does the HR manager have the most important role or is it the branch managers ? In other words, in which places are decisions made ?
- How does one decide on the crucial investments for the company ? At Total, the choice hinged on very formalised and well documented propositions and discussions which got to the heart of the finances involved ; at Fina, the decisions were taken in a less formal manner ;
- How does one evaluate performance ? Does each employee have a structured plan at the beginning of the year which sets out his or her objectives, or do things develop naturally ?
- How does one reward employee performance ? What is the policy on pay ? What percentage of the pay is variable ? Is there a policy on stock options ?
- What are the values of the company ? Are they technical, commercial, or financial ? For example, Axa had a commercial culture whereas UAP was concerned with technical values.

This definition of culture implies that one can modify the culture, even if this is not easy. The managers of the new group can decide whether they want to change the policy on pay or the evaluation procedure. In the case of TotalFina, there was a so-called powwow, analogous to the Indian tradition whereby the chiefs hold a solemn meeting to decide the broad outlines of the social life of the tribe.

### *The culture viewed from the bottom*

The previous definition reflects a culture 'viewed from the top' whereas in reality, the culture 'viewed from the bottom' refers to notions which are more difficult to change as the following two examples show. At Aventis, the first problem was to make the French-speaking employees communicate with the German-speaking employees. Once they agreed to make English their common language, the problem disappeared. The meaning of a given term is not necessarily the same in a foreign language. For example, on the French side, "market studies" prompted the question 'Why launch a new medicine ?' ; whereas for the Germans at Hoechst it suggested 'How does one launch a new medicine ?', in the knowledge that the decision to launch the product had already been taken. As a result, whenever they talked about market studies, the Germans considered the French to be incorrigible Latins who spent their time discussing philosophical business foundations, whereas the French thought that the Germans had not done their homework. In the example of BNP-Paribas, it was the relationship with money which differed. At the risk of exaggerating, the people at BNP thought that those at Paribas were mercenary, purely working for the money, whereas the people at Paribas considered those at BNP to be bureaucrats who were totally out of place in a trading room. It is clear that one cannot easily merge cultures founded on disparate ideas which are so deeply ingrained.

### *Communication...*

It is accepted today that one has to communicate internally and externally and one has to be truthful. The aim is to remove uncertainty and motivate teams around a common project. One way of doing this is to have a grand gathering, a powwow. At TotalFina, there was a managers' conference after the Fina take-over and another after the merger with Elf. The group strategy was presented to all the executive managers, to whom it was made clear that this was a merger between equals and that each person would find his place. At Aventis, the leadership programme consisted of wave after wave of communication. The executive managers and middle management had meetings in small groups with a member of the executive committee who explained the strategy of the new group. In all these cases, communication also takes the form of a stream of emails. For example, when there was the stock market battle between BNP and Société Générale, two emails per day on average kept people up to date with the news from the front.

### *...within limited earshot*

Even if a reasonable attempt is made to communicate openly, in practice political cant does not completely disappear. Sometimes one has to communicate even though the difficult decisions have not yet been taken. Even then, communication can only dispel a few uncertainties. One of the people whom we interviewed admitted "I stayed a year-and-a-half in the company without knowing what my new place in the organisation was." This case is representative of the uncertainty which persists. Finally, in spite of communication, team demotivation can occur because mergers often involve very large groups. For example, going from a small company such as Fina to a group like TotalFina and then TotalFinaElf, the executives who once had a great deal of responsibility, found themselves in an environment in which they had less autonomy, a fact which undermined their motivation.

## **The role of consultants**

Most mega-mergers are carried out with the help of one or several of the large strategic consultancies.

### *To structure and arbitrate*

Both clients and consultants emphasise the structuring role which consultancies play. For example, in the BNP-Paribas merger, more than fifty consultants were employed to draw up the timetable for the deadlines of the merger. Consultants also have the role of

taking on difficult decisions in-house. For example, at Aventis, when it was not possible to resolve which management method to use in a given business division, a consultancy was called upon to give a supposedly neutral opinion which was therefore acceptable to the senior members of both companies. We noticed that Axa and Total, who both had a reputation for strong in-house cultures, did not often use consultants. Perhaps they did not feel the need to call on third parties in order to make certain decisions.

#### *Not enough hours in the working week*

The role of consultants is also to reduce the amount of work of the in-house teams. However, the fact is that these teams are overwhelmed by work. An executive at Aventis showed us his diary. He worked three times more than the average legal working week. His work included conducting day-to-day matters, working towards integrating the teams and trying to put into place the programmes recommended by the consultants. This person was following five training courses at the same time : the 'leadership programme', the seminars entitled 'Partnerships with opinion leaders', 'Segmentation of clients', 'E-business' and 'Process' !

### **Speed of execution**

The speed of execution appears to be a key factor in the success of mergers. One plans, structures, and communicates to bring about the merger in the fastest possible time and to keep everyone, both internal and external, informed about what is going to happen. Moreover, proceeding quickly helps to prevent political and cultural disputes, puts the uncertainty and the stasis which they engender to one side, reduces the Joule effect, and so on. When BNP and Paribas merged, the future managers of the business units were appointed before the work-groups which were going to set up the new organisational structure were determined. At Aventis, the appointments also took place rapidly to reduce the uncertainty for individuals. Two hundred and fifty people were appointed in the first two months and seven hundred in the first year. Lastly, it is necessary to move quickly since the initial stages consume a large part of one's energy which limits the volume of strategic choices and investment projects. In this respect, Shell, one of the petrol companies which has not been part of a merger, is certainly the most advanced in terms of its e-business. On the other hand, Compaq got left behind by Dell and IBM in the microcomputer market when it was merging with Digital Equipment.

#### *Persistent inertia*

Inertia which persists can be technical, as in the case of the merger of computer systems, or it can be cultural. Cultural harmony cannot be achieved in months, nor in two or three years, as suggest certain techniques used to create a new culture following a merger. For example, PSA and St-Gobain resorted to using the "Sabras". These are people who were recruited just after the merger and not attached to either company from the outset. When these people reach important positions, they can then give a unique identity to the new group and they can also resolve disputes between former senior executives.

#### *An imposed rhythm*

Although we could discuss the possibility of mergers developing quickly in a systematic way, the financial markets do not allow us the choice since they impose a model for integration in three stages. The first stage consists of presenting the synergies immediately. Thus, the same day that the merger between Total and Fina was announced, a press release stated the synergies between the two companies. Secondly, after one hundred days, the markets look closely at the new organisation and judge if the merger is progressing well. Lastly, three years later, they judge whether the operation was a success or not. When the merger is negotiated with certificates of guaranteed value, this timetable is particularly critical : if the group has not already reached an adequate market value, then it has to reimburse the shareholders concerned.

## **Integration models**

To reconcile the inertia and the demands of the markets, the groups which merge usually follow an integration model in two stages. The first stage, putting the new organisation into place and creating the synergies, is rapid. A second, more long-term phase, targets the emergence of a new culture.

### *The post-merger monopoly*

When two companies merge, it can be dangerously tempting to reinvent everything by starting from scratch and selecting the best from each company. This was the case with Boeing-MacDonell Douglas and at Novartis with regards to the computer system. Even though this solution may be intellectually satisfactory, it is nevertheless very time-consuming.

Another method consists of picking a winner by business unit. At BNP-Paribas, the management method of BNP or of Paribas was kept for each sector of the business unit of the financial markets. At Suez-Lyonnaise, it was the Lyonnaise operational management method which was adopted whereas Suez continued its financial management methods.

### *The winner's model*

When a merger takes place, is it between equals or is there a winner ? Several considerations enable us to decide : who are the people appointed to key positions ? Perhaps it is a combination of people as in the case of Aventis, or one company exerting total control as in the case of Axa-UAP. In certain cases, an apparent mix is based on the executives of the company being taken over and who are due to retire soon, and powerful assistants of the company doing the take-over... A second consideration is the organisational culture. Does one of the companies have more influence than the other in broad outlines of management ? This is the case in the majority of mergers but there are certain concessions made to the company being taken over. The third consideration in the balance of the merger lies in particular symbols : the name of the new company, the head office of the group or the direction of the purchase : who buys whom ?

The advantages of the winner's model lie in the reduction of the Joule effect, in the speed of the merger and in the clarity of the situation viewed from the outside. This is the case so long as the winner is magnanimous, in other words, so long as he makes sure that as far as the employees are concerned there are neither winners nor losers. Magnanimity can be expressed by communication, and the distribution of key positions and symbols (the choice of the name of the new group, and so on). Having said that, the winner's model may not always be applicable. It is only worthwhile if the business of the two companies is the same, and, if one company can dominate by market conditions or by its culture and its image.

## **Summary**

Although there are more and more mergers, they represent a gamble both for the shareholders and for the managers and employees. The gamble carries even more risks if it is taken without a solid industrial strategy behind it. In addition, both pressure from the financial markets and the delay in projects which mergers produce require a fast and efficient implementation of a harmonisation programme. A solution is that one of the companies declares itself a magnanimous winner. However, even in this case, cultural inertia leads to a merger in two stages : the implementation of the new organisation and its synergies, and then, later on, the creation of a new identity and a new culture.

## COMMENTS : Guy CHASSANG

The study carried out by David Bouchoucha and Barthélemy Ménayas is a good summary of a particularly complex subject. The analysis contains a number of valid observations which are corroborated by extensive research on the subject, in particular the importance of people in the success or failure of mergers. I also like their idea of integration at two different rates : one, about the organisation and management which takes place under the gaze of the financial markets ; and the other, which is more profound and long term, about a culture. One should point out that the companies in question are almost exclusively large French companies which have recently carried out horizontal mergers. Horizontal mergers are themselves specific categories of operations in the merger and acquisition sector, and it is still too early to tell if those studied are successful or not.

In my opinion, the authors have given in to the temptation of exaggerating a spectacular and war-like piece of advice, namely that the process will be easier if there is a quick winner. However, the way in which their report is presented shows that they are not fooled by the reductionist nature of this proposition. This proposition could be applied to a similar activity of a similar size by a leader who is stronger and more legitimate than the other leader, and in the absence of problems linked to fragile resources which are difficult to make secure. The recent example of the links established between Mercedes and Chrysler shows that there is not one single recipe which guarantees success. I shall attempt to develop their thesis by presenting a deliberately contingent viewpoint.

### **Integration depends on the context**

The way in which integration and its extent should be implemented depends on the intended objectives and the respective positions of the companies. This is clearly obvious but can be difficult in practice. We have some useful grids to which we can refer when presenting the operation.

#### *The type of merger*

The Federal Trade Commission distinguishes between horizontal mergers (for example, Total-Fina-Elf), vertical mergers (Péchiney-American Can, when an industrial company acquires its distributors), concentric mergers (when there are similarities between technology and products but distinctly different markets), and conglomerate mergers. As this last merger is not currently in favour with financial analysts, certain operations presented under other headings would merit being put into this category. The first step is to determine the kind of merger.

#### *The intended objective*

The second grid concerns the strategic, intended objective. Is it a question of looking for more coverage geographically, or a wider range of products ? For example, when Schneider Electric bought Square D in the United States, this represented a greater geographical coverage whereas some years later when it bought Lexel, this was seen as a widening of its product base. Is it a question of size implying achieving economies of scale and scope, relying on the shared use of distribution channels or an umbrella brand name, and so on ? Is one looking to acquire resources or skills which are difficult to obtain in the market ? With regard to a vertical merger, is one looking to reduce transaction costs between participants ? Is the aim to learn about a new sector of activity ? For example, Schneider Electric entered the sector of the 'ultraterminal' and started off by buying small companies in Switzerland and in Spain before buying Lexel. Is one aiming for diversification in a growth sector ? Does one want to consolidate in a sector suffering from over-capacity ? Is the aim to change the risk profile of the



company ? Are we buying a company which is supposedly badly managed, which implies a quick management turnaround ? The list is endless.

The potential objectives are varied and their complexity stems from the fact that in practice the objectives of a deal can be multiple. In the case of Renault-Nissan, we are looking at the effects of economies of scale and scope at the same time as the acquisition of technologies and a greater geographical spread. Some of these objectives may well be contradictory, for instance research into cost reduction simultaneously with increasing the product range. Furthermore, the objectives of the targeted company may be different from that of the buyer. Frequently the acquiring company is looking for access to financing, technology, a brand name, international markets, etc.

Even at the heart of each company, there are interest groups which have different objectives. Here we can find the same traditional arguments between domestic and international operations, between those on the operational side and those who work on the functional side who particularly dread the mergers, and between producers and sales people who are generally less concerned by restructuring.

#### *The closeness of the companies*

The third grid is referred to by American research as 'relateness' i.e. closeness of the two companies in terms of their respective technology, products, markets, organisation, management style, and national culture. The extent of closeness will determine the success of integration.

Other factors are also important such as the legal actions of the buyer and his owner with regard to the acquired company.

In using these three grids, one can appreciate that there are a number of merger paths possible and that any approach which is too standardised is regarded suspiciously.

### **Negotiation – the precursor to success**

Success, for a large part, is built during the exploration and negotiation phase of the merger. It is at this stage that the premium paid in relation to the market value is fixed. This premium determines the success or failure of integration. Research suggests that in the 1990's this premium was enormously excessive. As a result, if there was a clear winner, it was the shareholder of the acquired company. At the negotiation stage, it is also common for the buyer to accept commitments which will sometimes prove to be excessive, in particular in relation to sensitive areas which should require careful investigation and treatment.

Even seasoned managers can fall into these traps. In order to avoid them, one has to understand the background. What are the explanations ? The first explanation is "bounded rationality" and lack of information between the managers involved in the deal making. Out of respect for competition and in order to avoid the risk of the merger being refused by the Trade Commission on the grounds of collusion, information provided during the negotiation is always limited. In particular, it is difficult to anticipate the reaction of the personnel of the targeted company. In addition, the management of the targeted company has little incentive to clarify the information which could reduce the risk of overestimation, especially if their salaries are linked to the value of the shares.

#### *Different views*

The second explanation is the fragmented viewpoint which participants in the deal have, linked to the fact that personnel from several specialised professions (such as financiers, industrialists, people in marketing or human resources, bankers, lawyers, and auditors) also take part. Incorporating all these different points of view is not an easy task. It is

the role of the head of the company to create an integrated view during this process, but there are also disadvantages if he involves himself too much.

### *Dramatic intensity*

The third explanation is the dramatic intensity of the operations which take place in a short space of time, in secret and possibly in the context of inciting competition by issuing an invitation to tender. The desire of the acquisition team to win, neither favours keeping one's distance nor one's calm in the negotiations.

In order to compensate for all these factors and to complete a successful deal, several methods can be used. These include constantly collecting the maximum amount of information about targeted companies, for example by constantly screening potential targets within the regular strategic process. Another way is to involve the future manager of the resulting company into the negotiations. The future manager will have a tendency to be careful, while recognising that being too careful may prevent the deal going ahead. Merchant banks may also be interested in the success of the deal or successive deals in the medium term and not just in the immediate result. One can usefully employ the intervention and timing of the involvement of the Chairman and Managing Director of the acquiring company in the negotiations.

### **A chaotic, controversial and conditional process**

A merger is not just an organisational reconfiguration. It is also a process of development and implementation of new strategies. The management team may not be as well acquainted with its new area (recently increased), or with the mechanism for dealing with this area as it was before the merger. If one does not act, one runs the risk that a competitor will take the initiative while one is concentrating on the merger. During the time that Chrysler was working hard on its integration process, its rivals put a spanner in the works with respect to Chrysler's main product.

A merger is also a social creation. Numerous prior arrangements, including those which were set up in the field and which make up the daily social fabric to enable the efficient working of the company, have been broken. One now has to guide and speed up the reconstruction of this intricate social fabric, and the arrangements and psychological contracts between employees and their company. This means that the most important aspects have to be identified, creating experimentation areas and adopting a *laissez-faire* attitude elsewhere. For example, one can encourage a good working relationship between foreign R&D teams, or between international project teams.

Frequently, the organisational reconfiguration supports these new working methods, (for example, encouraging international projects rather than local performance). To succeed in guiding this social reconstruction; it seems to me that a good knowledge of human science is essential.

Conflicts are inevitable, since in the process some people gain power and room for manoeuvre and others lose it. One has to understand these conflicts and manage them. Communication cannot and should not ignore these conflicts. It should only serve to encourage a climate of co-operation and mutual respect which is important. It should also explain the objectives well, even when they are contradictory.

The main risk in the process of integration is related to ideology and the creation of a bureaucracy because of the distance and lack of knowledge on the part of the decision-makers of their new, enlarged area of action. It is therefore essential to recreate this knowledge for the decision-makers. This can only be achieved by analysing the strategic positions and in particular the 'core capabilities' which should be preserved or developed. One needs to evaluate the management systems and the human resources available.

The practical question remains : how does one conduct such an analysis without being submerged by a mass of detail and how does one find the right levers to pull ? If the companies do not find those few key levers, they become bogged down in a plethora of projects. The solution offered by the experienced practitioner can be conveyed by the following image : the companies do a 'recce' of the area by helicopter, but go to the trouble spots in jeeps. I readily accept the theoretical weakness.

## COMMENTS : Claude BÉBÉAR

I would like to comment on some of the points made in this excellent study.

### *Good reasons for merging*

It is essential to have good reasons for merging. This should be part of the strategy. Is it a question of necessity or a gamble ? The close links established between two companies are always risky, but an even greater risk is to remain alone and to disappear altogether because one can no longer compete in the marketplace. There are therefore risks which have to be taken.

In my profession, I thought that in order to survive in the long term one had to become international, after one's place in the domestic market was secure. Staying within one's business seems fundamental to me. I do not believe in conglomerates since in a competitive environment it is those who are specialised who succeed. We have seen conglomerates fail in the 1960's and today I would take a bet that General Electric will not survive Jack Welsh for long.

Our strategy was simple : concentrating on a particular business, reinforcing our presence in the domestic market and then developing our presence in foreign markets. How does one achieve this in a reasonable space of time when one is a tiny company in Normandy ? The only solution is to acquire companies.

### *Preparing the operation*

Not only is it necessary to have good reasons for merging, but the merger should also be a good opportunity. It should not be a case of paying an exorbitant price for a company or wanting to 'marry' companies which are 'unmarriageable'. This is why it is necessary to prepare the merger, or the attack (if it is an acquisition), very carefully. Insufficient preparation is one of the major causes of failure, for example, when the managers do not anticipate the difficulties which have been identified in this study. There are many questions which need to be asked. What is the target company like ? Do I really need this company? How do I carry out the operation ? What will happen afterwards ? Who are the available people and teams that need to be put in place ? How long should each step take ? What teams should accompany the project (bankers, lawyers, possibly consultants, and so on) ? How do I prepare my army for the conquest (since every merger, even between equals, is a conquest) ?

### *A winner or a merger between equals ?*

A merger between equals is illusory. One says that it is between equals but in practice that is not the case... The problem is not that there is a winner and a loser, but that there is one person in charge. It is his job to explain, once the two companies have come together, that he does not belong to either side but that he is the head of the whole structure. The new team is made up of the new company. The team is made up of the best people from within and outside of the company. Under no circumstances should one say that one is taking a certain number of people from one company and a certain number from the other ! Skill should dominate any feelings of partiality and any search

for balance. The people in charge should be identified quickly and they should be given real responsibility creating a decentralising hierarchy.

### *The speed of execution*

You have quite rightly emphasised the importance of the speed of execution. People need certainty. Perhaps in industry, investments are very important but in an industry like mine, the difference between a good and a bad company is the quality of the people, in other words, their intrinsic qualities and their motivation. In spite of this, every merger is worrying and is therefore demotivating. This demotivation has to disappear as rapidly as possible by taking decisions very quickly, even if one makes mistakes and has to correct them later. Wanting to do things perfectly from the very beginning and taking one's time to achieve this seems to me to be the best recipe for failure. As in many other areas, a plan, sound as it may be, is not the root of success : it is all down to the execution.

### *Computer problems*

The merger of computer systems also constitutes a crucial problem in companies like ours. We have ten million clients and the same number of accompanying files. Bringing together these files all of which are managed differently takes a huge amount of time, especially since they may be the result of previous mergers. We even had one company which had as many as seventeen overlapping files referenced in the computer... This is a pitfall which risks putting in danger the successful strategy of an intelligent merger.

### *Merging the teams*

It is also a question of merging the teams and not just putting them side by side. In order to create a new company, it is essential to mix the teams even if this sometimes seems artificial. In a given sector, a head is appointed and the teams are mixed. For one of our operations, we took the exaggerated step of making it impossible for anyone to remain in the same place, even though this was not necessary. By changing people's places, one breaks their routines and makes them liable to acquiring new habits.

### *The Joule effect*

The Joule effect certainly does exist. The systems of joint presidency, and teams face-to-face are the basis of a guaranteed Joule effect. At the risk of stating the obvious, I should remind you that the people in charge have to be appointed. In the sector to which they have been assigned, they define their actions and carry them out by making up teams of their choice without any duplications.

### *Culture and communication*

The organisational culture whose definition you have borrowed from Thierry Desmarest is a logical and rational construction but it lacks feeling ! Organisational culture is a necessity. People have to speak the same language and know why and how they should do things. However, culture also includes motivation, behaviour, the meaning of words, attitudes and the ability to read each other's minds, like in a team sport. Yet these common reflexes are difficult to recreate. At Axa, we have a culture of conquest and of pride in our company whereas UAP did not have a technological culture but a bureaucratic culture based on rules. There was a very pronounced lack of mutual comprehension.

The solution to the problem, as David Bouchoucha mentioned, lies in communication, using means such as large gatherings and supplying daily information. When we merged with UAP, I conducted seventy meetings throughout the world which brought together all the employees. I explained our strategy, our policy, our culture and I answered their questions. The overall message was 'you all belong to the same

company which we are going to create together'. People came away from this meeting very enthusiastic about the merger, but this momentum had to be kept up by an information system which operated daily. At Axa, before the Auroux laws existed, we created the right of expression at one's work-place. This is a system which requires all executives to circulate information from the top to the bottom and vice versa. People have to be taught how to communicate. We have created colleges where we bring people together from all over the world to teach them the culture at Axa. We started with the managers and we are going down the hierarchy. Of the one hundred and forty thousand people in the group, thirty or forty thousand have already attended our colleges.

#### *Consultants...but in moderation*

Axa did not resort to consultants for the merger since we think that employees should adopt the new company for themselves. When a new company is drawn up and put forward by consultants, it does not become one's own. The best means is to do it yourself and to have recourse to consultants purely in homeopathic doses. Today, companies resort to consultants too much. They can indeed bring new ideas and help to gain acceptance for some of them, but too often they represent a means of relieving oneself of one's responsibilities. Additionally, they are very expensive : we spend two hundred million dollars per year on consultants !

#### *Two forgotten dimensions*

Two situations were not mentioned in the analysis. The case of conglomerate mergers, and close business links on an international scale. In the latter case, the area of action of the two companies is not the same and additionally, one comes up against considerable cultural differences. For example, as far as people are concerned, we are convinced that they are all important and that it is not just the managers who count. The American way of looking at things is totally different : two hundred directors are the focus of attention and receive huge salaries and stock options. The others constitute the work force which is replaceable, possibly by machines. Imposing a uniform culture which does not take into account the local culture is bound to fail. The issue therefore is to hold on to what is essential and to give in on what is not essential.

As far as conglomerates are concerned, it is difficult to integrate businesses with different cultures. For example, the logic behind the business of the investment banker is totally different from that of an insurance company. It is even difficult to envisage a common objective. The differences between horizontal integration, vertical integration as well as the other forms mentioned by Guy Chassang should be made clear.

#### *Conclusion*

A merger can only succeed if the project has been studied in depth, if the responsibilities are assigned to skilled men and women, and if one subsequently shows a constant pragmatism. One should not hesitate to change a plan if necessary and adopt a different strategy. As far as measuring the success of a merger is concerned, several criteria can be used : the trend in its market price, the motivation of its teams and the feed-back from the clients on the service given. As Georges Marchais once said, the question is to know whether we are in the black...

## **DISCUSSION**

### **Cow-boys and crocodiles**

**Question :** *I would like to talk about the dilemma of the cow-boy and the crocodile. In these talks, we can identify lots of cow-boys : they break lots of things in the saloon, we*

*can see the result very quickly and this satisfies people's needs to be reassured. As for the crocodile, he stays hidden for a long time, but he always ends up by catching his prey. Moreover, Christophe Dejourns<sup>2</sup>, who talked here recently, stated that even if we emphasise personnel motivation in management, management methods using fear as a tool are nevertheless still fashionable and efficient. The Chairman and Managing Director of a big French company said a few years ago "some of my colleagues are gun-slingers. I condemn this sort of behaviour. I prefer to stifle my prey : it's much cleaner".*

**Guy Chassang :** That depends on the circumstances. There are certain cases where you have to move quickly and brutally, for instance when a company is doing very badly and its managers no longer inspire confidence. In other cases, the acquired company is far away, immersed in another culture, in a profession which one does not know very well, and in such a case, moving rapidly and boldly is bound to end in failure. One should therefore take the time to learn and to understand. One should help the manager understand the real situation since he himself does not have the time to investigate the details, which, in my opinion, is the most important role of the consultant.

### **A army ready for conquest**

**Q. :** *Could you explain to us in detail the way in which you prepare the "conquests" which you have mentioned ?*

**Claude Bébéar :** We knew UAP well for a number of years. We even had a few discussions with them since we thought that the company was failing without an heir apparent and that something had to be done when that moment arrived. UAP was 'attacked' by an American company and this gave us the opportunity. I went to see the President of UAP and told him that if in four days we had not come to an agreement, I would make a public exchange offer. We had prepared our move with in-house people as well as experts. We were about sixty people in all, whereas at UAP they were just three who were all at sea. The greatest resistance which we encountered did not come from the company but from an administrator who would also have liked to take over the company and was furious when we outstripped him. With such operations, it is very important to have a solid team which sends out warning signals or consolidates actions. There really is a technique for acquiring companies which we have gradually learned. It is not just a question of delegating the work entirely to investment bankers, even if they can indeed contribute to the process.

### **And the client ?**

**Q. :** *Let's talk about the clients. I would like to talk about the company of which I am Chairman and Managing Director. We had two banks for the past thirty years who merged at the beginning of 2000 but not with each other... Since then, we do not have a banker any more ! The Joule effect is such that there is no more electricity. When we call them, they are in meetings or it is not possible to speak to them. In the interminable working week which you mention, it is the daily business which is most often sacrificed.*

**David Bouchoucha :** I mentioned that mergers can result in the company's project being put on ice but it is also clear that this provokes upheavals in the handling of client matters. It is also for this reason that it is important to advance quickly.

**G. C. :** No longer replying to clients is quite a frequent occurrence. No single company is capable of managing twenty projects and carrying out its daily business at the same time. When one launches this number of projects, it means that the planning was not good. During one assignment, I arrived in a company which was working on twelve

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<sup>2</sup> Christophe Dejourns, Michel Villette, *The psychoanalyst's view of the economic war*, Guest speakers, January 2000.

projects at once. There were only three of these twelve which were well developed by the time I left.

### All losers ?

**Q. :** *Would it not be the investment banker who benefits most from these mega-mergers ?*

**C. B. :** Investment bankers are certainly winners in mergers. The example of the so-called 'new economy' shows that the commissions paid to the investment bankers for the operations in this sector were greater than the turnover of the companies concerned. Nevertheless, the beneficiary of the mega-merger in the long term should be the company and its shareholders. If one refrains from merging, then one might cease to exist.

**Q. :** *Is there a link between the likelihood of success and the type of shareholding in the companies in question, i.e. public or private, and whether they are listed or not ?*

**G. C. :** I have not studied this question closely, but statistics show that if there is a clear winner at all, it is the shareholders of the acquired companies. There is also a clear loser, namely the senior managers of the acquired companies, since 58 % of them are no longer with the company five years later.

**C. B. :** We started off as a small mutual insurance company in Normandy and we acquired public companies. The mutual insurance company is special in that it is not subject to take-over bids. This is clearly one of the reasons why the group was able to grow and to carry out operations which otherwise would have been impossible. In fact, one often thinks that certain operations are justified but the market does not understand them. When we acquired Equitable in 1991, an operation judged today to have been a success because at the time it was worth one thousand million dollars (and today is worth fifteen thousand million), was not understood by the market. Our share price was halved. This was not very important as we did not run the risk of hostile action in the short term because our insurance companies were majority shareholders in the company. In addition, we were convinced that the price would rise again once the market realised that the operation was worthwhile. Today, we are no longer protected in the same way, because only a quarter of the capital is held by the mutual insurance companies. We are more wary with regard to certain operations since we do not know how the market will react.

**Q. :** *The talks are based on the hypothesis that the person in charge has a lot of power. He is capable of convincing people, making them take the direction he wants and making them work differently... One thousand people seems to me a large number for one manager to manage and, similarly, one hundred thousand for one hundred managers. Do you not agree that mergers are situations where managers are reminded of their lack of real power ?*

**C. B. :** I started out as part of a tiny company with one thousand employees where managing meant knowing everything that went on. We grew to a company of 5,000 employees, then 10,000, and then 140,000, spread over sixty countries. It is clear that managing methods change. We go from having things on a short rein to longer reins. One should not delude oneself about one's power over people. It is a power over directions to be taken and of sanctions to which one has to adapt. There has to be an efficient decentralisation system. One has to accept that things will not necessarily turn out as one would like. The most important thing is to make sure that things turn out well overall. However, in a merger, there still has to be a strong leader who is the figurehead and has charisma so that people have the feeling that there is someone in charge. However, it is true that even if the leader is excellent, he will only succeed if he is surrounded by a good team. So how does one choose the team ? When one knows the people involved, it is easy. In other cases, one can ask consultants or hold small

informal internal meetings to gather opinions. However, above all, if one realises that one has made a mistake, one should not hesitate to make a change.

**D. B. :** The discussion and the questions raised are particularly rewarding. This shows that the subject of mergers is extremely complex. It would be unrealistic to think that our dissertation could cover the whole question. We have concentrated on the aftermath of the stock market battle. The discussion has allowed us to increase the breadth of our thinking thanks to the comments from the audience, and from Guy Chassang and Claude Bébéar. Claude Bébéar stressed the importance of negotiation before merger. In the same way, even the measure of success seen from the perspective of the client's satisfaction remains a point worth developing. Above all, the merger concerns people, an aspect which is difficult to determine. Just to illustrate this, it says a great deal that we have always found it easier to get appointments with senior managers than with those in charge of the trade unions.

Presentation of the speakers :

David Bouchoucha : a former student at the *École polytechnique* and at the *École des mines*, he is in charge of the industrial development division at the *DRIRE* (Regional Head Office for Industry, Research and the Environment) in the *région* of Haute Normandie. He is co-author of the dissertation entitled *Les mégafusions : les lendemains de la bataille boursière* (Mega-mergers : the aftermath of the stock market battle).

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Claude Bébéar : a former student at the *École polytechnique*, he spent all his career in the insurance business ; the company *Les Mutuelles Unies* eventually became the Axa Group of which he was President until 2000. He is currently President of the Axa supervisory board and is Chairman and Managing Director of Finaxa. He is also President and founder (in 1986) of the *Institut du mécénat de solidarité* (Institute of the patronage of solidarity).

Guy Chassang : studied engineering at the *École Centrale de Paris*. He is Senior Partner at Accenture. He is in charge of the Strategic Consultancy business and is a co-author of the book *Stratégie et esprit de finesse*", Guy Chassang, Michel Moulet, Roland Reitter, Economica, January 2002. He is affiliate professor at HEC .

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