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Mindful Mergers & Acquisitions

By Susan Rebner and
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Merger and Acquisition (M&A) transactions have happened for centuries as an important process for the growth of organizations. The frequency of M&A transactions has increased in modern business and is expected to continue increasing within the next decade. Despite this, many M&A transactions fall short of initial expectations. In this article we propose that leaders will increase their chances of success in mergers and acquisitions by using mindfulness practices to help themselves and others act more effectively in the initial phase of M&A, known as the pre-combination phase.

Mergers & Acquisitions

M&A has been around since the late 1800s, built on the belief that “the combined company will have greater value than the two companies alone” (Marks & Mirvis, 1992). In theory, there are typically both strategic and financial benefits to combining the strengths of two or more organizations. This is commonly referred to as “synergy” whereby the whole is greater than the sum of the parts. Many organizations have benefitted from such synergy via M&A transactions over the years, and the rate of M&A activity only seems to be increasing. According to Thomson Reuters, “Worldwide M&A activity totaled US \$3.3 trillion during the first nine months of 2018, an increase of 37% compared to the first nine months of 2017 and the strongest first nine months for global M&A since records began in

1980.” (Thomson Reuters, 2011). Some notable M&A transactions that have happened in the past few years include:

- » Microsoft buys LinkedIn for \$26.2 billion in 2016.
- » Facebook buys WhatsApp for \$19.5 billion in 2014.
- » Facebook buys Instagram for \$1 billion in 2012.
- » Facebook buys Oculus for \$2 billion in 2014.
- » The Walt Disney Company buys 20th Century Fox for \$52.4 billion in 2017.
- » Apple buys Dr. Dre Beats for \$3 billion in 2016.
- » CVS Drug Stores buys Aetna Healthcare for \$69 billion in 2017.
- » Sycamore Partners (Private Equity) buys Staples for \$6.9 billion in 2017.
- » Amazon buys Whole Foods Market for \$13.4 billion in 2017.
- » Cigna Health buys Express Scripts (Pharmacy) for \$67 billion in 2018.

M&A transactions are expected to increase within the next ten years, mainly for the purpose of acquiring technology. Historically, companies have combined for reasons such as increasing the customer base, operational synergies, geographic expansion, product and/or intellectual property acquisition, and removal of excess capacity from the market. However, technology has become the new and primary driver of M&A activity, even topping the desired expansion of the existing customer base. Interestingly, this newly found focus on technology acquisition begs one to question whether

the perceived importance of human capital is disproportionately diminished. The following reasons will contribute to the increase of M&A activity in the next decade:

- » The aging baby boomers and the rise of the millennials will trigger a wealth transfer. Much of that transfer of money will happen via M&A.
- » The Trump effect—People are sitting on the sidelines just waiting.
- » China has about \$1.5 trillion to spend in the M&A arena over the next 10 years.
- » Corporations have massive cash stockpiles in their treasuries.

With all the presumed benefits and pervasive history of M&A transactions, one might reasonably assume that most organizations are able to integrate smoothly and successfully. However, the reality is that few M&A transactions are objectively considered to be successful. According to Forbes, “Most research indicates that M&A activity has an overall success rate of about 50% - basically a coin toss” (Sher, 2012, p.5). For purposes

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of this article we broadly define “failure” as significantly falling short of pre-combination phase expectations in terms of combined entity synergies, both financially and culturally. While there are numerous reasons that a combination could fail, they most often involve human capital challenges, which need to be addressed at every phase of the M&A process in order to yield a successful implementation. Specifically, attention to human factors in the pre-combination phase could prevent, or lessen, potential problems that arise during the combination phase.

Table 1. *Combination Phases*

| Phases | Typical Emphasis | Successful Emphasis |
|-------------------|------------------|-----------------------|
| Pre-Combination | Financial | Strategic |
| Legal Combination | Political | Transition Management |
| Post-Combination | Damage Control | Value Creation |

It is important to consistently remind oneself that businesses are comprised of human beings with complex emotions and expectations, particularly regarding significant life change events such as mergers and acquisitions. Combined organizations will not produce the levels of financial and operational success initially conceived when cultural and behavioral dynamics are dysfunctional. The internet is littered with case studies that expose how culture and/or employee-based discord are the primary causes of one plus one equaling less than two.

This relates to our experiences working with organizations as well. For example, multiple M&A integrations within the financial services industry that we’ve been a part of have had recurring themes that ultimately led to lost shareholders equity, failed relationships, and

employee attrition. These themes have included:

- » Employee disenchantment—Insufficient attempts at merging cultures and lack of leadership communication often resulting in diminished performance, reductions in job satisfaction, and overall decline in morale.
- » Operational missteps—Employee responsibility misalignment, duplication of efforts, confusion regarding back office operations and task ownership.

- » Emotional Impact—Haphazard and flawed decisions that are largely made based upon emotions rather than smart planning. In many cases we witnessed leadership making rushed decisions during the M&A versus taking the time to reflect and be more mindful. Both buyer and seller suffered as a result.

M&A can be an exciting process. This is especially true at the very beginning or closing of the deal when stakeholders often experience a euphoric feeling. However, the pitfalls listed above tend to surface shortly thereafter to everyone’s detriment.

Marks and Mirvis (1982) identify three unique merger and acquisition phases: pre-combination, legal combination, and post-combination (*Table 1*). The pre-combination phase sets the foundation for success or failure of the entire initiative. This critical phase typically includes financial, legal, cultural, operational, and market approach due-diligence and alignment analysis. Without question, however, the financial and legal portion of analyses typically consume most of the time and attention during this phase, often to the detriment of cultural and operational aspects. The financial portion alone can take months whereby every line-item on the income statement, balance sheet, and cash flow statement are extensively scrutinized. Understandably, the financial and legal frameworks are of incredible significance to both the buyer and the seller and are strictly necessary for any type of deal consummation. That said, it is imperative that they alone do not determine whether a transaction should be pursued in earnest, as many M&A’s have failed despite having initially appeared flawless on paper. One might also wonder if the “sunk cost fallacy” comes into play, whereby so much time and effort has been expended that the transaction gets muscled forward regardless. Needless to say, this phase must be properly managed in

order to successfully plan and execute the subsequent phases.

The primary reasons for M&A failure include: a lack of due diligence, insufficient consideration for human factors during the pre-combination phase, and cultural misalignment. In order to improve success rates, leaders must reconsider their approaches to the pre-combination phase of M&A transactions. Executives would be wise to prolong the pre-combination phase in order to sufficiently address the aforementioned issues. Moreover, the executives themselves

of mind in which one pays attention in a particular way, on purpose, in the present moment” (John Kabat Zinn, 1994, p.4). It has been around in various forms since the early days of civilization but entered mainstream American life in the 1980s as more studies on its mental and physical benefits emerged (Yeganeh & Good, 2016). Those who practice mindfulness are better able to keep a clear head and consider the information before them in a rational manner. They are also more likely to be intentional during times that matter rather than acting on

goals and anticipate issues that may arise. For example, Reb and Narayanan’s (2014) negotiation studies demonstrated that negotiators randomized to short mindfulness interventions were more successful in distributive negotiations than the control group. This is speculatively attributed to increased focus on tasks and partner cues, and less distraction (Good, et al, 2016).

Despite a leader’s best efforts to view an M&A transaction holistically and set tangible goals, there will be inevitable stress and pressure that arises with the process. Mindful leaders can “decenter” in response to stressful events (Bishop et al., 2004). This enables leaders to be less reactive to stressful events and more objective about how to best accomplish goals. There are numerous accounts in which mindfulness has helped people to remain calm and bring forth their best attributes to address challenges. Further, research shows that when someone quickly recovers when exposed to a toxic workplace dynamic, that person ends up being stronger at work (Good, et al., 2016). Mindfulness helps leaders keep a clear head when viewing the issues that arise during the pre-combination phase and then make smart decisions that will benefit the transaction. This is particularly important because knee-jerk reactions associated with auto-pilot can have costly and lasting repercussions.

Mindful leaders can give themselves clarity and then provide clarity to their teams through effective and rational communication. They can communicate decisions and the reasoning behind them with the employees involved and help people deal with disappointments. One way to do this is by factoring others into decision-making processes, which can alleviate the issues that come from leaders in M&A transactions failing to sufficiently consider the human side of the deal.

should not be the only representatives of the participating companies. For example, mid-level managers from various divisions or disciplines can be asked to sign non-disclosure agreements if necessary and be brought into the pre-combination discussions. The insight provided by these individuals could prove to be valuable, especially if they are able to provide meaningful representation of a cross-section of the employee base. Some of these process changes are difficult to be aware of when we are in a state of mindlessness, or auto-pilot. Mindfulness can help leaders to shift their mindsets and behaviors toward productive and smart approaches during the pre-combination phase.

A Look at Mindfulness

Practicing mindfulness may lead to better due diligence during the pre-combination phase. Mindfulness brings an alert and open awareness. “Mindfulness is a state

auto-pilot, which is typically associated with mindlessness. Mindfulness can be attained from various types of attentional focus practices, and learning can be self-guided, or occur through coaching or class settings. Many organizations are offering meditation classes, meditation rooms, and encouraging mindfulness phone apps to leverage the benefits of mindfulness. To a lesser extent, mindfulness is being integrated into leader development efforts beyond the more common wellness approaches.

A Clear Mind

Mindfulness, specifically when leveraged within the context of M&A transactions, can provide leaders with a clear mind. With a clear mind, leaders can view the M&A holistically and determine the benefits and potential issues that may arise during the analytical and negotiation components of the pre-combination phase. Seeing the transaction through clear eyes, mindful leaders can set appropriate and detailed

Communicating Effectively

Effective communication is one of the most important competencies during the pre-combination phase. More specifically, leaders who succeed in this phase require skills in reflection and empathy. Mindfulness helps here because it “leads to increased other-orientation, facilitating the experience and expression of prosocial behavior” (Good, et. al, 2016, p. 128).

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into decision-making processes, which can alleviate the issues that come from leaders in M&A transactions failing to sufficiently consider the human side of the deal. Additionally, the “decentering” that accompanies mindfulness can help leaders suspend biased thoughts. This enables a wider view of complex situations, from multiple sides, which increases opportunities for successful communication.

Mindfulness helps leaders to set clear and realistic goals based in planning rather than worrying (Yeganeh & Good, 2016). It also enables better communication with employees regarding expectations in the M&A transaction and the reasoning behind decisions. This type of communication reduces employee anxiety, leading to more cooperation and a smoother transition that will favorably facilitate the merger. When differences arise, mindfulness helps leaders to have a dialogue versus rigidly approaching a conflict. It helps leaders suspend impulses and engage in inquiry.

Making fewer mistakes

Today leaders are expected to consume more data than ever, yet they seem to retain limited amounts of it. Embracing mindfulness helps to reduce the number of decision-making errors, prevent people from falling prey to the type of high-pressured decision-making that typically involves confirmation bias (seeking information to support our beliefs while ignoring disconfirming data), and prevent defensive reactions. In fact, part of Langer’s (1997; 2000) mindfulness definition includes being able to see complexity more accurately rather than reducing it to simple, and we would add emotionally convenient, black and white thoughts. Being mindful is obviously not easy, and it takes discipline, thoughtfulness, continuous practice and patience.

The benefits of mindfulness far outweigh these challenges, however. For example, employees tend to respect leaders who take the time to ask questions and listen carefully before responding and/or acting. Additionally, the inquiry-driven dialogue that often accompanies mindfulness practices has the potential to

Table 2. *Disruptive Mindfulness Practices*

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| <p>1. Identify Autopilot Routines.</p> <p>How are my automatic thoughts and behaviors impacting me, the team, the organization, the M&A transaction?</p> |
| <p>2. Shift from Thinking to the Five Senses.</p> <p>Notice Your Environment.</p> <p>Be Mindful of Sensations.</p> |
| <p>3. Engage in Mindful Thinking.</p> <p>Practice Mindful Acceptance.</p> <p>Shift from Worrying to Caring.</p> |

Source: Yeganeh & Good, 2016, p. 28

fill knowledge gaps in unanticipated and important ways. We are all aware of the old adage encouraging us to “take time to smell the roses.” Mindfulness similarly enables us to focus on here and now data, which otherwise might be partially or completely overlooked (Yeganeh & Kolb, 2009). When the flurry of activity during the pre-combination phase causes an already overactive mind to obsess over outcomes, ruminate over past mistakes and fret about potential future mistakes, mindfulness becomes increasingly important.

Practicing Mindfulness

Mindfulness is currently adopted in organizations through wellness and stress management trainings, and less often through leader development programs. Integrating mindfulness practices into organizational change processes is not commonplace, yet. When it does occur, it is usually the result of a leader or a critical mass of influencers who feel strongly about mindfulness. These leaders tend to find ad hoc ways to integrate meditative mindfulness practices into various aspects of organizational change work. The current uses of mindfulness in organizations can be attributed to mindfulness primarily gaining popularity as an individual wellness tool, a lack of knowing how to utilize mindfulness beyond wellness, and a limited understanding of what “counts” as mindfulness.

When considering how mindfulness can aid in organizational change, and in this case the pre-combination phase, the

key is for as many stakeholders as possible to disrupt reflexive and unhelpful autopilot thoughts and behaviors. Once this occurs, mindfulness can help to practice intentional and effective thoughts and behaviors (Yeganeh & Good, 2016). Our autopilot routines tend to be restrictive and mindfulness serves as a way to disrupt them. To fully leverage mindfulness in organizations we must grow our mental models of mindfulness from solely wellness related to both wellness and intentionality related. This means using mindfulness to be present, reduce stress, and practice effective thoughts and behaviors (see Table 2). Based on our work we propose some specific mindfulness adaptations that can assist organizations during the precombination phase (see Table 3).

The more we can practice the ability to bring ourselves back to the present moment, the more disciplined our minds will become. This is difficult, as most of us are constantly bombarded by emails, voicemails, text messages, tweets, and the likes; and we can feel overwhelmed with information overload. Our ability to focus is finite and when our attention is consciously or subconsciously scattered, the effectiveness of that focus greatly diminishes. The above suggestions can be tailored further to support M&A situations by asking the question: “How am I on auto-pilot right now that is helpful and how am I on auto-pilot right now that is limiting my effectiveness?” Mindfulness helps us to disrupt auto-pilot and become agile in order to hone our attention on effective

Table 3. Mindful Practices During the Precombination Phase of M&A

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| <p>1. Mindful M&A Communication</p> <p>(a) Take a moment to notice the range of emotions you are experiencing right now in the pre-combination phase. What is your mind focusing on and how is this impacting the way you communicate to stakeholders?</p> <p>(b) Take a moment to calmly breathe, suspending emotional impulses. What is your primary goal when communicating to each stakeholder group? What are the interests of those stakeholder groups and how will you address them while setting realistic expectations?</p> <p>(c) How can you practice acceptance of the things beyond your control right now, to reduce your stress level and enable you to be the very best when working on what you can influence?</p> <p>(d) What cannot be communicated widely right now and why? Of what you listed, which do you believe stakeholders may notice is being withheld and what is the best way to acknowledge what is not ready for discussion yet?</p> <p>(e) When setting expectations, what is the context that you can communicate to others to help them understand the situation?</p> |
| <p>2. Mindful M&A Management</p> <p>(a) During meetings, what is the specific objective to be accomplished? What is the content of the meeting (topics, data, information)? What is the ideal process of the meeting (how the communication will happen, who will own various pieces, what the flow should be)?</p> <p>(b) How can advocacy be balanced with inquiry so that there is collective value placed on what is unknown rather than a rush to what is known?</p> <p>(c) When making decisions, how can you lead discussions to raise awareness of the information that is being acted upon vs. information that may be important but missed in this moment? How will you inquire as to how confirmation bias may be impacting decisions, and what additional data should be explored to remain as objective and clear as possible?</p> |
| <p>3. Mindful Self-Management</p> <p>(a) What can I control right now and what do we need to accept that is beyond my control?</p> <p>(b) When am I planning (setting clear steps forward) vs. worrying (experiencing stressful emotions and anxiety)? Follow through by intentionally creating planning steps during times of worry.</p> <p>(c) Practice meditative techniques by sitting in silence and focusing on the sensation of breathing. For beginners it may help to think of the word “inhale” when inhaling and “exhale” when exhaling. When thoughts enter the mind, firmly but gently turn your attention back to the sensation of breathing.</p> |

thoughts and behaviors as we adapt to environmental demands.

Neither M&A transactions nor mindfulness are new practices by any means. However, applying the practice of mindfulness to the M&A process can mitigate the high failure rate of many transactions. Mindfulness is a way for leaders to step back and more objectively see the M&A transaction in its entirety

and put the necessary due diligence into the pre-combination phase. Through mindfulness leaders can gain clarity, manage stress, create effective goals, and consider others through these decisions and their often-significant implications. Moreover, properly leveraging mindfulness throughout the M&A process puts forth a level of intentionality on behalf of leadership that may otherwise be lacking.

It is important to note that mindfulness practices can be helpful throughout each of the three phases mentioned and should therefore be practiced regularly and continuously. Many of the cultural, operational, and other misalignments are often not fully realized until the post-combination phase, when the combined organization settles into the defined future state. That said, we assert that mindfulness during the pre-combination phase is critical as it can provide the mechanism to “measure twice and cut once.” It should encourage everyone involved to temper their enthusiasm over the financial framework and consider all other aspects as being as, if not more, important. The executives of many companies will tell you they wish they could turn-back time and undo many aspects of M&A transactions, if not have jettisoned them altogether. The instantaneous gratification of thinking what appeared to be a win-win deal, which was perhaps even heralded by the investment community, wears off very quickly once trouble sets in. We can do better than a “coin toss” regarding the probability of success or failure of any given M&A transaction, and mindfulness, particularly when practiced during the pre-combination phase, can provide a path toward success.

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