



# WHY MERGERS FAIL

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**M**ergers all too frequently turn sour despite the usual goodwill of the parties involved and the lengthy preparations taken to make them work. At the bottom of this frequent disaster lies a lack of understanding of the predictable evolution of companies<sup>1</sup> and the inherent personalities of the two or more organizations that make up the puzzle. The good news is that a smooth transition between conspiring enterprises is possible followed by growth as well as the benefits anticipated by the protagonists in the first place. Here is how to avoid failure and ensure success.

## The Basic Premises

When we understand the personalities of individuals [Reference 1] we can predict their behaviors, even more readily if they are under stress. These we define as some mix of P, A, V and F. For example, **P** individuals (**P**roducers) tend to be no-nonsense people who are in a hurry. Under stress, they take charge and might grab the task they have assigned to someone else and do it themselves.

**A** people (**A**nalyzers) tend to be detail-oriented people who are careful, thorough and conservative. Under stress, they often withdraw into an inaction paralysis, retreating from people and arguments, while the wheels in their brain are churning away, carefully analyzing the situation and the other people.

**V** workers and executives (**V**isionaries) tend to be outgoing, optimistic and full of ideas. Under stress, they may sulk at the realization that they and their ideas are not being recognized as unique. They may even lash out and humiliate others.

**F** persons (**F**riends) tend to be gregarious and genuinely concerned about other people. Under stress, the **F**s may worry excessively about not being accepted. Thus their decisions will be delayed as they vacillate from one position to the other trying to please all sides at once, sometimes confusing those around them.

Naturally people are not pure P or A or V or F, but some combination of all four, with, usually, a dominance in two. But any combination is possible.

## Group Decisions

If we understand the PAVF of a group we can predict the nature of their decision-making be-

cause of the relationship of PAVF to the basic decision-making elements, as follows:

P results in a focus on 'what'.  
A results in a focus on 'how'  
V results in a focus on 'why' and a future ('when')  
F results in a focus on 'who'.  
Thus, a P-dominated group will create decisions with a long list of 'what' must be done but will probably lack the details of 'why', 'how', 'who' and 'when' (other than as-soon-as-possible).

Whereas, an A-dominated group will probably create decisions with great details of 'how' it must be done but will probably lack focus on the 'what', 'why', 'when' and 'who'..... and so on.

If the group is a composite of PV, for example, it will make decisions with great attention on 'what' (P), and a long list of ideas generated by its focus on 'why' and 'why not' (V). But the group decisions will probably lack the details of 'how' (A) and 'who' (F).

## PAVF and Evolution<sup>2</sup>

Appendix 1 details each of the ten stages of the Evolution Pyramid that every company must pass through over its lifetime. They are, going up the Pyramid: Wooing, Baby, Toddler and Teenager. **Excellence**, at the peak is the ideal operating level. On the downward slide are: Contentment, Nobility, Scapegoat, Sluggishness and Death. Each of the ten stages has a composite PAVF trait different from other stages, along with the correspondingly different behaviors of those traits.

For example, the Baby stage is about keeping a rather helpless entity alive with careful nurturing.



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<sup>1</sup> See Appendix 2 at the end of this paper.  
<sup>2</sup> See also reference 3

Just as with a human infant, it demands constant attention and action (**P**) without time for the organizing details typical of **A**; if the baby is hungry it is fed right away without concern for the niceties of the meal – no layout of table-setting, no rearranging of the dining area; it’s all about feeding the infant as quickly as possible to arrest its scream for attention. There is no time for **V**, fantasies, ideas or abstracting about the college that baby will attend but only the reality of satisfying the baby’s immediate hunger needs. **F** is gone too; mother stops socializing with other adults, gets immediately off the phone if baby cries as she concentrates and focuses on the needed task. The profile for a mother in the baby stage is **PAVF**; that is, it is mostly **P**.

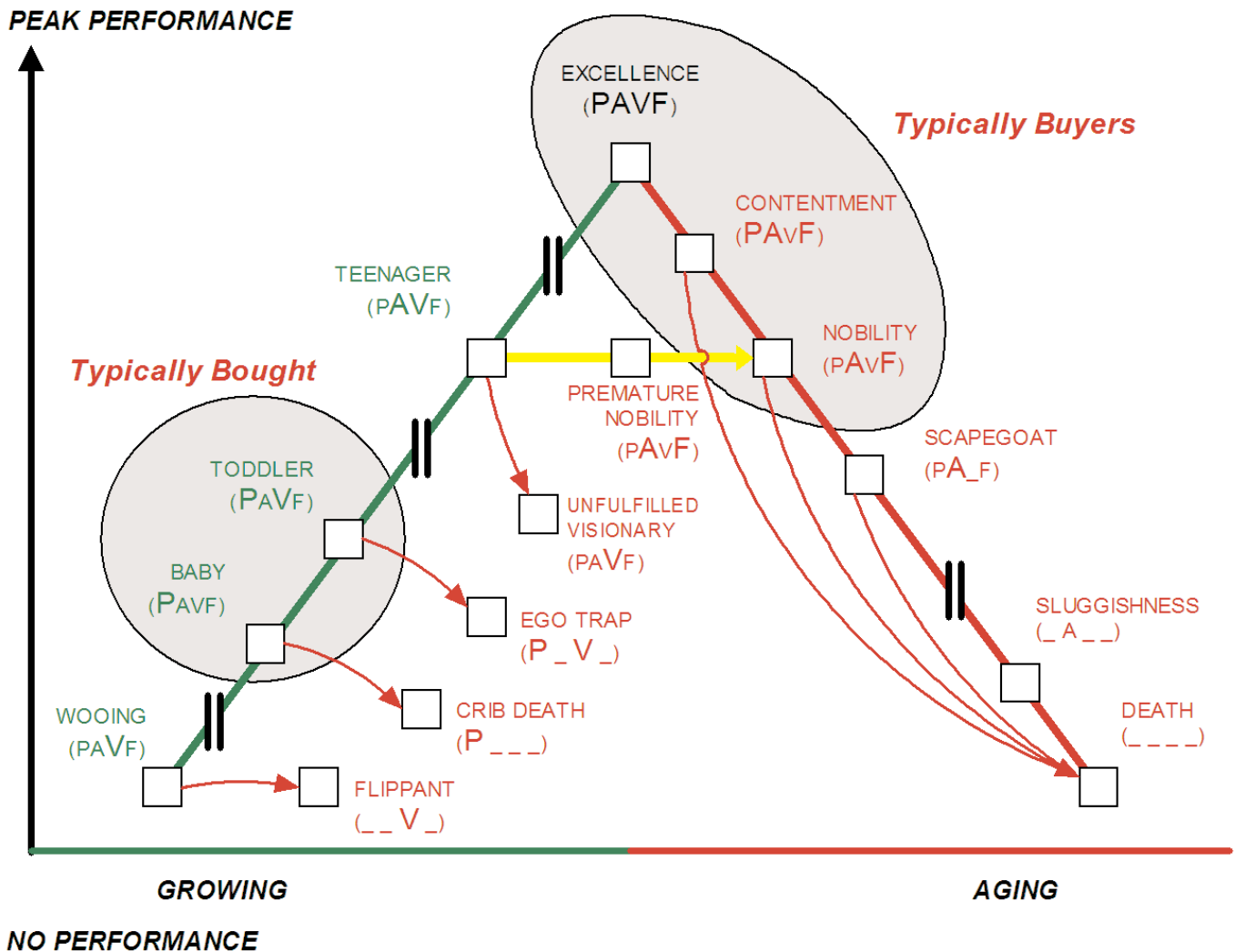
With the enterprise at the Baby stage, the profile is also **PAVF**, that is, mostly **P**. It is also about keeping a rather helpless entity alive with careful nurturing – usually of getting enough contracts in the door and managing its delicate hunger for cash. Just as with a human infant, it demands constant attention (cash flow) and action - sales (**P**) without time for the organizing details typical of **A**. When the Baby is hungry for money (payroll will not be met), it is fed right away without concern for the niceties of the P & L – no complex financial analyses, no arranging of a long list of priorities; it’s all about the immediate feeding the in-

fant enterprise as quickly as possible to arrest its scream for attention (cash). There is little time for **V**, fantasies, ideas or abstracting about the great plans for the corporation’s future but only the reality of satisfying the Baby’s immediate sales or cash needs. **F** is gone too; the founder is demanding of others in the enterprise and is not as careful about talking or listening to associates other than barking out orders to ensure the urgent feeding task is achieved.

**Who buys whom?**

The sketch below shows the most typical merger scenarios, that mergers (or acquisitions) are based on mature organizations choosing to buy developing companies. Of course, any combination of buyers and sellers is possible during an acquisition; anyone can buy anyone.

Let us begin the story with the situation in which **Excellence**, **Contentment** and **Nobility** companies tend to buy **Baby** and **Toddler** enterprises (shown in the two boxes), which are the more common occurrences. We’ll address the other possibilities later, but to a lesser extent.





## Who buys whom?

Chart 1

STAGE OF BUYER	WHY THESE BUYERS BUY
Baby	Because they have venture capital to make a strategic move. Ambitions often exceed reality
Toddler	Because, unable to focus, they cannot pass up an “opportunity”
Teenager	As a distraction for the founders. • from conflict between the founder (V) & the hired decision-maker (A). • because the company has been too long in one line of business. As a still-evolving enterprise, wants to move to a new opportunistic product or service line.
<b>Excellence</b>	For strategic positioning. To find good managers
Contentment	To regain noticeable decrease in own innovation
Nobility	To regain dropping sales and dropping markets. To use up excess cash
Scapegoat	As a distraction from problems
Sluggishness	Because the company, having an unreal view of its own picture, thinks it is still in the game

Chart 2

STAGE OF SELLER	WHY THESE SELLERS SELL
All stages	Need of cash. To realize value for their innovation and hard work. To gain business experience and learn from as well as the stability of a “parent” who has “already been there”. To improve their strategic position. To get a referee to deal with considerable internal conflicts

Chart 3

STAGE OF COMPANY BEING ACQUIRED	WHY THEY ARE BEING BOUGHT
Baby	For their innovation
Toddler	For their innovations; they offer more stability than Baby
Teenager	For their proven product, track record, and some professional management
<b>Excellence</b>	For being recognized gold mines of opportunity. For buyers’ overall strategic purposes
Contentment	For their good history and reputation; buyer usually thinks this company is at <b>Excellence</b> stage
Nobility	For their cash For their history and reputation – often faultily perceived
Scapegoat	As a political decision to prop up fading ghosts of Scapegoat
Sluggishness	For buyers who mistakenly think old, established companies at low prices are great bargains

## How dysfunctionality is created

Mergers result, 80% of time, in dysfunctional parenting. Why? The new non-blood parents have certain established ways of doing things. They expect the child to conform to those ways. Irreconcilable difficulties ensue. Those differences are detailed in the table of Appendix 2.

### The most common merger

Without a doubt the most common merger is the purchase of a Toddler by Nobility (see also #9 of Appendix 2, below).

Chart 4

Seller (bought)	Seller Style	Buyer (owner)	Buyer Style
<b>Toddler</b>	PAVF	<b>Nobility</b>	pAVF

First, notice, above, that the PAVF of the buyer and the seller are opposites; where one’s characteristic is high, the other’s characteristic is low and vice-versa. This is key, and the source of the failure of such mergers — a clear case of opposites attracting.

Where are the power, the money, and the experience in this union? They are in **Nobility**. **Nobility**, with its power, pushes **Toddler** around if **Toddler** isn’t cooperative with the aims of **Nobility**.

What do the differences mean?

**P:**

**Toddler (P)** tries to push aggressively, but **Nobility**, lacking a strong **P**, has no sense of urgency and takes “forever” to respond, causing crippling delays and frustration. **Toddler**, on the other hand, with its strong **P**, is quick to react, is light on its feet; it doesn’t understand, and is intolerant of, **Nobility’s** delays.

**A:**

**Nobility** forces **A** (rules, forms, procedures and red tape) on **Toddler** who, lacking a strong **A**, is not ready for it. **Toddler** not only does not like it, but cannot handle it. The **A** feels, to a **Toddler**, like a straightjacket—the burden of an unnecessary encumbrance.

**V:**

While **Nobility** bought the **Toddler** company for its innovation, **Nobility** with its low **V** is risk adverse and therefore frightened by the new “wild” ideas of the **Toddler**. **Nobility** squashes **Toddler’s** independent thought (**P**), replacing it with the group thought (**F**) of **Nobility**.

**F:**

**Nobility** forces **F** (group decisions, social functions) on **Toddler**, who can’t afford the luxury of it at this time.



Eventually,

**Nobility** rewards and promotes those from the **Toddler** company who think like **Nobility**, namely the **A**'s and **F**'s.

The **P**'s and **V**'s within the **Toddler** company are not encouraged; they become disenchanting and leave or are forced out.

The **Toddler** PAVF has its **P** and **V** squashed and is left with equal but small amount of PAVF. It is a compromise company; it can no longer survive as a **Toddler**—or anything else.

### The range of merger possibilities

Every stage in the evolutionary cycle has the potential to merge with any other. In Appendix 2, we list 12 of the more common possibilities.

### Making mergers work

Let me state here that at the outset there must be a tolerance for those company elements that are different than your own. This is called 'respect'. Young companies must be allowed to behave like young companies do. Just because you dress a **Toddler** like an adult, you cannot expect it to behave like an adult. Each enterprise at a different point on the Evolution Pyramid must be allowed to behave its own natural way—to go through its natural evolutionary and maturing processes. Each

stage requires different units, different goals, different leadership, and different incentives<sup>3</sup>. details how to make organizational mergers work. Chapter 13, Section 3 of Reference 1 gives a brief glimpse.

The key to making mergers work is to incorporate the acquired firm into the progressive phase of the Evolution Pyramid that suits its evolutionary stage. Then nurture the company up the Pyramid stage-by-stage to **Excellence**.

W. E. Caswell

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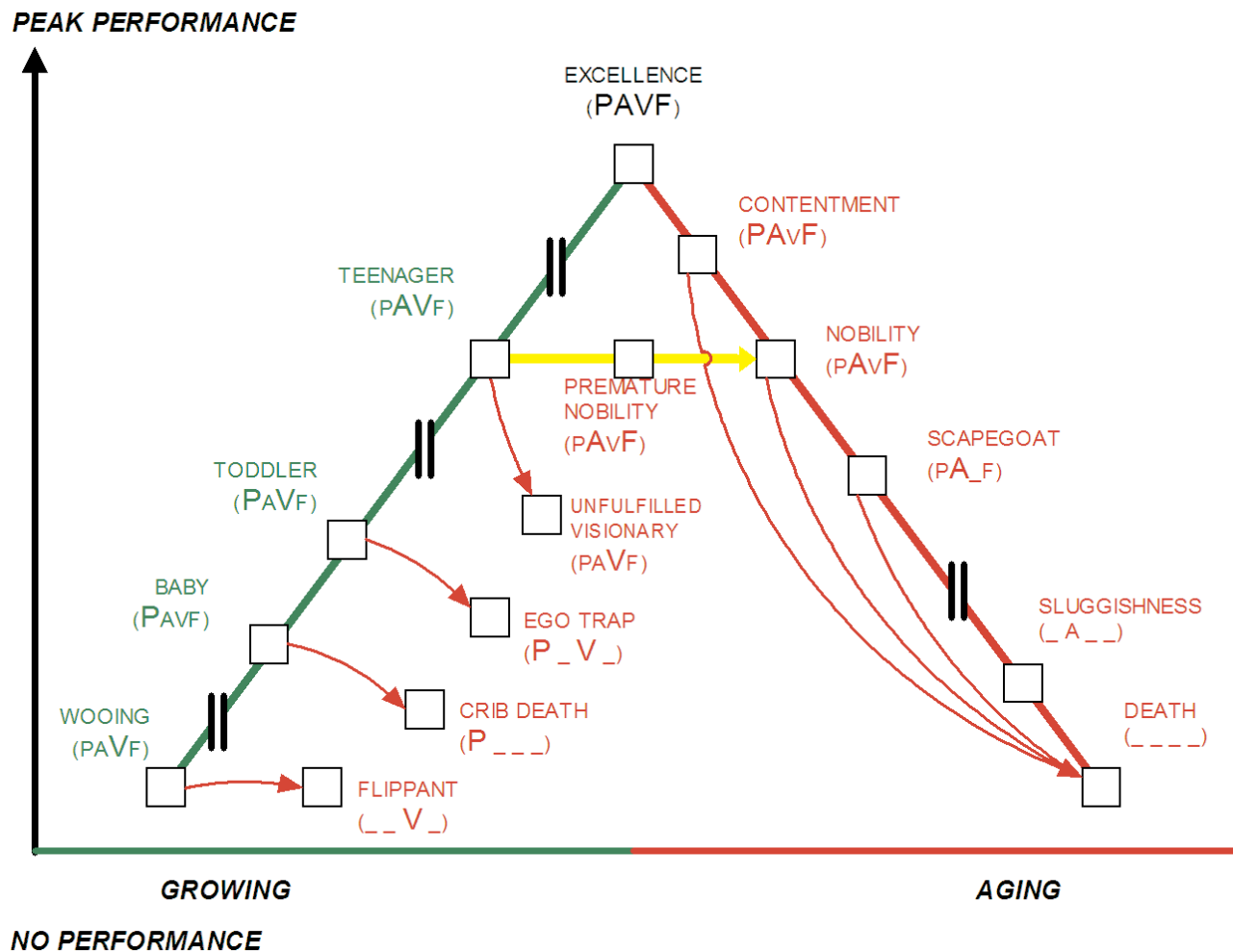
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<sup>3</sup> See reference 2

## Appendix 1 – The Evolutionary Pyramid



**Wooling** is the dreaming stage. “If only we could start a company, together we could make a fortune.”

Next comes the conception of a **Baby** enterprise that will have a high activity level aimed at sales in order to survive. “Busyness” reigns supreme. Like a human baby, the **Baby** organization cannot be left alone.

The **Toddler** produces its products at an increasing exciting pace, expanding its sales with little regard to gross margins. Being so young, it is extremely flexible. It now can walk on its own two feet financially.

The **Teenager** installs order, to gain control over growing chaos, adding seasoned administrators. The enterprise’s goal is “to optimize” – to work smarter. Struggles develop between the old staff and new.

At **Excellence**, every thing is in balance, balanced PAVF, flexibility vs. control, authority & responsibility.

Most companies slip from **Excellence** by being arrogant and complacent going to the **Contentment** phase.

A **Nobility** company has the signs of past success—large, prestigious offices and lots of recognition. Growth goals have been replaced with being politically correct and avoiding risk. It wears a false mask.

A **Scapegoat** company’s turf wars and backstabbing lead to a focus on “who” caused the problem instead on “how” to improve. Internal warfare leaves little time for clients, who are often viewed as a nuisance.

**Sluggishness** phase depends on outside financial subsidy to survive. It has an oversized bureaucracy with a myriad of procedures, which everyone has difficulty with. Many controls in place, but no one is in control.

**Death** occurs when the subsidy, the life-support system, has been pulled away from the **Sluggishness** patient. It’s over.



## Appendix 2 - Explaining the range of merger possibilities

Forming the usual buyers and sellers into a table, we find:

Chart 5

Seller (bought)	Seller's Dominant Style	Buyer (owner)	Buyer's Dominant Style	Main Difference Characteristics	What it Means
Baby	P	Toddler	PV	V	1
	P	Teenager	AVF	PAVF	2
	P	<b>Excellence</b>	PAVF	AVF	3
	P	Contentment	PAF	AF	4
	P	Nobility	AF	PAF	5
Toddler	PV	Teenager	AVF	PAF	6
	PV	<b>Excellence</b>	PAVF	AF	7
	PV	Contentment	PAF	VAF	8
	PV	Nobility	AF	PAVF	9
Teenager	AVF	<b>Excellence</b>	PAVF	P	10
	AVF	Contentment	PAF	PV	11
	AVF	Nobility	AF	V	12

Pick the situation you are most familiar with and see if the explanation on the next page rings true. There is a certain amount of repetition in the descriptions below because the PAVF combinations keep recurring. The significance of each of the twelve is as follows:

1. With the buyer (**Toddler**) having more V than the seller (**Baby**), the buyer will impose more V on the **Baby** and then wonder why the **Baby** cannot produce. **Baby** doesn't have time for visioning and dreaming (V); it needs every ounce of energy to produce (P) the new product or service. Disagreements will ensue. The diversion of **Baby** to visioning (V) means it will probably fail.

2. With the buyer (**Teenager**) having more AVF than the seller (**Baby**), combined with the **Baby's** having more P than the buyer, the buyer will insist that its newly learned processes and procedures (A) be applied to the **Baby**. Perhaps **Teenager** will impose more V on the **Baby**, limiting the **Baby's** ability to produce. **Baby** is not in a position for visioning (V), nor for procedures (A); it needs to direct its full attention to sell and produce (P) its own products. Disagreements will develop. The distraction of **Baby** will ensure that it will fail.

3. With the buyer (**Excellence**) having PAVF and more AVF than the seller (**Baby**), the buyer will probably have enough balance to allow the **Baby** to remain a **Baby**. **Baby** will probably succeed with this tolerant and understanding buyer.

4. With the buyer (**Contentment**) having more AF than the seller (**Baby**), the buyer will inflict its A and F strengths on

the **Baby** and then expect the **Baby** to produce (P) when it cannot do both; that is, it cannot produce (P) while simultaneously visioning (V) and engendering cooperation (F). **Baby** can't shoehorn procedures and friendliness (AF) into its busy schedule of producing (P). A total lack of understanding between the two means **Baby** is bound to fail.

5. With the buyer (**Nobility**) having more AF than the seller (**Baby**), the buyer will make sure that more A and F is impressed upon the **Baby** and then fail to appreciate why the **Baby** cannot function as it did before the acquisition. **Baby** cannot absorb the added procedures and friendliness (AF); it needs every ounce of energy to produce the new product or service (P). But **Nobility**, itself lacking in P, doesn't understand the sense of urgency of the cash-strapped **Baby** and keeps tugging it along the path of process, procedures, form and clubbiness. Strong disagreements are bound to happen. The result is that **Baby** is all but guaranteed to fail.

6. With the buyer (**Teenager**) having more AF than the seller (**Toddler**), the buyer will impose doses of A and F on the **Toddler** and then wonder why the **Toddler** slows down. **Toddler** isn't ready yet for procedures and friendliness (AF); it simply isn't structured to absorb it. But **Teenager**, with relatively less P, doesn't appreciate the desperation in the **Toddler** to produce (P) and insists on loading it with administration (A) and friendliness (F), such as with an HR department. Substantial disagreements will result. The unnecessary load on **Toddler** means it will probably fail.

7. With the buyer (**Excellence**) having more AF than



the seller (**Toddler**), the buyer will direct its A and F thinking on the **Toddler** and then notice that the **Toddler** mysteriously is not its former self. **Toddler** isn't prepared to accept procedures and friendliness (AF); it needs a focus on production (P). Conflict becomes inevitable, as will overall difficulty at the **Toddler** branch.

8. With the buyer (**Contentment**) having more AF than the seller (**Toddler**), the buyer will dump a load of processes and rules (A) and group consensus (F) on the **Toddler** and then observes **Toddler's** unpleasant reaction. **Toddler** isn't slightly interested in either rules or groupiness (AF); instead it wants to make, make, make and sell, sell, sell (P). But **Contentment** doesn't have a clue about the need for urgency in the **Toddler** and keeps shoving it along the road of more procedures and group decision-making (AF). **Toddler's** strong V will be foreign to **Contentment**; **Toddler's** sense of adventure will seem risky and ill advised to **Contentment**, who will put a damper on the innovation and new ideas. Disastrous misunderstandings will predominate in the relationship. Thus, **Toddler** will probably fail.

9. With the buyer (**Nobility**) having more AF than the seller (**Toddler**), the buyer will pressure the **Toddler** to take on A and F that it cannot digest. Then **Nobility** will be baffled by **Toddler's** reduced productivity (P). **Toddler** must concentrate on its activity, not on procedures and group cooperation (AF). **Nobility**, itself long ago having lost its P, cannot identify with the sense of immediacy within **Toddler**. **Nobility** keeps forcing form rather than function on **Toddler**. **Toddler's** V urges will be unrecognizable to **Nobility**; **Toddler's** risk-taking (V) will put fear into **Nobility**, who will discourage new ideas. These are ingredients for a divorce. The differences mean **Toddler** is guaranteed to fail.

10. With the buyer (**Excellence**) having more P than the seller (**Teenager**), the buyer will have enough balance and knowledge to allow the **Teenager** to move along as it should. **Teenager** will probably succeed with this tolerant, understanding, and wise buyer.

11. With the buyer (**Contentment**) having more P than the seller (**Teenager**), the buyer will impose more push on the **Teenager** than its usual pace. **Contentment** will be in something of a fog regarding the inherent V of the **Teenager** and will discourage new discovery. Disagreements are bound to occur. The damper on **Teenager** and the push for results before it is ready means **Teenager** is open to great difficulty, if not failure.

12. With the buyer (**Nobility**) lacking V compared to the seller (**Teenager**), the buyer will make "restraint" the key word for the **Teenager**. Then the **Teenager** will not function as it should. **Teenager** needs to be on its own. It has already gone through the phase of rejecting its past within its own company. It has learned to stand on its own two feet; it's not ready to fight to create its independence all over again. But **Nobility**, having acquired **Teenager** because of its V, is nevertheless frightened by the uncertainty of V. **Teenager's** strong V will make **Nobility** uneasy; **Teenager's** sense of adventure and doing things new will seem risky and unwise to **Nobility**, who is in the don't-rock-the-boat mode. Thus, **Nobility**, who put up good money to acquire **Teenager**, will lay down the law. The resulting disagreements will drive them apart. The founders of **Teenager** will leave, as will the good managers. The differences mean **Teenager** is guaranteed to fail to fulfill the purpose for which it was acquired.

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