Don't Blame Incompatible Cultures

By

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When researchers survey business leaders on their opinions about why an M & A initiative has failed, often they flag implementation as the primary cause of problems. Blaming implementation rather than looking at the acquisition strategy, however, looks at effect, not cause. The reasons for failure may show up during the implementation stage, and people will eagerly jump on the "incompatible cultures" bandwagon, when, in reality, leaders hadn't thoroughly or effectively evaluated exactly what they intended to purchase.

If decision-makers have given the green light to the acquisition, a holistic approach to the deal should begin. Human resources, IT, legal, and finance should work closely with business units to define specific roles and responsibilities required for the entire M & A process, but it doesn't stop there. Functional and business leaders must have a clear understanding of how their roles will change not only during the acquisition process but also of how their worlds will change forever after. It all starts with a clear understanding of the new business.

All tangible benefits don't come in dollars, however. Sometimes the company will enjoy tangible benefits related to the ability to attract better talent, decreased turnover, key customers, etc. And sometimes the value will relate to intangible benefits to the CEO, the CEO's direct reports, or to the company itself. For example, the company may enjoy improved repute in the industry or better customer satisfaction. Sometimes senior leaders find themselves in a game they never intended to play in the first place, as the leaders of ITT did. At other times, parents receive unexpected rewards when they position themselves to play a bigger, more rewarding game. That's what Enterprise did.

In 2007 Enterprise Rent-A-Car marked its 50^{th} anniversary and had much to celebrate. With more than $9 billion in global revenue, they were the largest car rental company in the world and one of the largest family-owned and –operated companies in the U.S. That all changed when Enterprise owners learned in February of 2007 of the proposed merger of their two biggest airport rivals, Vanguard (which owned National and Alamo) and Dollar Thrifty Automotive Group. This transaction, had it come to fruition, would not only have compromised Enterprise's growth strategy, it would also have placed an almost insurmountable barrier to Enterprise's goal to expand airport business.

Enterprise had a strong growth strategy and realized that to continue to grow at the rate they desired, they needed to increase their share of airport rentals, so they immediately recognized the threat of standing by idly as four rival brands combined into one competitor—a monolith that would have endangered their best efforts. That didn't happen. Instead, Andy Taylor signed the papers to buy Vanguard on August 1^{st}, less than six months after he read the article in the *New York Times* that his rivals intended to merge.[4] The deal paid for itself in less than three years, and total revenues for all three brands now surpasses $16 billion—pretty healthy growth during a six-year period when many other companies shuttered their doors or wish they had.

Enterprise's success holds no mystery, secret sauce, or unavailable formula. They did most things right—and quickly. They had a clear growth strategy in place—one that remained open to acquisitions. Second, Enterprise has little bureaucracy at the top, so senior leaders can respond to industry trends (the proposed merger of Vanguard and Dollar) in unprecedented time frames, and senior leaders recognized that after formulation, evaluation and integration had to follow.