Making 1+1 = 1

The Central Role of Identity in Merger Math

Hamid Bouchikhi
ESSEC Business School
Bouchikhi@essec.edu

John R. Kimberly
The Wharton School
Kimberly@wharton.upenn.edu

It appears that we are headed for a major uptick in M & A activity as the effects of the global economic downturn subside and companies look for new growth opportunities. Announcements of new deals are appearing with greater frequency and involve a variety of players: Microsoft and Skype; J & J and Synthes; Takaeda and Nycomed; Southwest and Air Tran; Santander and Sovereign; VF Corp. and Timberland. These new deals cross sectors of the economy and circle the globe.

What is the logic behind these new combinations? Do they represent new strategic positioning, reinforcing of traditional business positions, expanded market coverage? And to what extent will they be value-creating? We know that investment bankers and senior executives in the target firms will benefit, but what about customers? And what about shareholders and employees? To what extent will the new combines create value for them?

History suggests that we should be modest in our expectations. The record shows very mixed results: some real successes, but many more instances of middling to poor performance. As the urge to merge gathers momentum, it is important to ask this very fundamental question: why is the success rate not more impressive?

Our conclusion, after more than a decade of research, executive education and consulting with companies in a variety of industries and headquartered in Asia, Europe, and North America, is that in the world of M&A, once a target has been identified senior managers tend to be obsessed with what it takes to close the deal. Only after the papers are signed and news of the merger goes public does their attention turn to the issue of making the deal work, of creating value for customers, for shareholders and for employees. What happens when the two organizations actually confront the challenge of post-merger integration? The expectation is that the economic performance of the merged entity will, because of anticipated synergies and strategic complementarity, be positive; in other words, 1 + 1 will = >2. However, for this to happen, the newly created entity must fully engage the employees from both sides and be experienced as a coherent and meaningful whole. In other words, 1 + 1 will have to = 1. Because merging two or more organizations seriously disrupts the identities of the involved organizations, generates fears of identity loss on one or both sides, and raises questions about the identity of the new combination which may hinder trust in and identification with it, it cannot succeed before employees of the merged entity feel a sense of belonging to a single enterprise with which they can identify and to which they are motivated to contribute. This is particularly true when one organization acquires a competitor; all of a sudden the enemy is on your side.

Our experience suggests that poor handling of the kinds of identity issues that inevitably accompany a merger or an acquisition often explain why the performance of the merged entity disappoints customers, shareholders and employees alike. Put differently, managers who understand the significance of identity issues and develop strategies to deal with them well before the ink is dry stand a much better chance of being successful than those who don't.

What can happen when identity issues are overlooked or handled superficially? How can they hinder value creation? We'll answer this question with an example from our own work. The CEO of a building products company (BPC) headquartered in Europe that was seeking to expand its global footprint believed that a significant presence in North America was essential and initiated several acquisitions. In the course of his search, he identified a large cement maker in the southern part of the United States and launched a take-over bid. The incumbent management team rejected the bid and made a negative recommendation to the board of directors. After much maneuvering and arm-twisting, the deal was completed, and the CEO kept the initially hostile management team in place. One year after the acquisition, the CEO sent two executives to occupy "undefined jobs". As one of them recalled: "I was assigned to (the acquired firm) to help with integration but I did not do much of that. Basically, I sold BPC to these guys. The CEO (of the acquired firm) made all the decisions".

For a number of years, acquisitions in North America consistently failed to meet performance expectations, and finally the CEO who succeeded the deal-maker asked us to see if we could figure out why. Following an analysis of performance data and a series of interviews with executives in the North American subsidiaries and in the European headquarters it became clear that the anticipated economic synergies had not materialized because little attention had been paid to achieving psychological synergies. Executives in the North American subsidiaries felt both on the peripheries of the corporation as a whole and out of the loop with respect to resource allocation decisions. There was a palpable lack of psychological engagement that manifested itself in some cases as open hostility toward the European headquarters. The gap between the parent and its subsidiaries was so wide that European managers were not allowed to visit a North American affiliate without the formal permission of its CEO. The CFO of BPC North America had first-hand experience with the divide:

> *I went to Independent Industries (a pseudonym) for a meeting with their CFO. At the end of the meeting he asked me to hand him back all the papers. He said that he was not authorized to let me take any documents. These people hated us.*

This experience, perhaps extreme, but similar to many others, leads us to conclude that we need a new merger math. For one plus one to make more than two, at the economic level, it is necessary that one plus one make one, at the psychological level. When mergers and acquisitions fail to deliver promised levels of performance, as frequently occurs, it is likely due, at least in part, to a lack of psychological synergies. Psychologically, the new entity is often a house divided.

The New Merger Math

1+1>2 (the economic synergy principle)
If and only if 1+1=1 (the psychological synergy principle)

This merger math is simple conceptually. However, planning for post-merger integration typically focuses on operational issues such as harmonizing product lines, financial and human resource information systems, and determining which employees are retained and which ones are let go. Attention is also paid to the identity of the merged enterprise in a superficial sense. The name of the acquirer may be retained, or a new logo may be created or a new name may be found. For the psychological synergy principle to operate, though, executives need to attend to a more complex, deeper set of identity issues, issues that define the essence of the entity, that give employees a clear answer to the question "Who are we?" and external stakeholders a clear answer to the question "Who are they?" Left unattended, these deeper identity issues will diminish engagement and will inevitably affect the performance of the merged entity. Operational integration post-merger is a necessary but not sufficient condition for successful performance. Careful attention to identity integration is also essential for success. It was lack of attention to these issues that was responsible in large part for the persistent performance problems encountered by the building products company mentioned earlier.

The challenges of identity integration are compounded when each organization brings along one or several product brands with well-established identities in their respective markets. In such a context, depending on how they deal with identity integration at the organizational level, managers can either enhance or destroy brand equity at the product level[1].

What do we know about identity integration at the organizational level? Our research and experience suggest a number of common pitfalls in identity integration that should be avoided

I. Common pitfalls in identity integration

Samuel Smiles, a prominent 19th century Scottish literary and political reformer, wrote 'We learn wisdom from failure much more than from success. We often discover what will do, by finding out what will not do'. Smiles had a good point, and a useful first step in the effective management of post-merger identity integration is avoiding the mistakes of others. Here are seven common mistakes that we have seen managers make in dealing with identity issues in mergers and acquisitions.

1. Ignoring identity

Senior management places more emphasis on the financial and strategic dimensions of the deal than on planning for post-merger integration. Articulating and communicating an identity

---

[1] Product brand identity and organizational identity are not the same thing, although they may, in some cases, be very tightly coupled. Some companies have product brand identities that are deliberately separate from the identity of the organization that owns and manages them, whereas in other cases, the identity of the organization is virtually indistinguishable from its product brand identities. For more elaboration on this distinction, the reader may usefully refer to Chapter 8 of our book "The Soul of the Corporation", Wharton School Publishing, Upper Saddle River NJ, 2007.

for the new combination receives even less attention. We found a particularly striking example of this problem in one of the companies we have worked with, a company that is the result of a three-way merger. The merger team in this case focused almost exclusively on the strategic and financial dimensions of the transaction and gave little thought to the kind of organization that would result from the combination. When the lawyers asked, at the very last minute, for a corporate name, the leaders hurriedly offered ‘XYZ’, an acronym created by assembling the first letters in the names of the three merged companies.

Although the merger closed in the first half of 1999, deliberate work on the identity of the new company did not start until late 2001. Meanwhile, the company had experienced a severe crisis which prompted the board, in the beginning of 2001, to appoint a new CEO from outside. He identified the lack of a coherent and cohesive identity as one of the company’s most pressing challenges and determined that it needed immediate attention. In a seminar with his leadership team designed to meet this challenge and facilitated by the authors, one senior manager defined the company as “Three (same sector) businesses that haven’t fused” and another characterized it as “A triangle trying to become a circle”. Failure to pay attention from the very beginning to integration at the level of identity cost the company dearly.

It took the company’s leaders some time to realize that, although the merged businesses operated in the same sector, integrating people who make and sell products to large clients with people who make and sell consumer branded products through retailing channels was very difficult. Ultimately, management divested the businesses serving professional customers in order to focus on the integration of those operating in consumer branded products.

2. Mistaking culture for identity

When corporate managers pay attention to the human side of a merger, they very often confuse culture and identity. There is a widely held belief that cultural differences are an obstacle to integration and that managers should encourage the development of a common culture. This belief is so widely shared that few practitioners (or researchers) think of challenging it. But culture and identity are not the same. Culture refers to values and beliefs while identity refers to the self-concept. While some values and beliefs can be part of an individual or a group’s self-concept, not all values and beliefs are. On the other hand, an individual or a group can anchor its self-concept in such things as profession or gender that are not part of common definitions of culture.

While cultural convergence can help, it does not guarantee shared identity. The merger of local branches of the *Caisses d'Epargne*, the French savings banks, illustrates this point well[2]. Although people in local branches share similar values, deeply rooted in the collective memory of the *Caisses d'Epargne*, merging the branches proved more difficult than expected as members of local branches defined themselves historically as independent, distinct from other branches. Merging two or more branches to achieve economies of scale generated fears of identity loss at the individual branch level and fostered "Us-vs-Them" reactions that a common culture was not sufficient to pre-empt.

Managers who mistake culture for identity may see their efforts to promote a set of common values thwarted by a persisting "Us vs. Them" feeling among members of the merged organizations.

3. Mistaking an organization's skin for its soul

A name, a logo, and other visual representations can say something about what an organization stands for, but they must not be confused with its identity. Identity lies much deeper in the organization's history and its stakeholders' long held views of what makes it unique among all other organizations. Its logo is its skin: its identity is its soul, the shared sense of who it is.

Corporate branding practices frequently fail to acknowledge this fundamental distinction. When managers do not understand the significance of identity, they may believe that they have given an identity to the new company when, in fact, what they have done is only on the surface, dealing with the skin. SBC Communications' takeover of AT&T in October 2005 illustrates vividly the difference between corporate branding and organizational identity. While the AT&T brand name was retained for the new combination and the Chairman and CEO signalled that SBC would be merged into AT&T[3], observers immediately noted that the implementation of the merger went the other way around[4]. Out of the twelve members of the senior executive team, eight, including the Chairman and CEO and the heads

---

[2] This development draws on the authors' work with Caisses d'Epargne.

[3] "Why they're smiling at AT&T", Business Week, February 2, 2006.

[4] "Why they're smiling at SBC, not AT&T", THE VOIP DIGEST, www.voipdigest.com, February 3, 2006.

of corporate finance, strategy, human resources, are former SBC employees[5]. Remove the AT&T mask and what you will see is SBC.

4. Focusing on external audiences; neglecting internal audiences

Because mergers have to be explained and sold to many stakeholders outside the organization (shareholders, analysts, regulators, bankers, strategic partners, etc.), managers are easily induced to spend much time and energy crafting and selling a merger story to external audiences. While securing outside support for a merger is a necessary first step, ultimately the success or failure of a merger depends largely on how people inside the merged organization make it happen through their daily actions and interactions.

Mergers affect people inside the merged organizations in a much deeper way than external audiences. It is much easier for an average shareholder or customer, with little or no involvement in the organization, to accept or walk away from a merger. This is less easy for an employee whose personal identity may be largely derived from intimate identification with the organization. It is paradoxical that the people who are the most affected by a merger are those who frequently come second in managers' communication efforts.

ITC, a pseudonym for an IT company we have worked with, illustrates the deficit of internal communications. Led by an entrepreneurial founder and CEO, ITC acquired a number of smaller, highly specialized companies. The CEO had a clearly defined strategy: to broaden ITC's portfolio to provide one stop shop solutions for corporate clients in IT security, back-up, and recovery. He spent considerable time selling the story to corporate clients but did not articulate, internally, a vision for how formerly independent companies were to form one organization. Instead, acquired companies continued to operate as autonomous business units and people had very few opportunities to come together. As a result, anticipated synergies (cross selling, joint bidding for contracts, key account management) proved difficult to achieve. Our relationship with the CEO began when he realized the importance of internal audiences and building psychological synergies across the organization. As we explored different scenarios with him, he opted for an approach to integration that would create a stronger group identity while, at the same time, enabling acquired subsidiaries to retain their operating autonomy and unique identities. We subsequently designed and facilitated a

[5] Executive team biographies available at http://www.att.com, accessed June 28, 2010.

workshop where eighty key managers came together to discuss and make recommendations about the implementation of such an approach. Giving these managers the opportunity to share their views and build a sense of common purpose facilitated implementation of the CEO's preferred model.

5. Sending mixed signals

Managers send mixed signals when their words and deeds are inconsistent. A good illustration of mixed signals and their detrimental impact on business performance is provided by how the top management of the building products company (BPC), introduced above, handled another post-merger integration process. BPC had a fully owned subsidiary in Canada when top management decided to acquire a major competitor which covered a different geographical area. For legal and tax purposes, the deal was engineered as a merger of BPC's assets into the acquired firm (AF). The legal and financial engineering created ambiguity as to who acquired whom. As one senior executive involved in the merger put it “"the AF people thought that they were buying us". The top job in the new organization (AF-BPC) was retained by the chief executive of AF. The position of chairman was given to the Canadian shareholder whose 10% ownership stake helped BPC to take control of AF. The former chairman of BPC Canada, a Canadian national, was appointed as vice-chairman of AF-BPC. The highest position claimed by the CEO of BPC for a European manager was "executive vice president". Moreover, BPC management decided that nobody would be made redundant and AF-BPC ended up with 20 Vice Presidents!

Mixed signals are also sent when the acquiring firm makes public statements about preserving the identity of the acquired company but cannot realize the value of the merger without reneging on such a commitment. This typically happens when the acquired company is perceived as too unique or when its symbolic value to its home country is high. More than a year after the completion, in January 2010, of a tumultuous hostile take-over bid, the top management of Kraft Foods is still caught in a highly politicized controversy in the UK surrounding the integration of Cadbury and the possible death of the iconic British organization. In March 2010, The Business, Innovation and Skills Committee of the UK parliament organized a hearing about the implementation of the merger and summoned Kraft Chairman and CEO Irene Rosenfeld who declined the invitation, a gesture that offended MPs, and dispatched a senior management team led by Marc Firestone, Executive Vice President. To soothe anxieties about the future of the quintessentially British icon, Firestone declared[6]:

> *It is absolutely our plan to preserve the identity of the brands themselves as well as the identity of the company itself. We have heard questions about Bournville and the flags and the signs and so on. It is absolutely our intention that Cadbury will remain the name on the building; that Cadbury will remain the name on the flag.*

The subsequent swift integration of Cadbury's operations into Kraft is a clear departure from this promise. While Kraft will continue to promote the brands, early decisions regarding the dismantling of Cadbury's corporate headquarter and the transfer of decision making authority to Kraft's European headquarters in Zurich, Switzerland, suggest that the Cadbury organization is set to die.

The two cases of BPC and Kraft illustrate the mixed signals problem all too well. CEOs need to articulate a clear view of the new combine's identity. If instead they send contradictory signals, either intentionally or unintentionally, the resulting ambiguity creates a context where integration efforts will be even more difficult than it would be otherwise. In this regard, it will be interesting to see how the Indian conglomerate Tata and the Chinese automaker Geely will deliver on their promise to preserve the British and Swedish identities of Jaguar and Volvo.

6. Setting the wrong pace

The case of BPC discussed above concerns a CEO who was very deliberate about making acquisitions and very cautious about integration. Deeply influenced by Christian humanist values, he believed that people in acquired firms should be respected and must not be made to feel invaded. He was persuaded that BPC was so attractive and desirable that, with time, members of the acquired firms would progressively identify with it. While this philosophy worked to his advantage in other areas of the world where the identity of BPC was positively valued, it didn't work in North America. The end result was the persistence of a psychological divide between the parent and its many North American subsidiaries, with

---

[6] House of Commons Business, Innovation and Skills Committee, Mergers, acquisitions and takeovers: the takeover of Cadbury by Kraft, 30 March 2010, p.12.

detrimental performance consequences. Our work with BPC was part of an effort by the new CEO to articulate a swifter, more deliberate approach to post-merger integration.

The push back experienced by Kraft in the UK illustrates what happens when integration moves ahead too quickly, when the pace is such that it cannot be absorbed by the acquired firm's employees or stakeholders. In a second hearing, in May 2011, about the merger by the House of Commons Business, Innovation, and Skills, MPs acknowledged positive developments regarding employment in the UK and wrote in the report titled "Is Kraft working for Cadbury?"[7]:

> *We remain concerned on two issues. First, while Kraft's commitment to manage the Cadbury brands for the UK may have been observed insofar as the UK retains a significant marketing function, it would seem that the strategic decisions on brands are being made in Kraft's European headquarters in Zurich. We hope Kraft will refrain from further transfer of marketing responsibility to Zurich given its oft-stated public commitment to Cadbury's brand heritage.*

Given that the two firms operate consumer branded products that can be integrated into a single organization thus enabling potentially significant cost and revenue synergies, the organizational integration of Cadbury into Kraft may make sense. However, Ms. Rosenfeld and her team could have benefitted from a more patient approach to integration. A little more patience in this case was especially warranted, as the merger has been under public scrutiny since September of 2009 when Kraft announced its intent to acquire Cadbury publicly.

7. Mixing apples and oranges and hoping for apple sauce

When a merger brings together organizations that are different in every respect and when managers realize only after the deal is done that they can never build a common identity, we have an example of unrealistic expectations, of the impossibility of getting apple sauce.

The diversification of Framatome, the French civil nuclear leader now named Areva, in the connectors sector, illustrates how even the best and brightest of the French managerial elite can be tripped up by not understanding the significance of identity. To hedge against what he perceived as poor long term prospects for the nuclear industry, the CEO decided to

---

[7] House of Commons Business, Innovation, and Skills Committee, Is Kraft Working for Cadbury?, 23 May 2011.

diversify into a business that would be entirely unrelated to nuclear energy and where Framatome had a chance to build a global leadership position. After two years of screening, the M&A team settled on connectors, and a series of acquisitions aimed at building the number two worldwide in connectors was undertaken.

While the strategic rationale for the acquisitions made sense conceptually, the integration of the connectors business into Framatome proved very tricky. The connectors and nuclear businesses were different in every possible respect. Soon, people in the connectors business felt unwelcome in Framatome and under siege. Interestingly, when we were working with the company on an executive training program, we were able to move freely in the floors and hallways of the corporate headquarters, after clearing tight security checks at the main entrance of the building. The only restricted floor was occupied by the connectors division which, in comparison with the nuclear business, was the least sensitive part of the company. The main door to connectors was kept locked and visitors had to call a receptionist to announce who they were and who they were visiting. Not surprisingly, the strategic and financial goals of the diversification were never achieved, and the connectors business was ultimately divested at a deep discount. With hindsight, it is difficult to understand why the leaders of Framatome sought to integrate into the established identity a business which was acquired on the very ground of being as different and far possible from the company's core business.

II. Avoiding the pitfalls: Four approaches to identity integration

How can managers avoid these pitfalls and achieve the psychological synergies (1+1=1) required for the realization of economic synergies (1+1>=2)? Our research and experience have shown us that there is no "one best way", and that in fact there are four distinct paths that can be followed to achieve identity integration: assimilation, federation, confederation, and metamorphosis. Each of these paths represents a particular combination of the answers to two questions that managers must confront in anticipation of a merger or acquisition: 1.) What should be done with the identities that the parties to the merger bring with them (i.e., their historical identities)? and 2.) How should a common identity for the future be built?

Specifically, managers must answer the following questions:

1. Can we or do we want to preserve the identities of each party to the merger, or do we need, or want, to delete one of them?

2. Do we pursue a common future through the creation of a new organizational identity, or should we integrate through legacy identities?

Table 1 below combines the answers to these questions and shows how the four integration models map onto these answers.

Table 1: Approaches to Identity Integration

Integrating through / Dealing with legacies	Using existing identities	Creating a new identity
Preserving legacy identities	**Confederation**	**Federation**
Deleting legacy identities	**Assimilation**	**Metamorphosis**

1. Assimilation

Assimilation occurs when the identity of an acquired company is dissolved deliberately in the identity of the new parent. The acquired company is stripped of its name and visual identity (logo, letterhead, and so on) and adopts those of its new parent. The acquired company's management structure is dismantled and employees who are not let go are distributed across the parent's organizational units. The process sends a clear signal to the members of the acquired firm that they are expected to adjust and be loyal to their new employer. It also sends a clear signal to its external stakeholders (customers, suppliers, partners, unions, investors, bankers) that they will henceforth deal with a new organization.

Although the description of the process might sound brutal, it is not always or necessarily traumatizing for the members and other stakeholders of the acquired firm. The reactions of employees and other stakeholders depend on the depth of their psychological commitment to the dissolved identity, and on the perceived desirability and superiority of the identity of the new parent. To illustrate, when a small technology company is bought by Cisco, its founders, employees, investors, and customers are likely to consider the acquisition as a positive event and in all likelihood do not see the trading of its identity for that of Cisco as a serious loss. Because becoming a Cisco employee has many benefits, members of the acquired organization have little reason to mourn the defunct identity.

The integration of Cerent, a company bought in 1999 for $6.9 billion, illustrates how Cisco practices assimilation.

> *On the morning that Cisco took over the company, employees arrived at work to discover they already had new titles, business cards, bosses, bonus plans, and health plans, plus access to Cisco's computer system. Only four of the 400 employees left the company in the first six months…When it comes to turning acquired employees into Cisco employees, says Michael Howard, principal analyst at Infonetics Research, a data-networking consulting firm, "it's hard to name a better-run company in the world."*

Not all companies that integrate through assimilation do so rapidly. The approach to assimilation used by Wells Fargo in its acquisition of Wachovia, for example, has been intentionally slow. The deal closed on December 31, 2008 but, according to their published schedule, it will not be until October of 2011 that the last region, North Carolina, will become fully integrated. As Wells CEO John Stumpf said at the outset, "Blending cultures, combining businesses, products and systems and changing names will take time – two to three years – because we want to do it right . . ."

Assimilation is less effective when there is not enough asymmetry between the buying and the acquired firm, or when the asymmetry plays in favor of the latter. When the new parent and its acquisition target are comparable be it in size, profitability, or reputation, members and stakeholders of the acquired company are tempted to feel that the identity of their firm is more valuable than that of the new parent. Rejection of the new parent's identity is further compounded when it is perceived as less effective, on some presumably important dimension, by the company it has bought. For example, the employees or the customers of the target company may perceive the new parent to be less innovative despite (or perhaps because of) its large size. In other situations, the new parent may be perceived as a less caring employer or as a less ethically driven organization. The perception that the new parent's identity is less attractive, or less socially valued, is often found in cross-border acquisitions. For example, European and Japanese companies have consistently had difficulty with the integration of their acquired subsidiaries in the United States, because U.S. managers tend not to think highly of the management skills and effectiveness of their European or Japanese "owners" and resent dissolution of the identity of their firm into that of a foreign-based company. A similar challenge is being faced by multinational firms from emerging countries, particularly China and India, as they are making acquisitions in advanced countries.

2. Confederation

Confederation is the opposite extreme of assimilation. Here the merged organizations are allowed to preserve their historical identities and are not expected to meld into a new common identity. Each organization is allowed to keep its name, legal independence, management structure, and autonomous decision making. Coordination in this setting is kept at the minimum level necessary to achieve synergies in particular and limited areas.

The Renault/Nissan and Air France/KLM combinations are good illustrations of the confederate approach to integration. Instead of pursuing a full-fledged merger, which some might argue would have maximized economic synergies, Carlos Ghosn consistently emphasized the message he expressed in an interview published in HBR that he sought to change Nissan and preserve its identity, at the same time.

> *"In corporate turnarounds, particularly those related to mergers or alliances, success is not simply a matter of making fundamental changes to a company's organization and operations.* ***You also have to protect the company's identity and the self-esteem of its people***[8] *...As might be expected, given the cutbacks we made in Japan, the public was initially uneasy about the revival plan, and I took a lot of the flak as the foreigner in charge. Inside Nissan, though, people recognized that we weren't trying to take the company over but rather were attempting to restore it to its former glory. We had the trust of employees for a simple reason: We had shown them respect. Although we were making many profound changes in the way Nissan carried out its* business, *we were always careful to protect Nissan's identity and its dignity as a company."*

To achieve synergies quickly in the purchasing area, Ghosn created a purchasing organization incorporated in the Netherlands under Dutch law and jointly owned by Renault and Nissan. He also created ad hoc task forces to encourage new product managers and engineers at Renault and Nissan to use common parts and platforms. The explicit reference to the Renault/Nissan design as a template for the implementation of the Air France/KLM combination indicates that the "model" can inspire other managers. Although Air France formally acquired the Dutch airline in 2003, the deal explicitly specified that KLM would keep its name, traffic rights, and transportation certificate for eight years. Asked whether he

[8] The emphasis in the quote is added by the authors.

would accelerate the integration of the two airlines, Jean-Cyril Spinetta, the former chairman and CEO of the Air France/KLM Group who led the acquisition, explained[9]:

> *With KLM, we want to remain very pragmatic. Our group is made of two companies unified by a common share ownership and a tied economic performance and led by the Chairman and CEO of Air France. Our agenda thus is coordination. But in areas such as freight where branding is less important, we are ready to move toward more integration. (In the passenger market), things are more complicated. Rushed integration in this area could lead to disaster.*

The Fiat/Chrysler combination is another example of the potential utility of the confederate design. Sergio Marchionne has used a variation of this model to help resurrect Chrysler the organization and reinvigorate Chrysler the brand.

When should confederate integration be considered? First, those responsible for integration should take a close look at desirable synergies and the ways to achieve them. Confederate integration should be considered when a satisfactory level of synergies, on the revenue or on the cost side, can be achieved without tying the organizations closely together in day-to-day operations. In this case, broad strategic guidelines and a few coordination mechanisms are enough to ensure that the merged organizations pull in the same direction while maintaining their autonomy and respective identities.

Economic calculations should be supplemented by serious consideration of the psychological distance between the merged organizations. Although it might have been optimal, in purely economic terms, to pursue a higher degree of organizational integration of Renault and Nissan, the fact is that the two organizations were, and still are, very different. Although both make cars, the two firms have unique identities established through several decades and have grown in countries with very different cultures. Their people do not know one another, do not speak the same language, and deal with different suppliers and business partners. Furthermore, although Nissan was in deep trouble when Renault took over, the stakeholders of the Japanese firm were not prepared to let the identity of Nissan be dissolved into that of a French automaker. In hindsight, Ghosn's approach looks to have been the best trade-off possible between the benefits of tighter integration and the cost of ignoring the psychic distance between the two firms.

---

9 La Tribune, March 22, 2005

Although both organizations are European, the psychological and cultural divide between Air France and KLM was and is still wide. Pursuing a confederate approach, carefully conveyed by the use of the French word “rapprochement” by the chief executives of both Renault and Air France, gives people on both sides time to get to know each other and, perhaps, to begin to informally forge a common identity. In a recent interview[10], the new CEO of Air France-KLM announced that the time is ripe for deeper integration of the two airlines, eight years after the merger. The plan outlined in the interview suggests that integration is shifting to a federalist configuration with a stronger common corporate center.

For the confederate model to work, people on both sides must understand how far down the integration path top management is willing to go. In the Renault/Nissan case, it was important that Renault managers, at all levels, refrained from adopting a “conqueror” attitude toward their Japanese counterparts when Nissan was struggling to recover from near death. Now that Nissan has recovered and is reconnecting with its glorious past, it is equally important for Japanese managers to avoid arrogance toward their French counterparts. Much of the burden for maintaining mutual respect falls on the shoulders of the senior managers who bridge the two organizations.

3. Federation

The key difference between federalist and confederate integration lies in preserving the identities of merged organizations while, at the same time, developing an umbrella, or overarching, identity, that each member organization can relate to, identify with, and thrive within. The image that comes closest to the federalist model is Russian nesting dolls, where each has its own existence and face and, at the same time, contains dolls with their own faces and beings.

The federalist approach seeks to develop a new layer of identity and identification on top of the existing layer. An example of federalist identity integration in the making on a large scale is offered by the European Union. Instead of asking, or expecting, the French, the German, or the Italian people to give up their national identity, political leaders are gradually shaping a European identity that can be laid over national identities. The federalist project will

---

[10] Le Monde, May 19, 2011 interview with Pierre-Henri Gourgeon ‘Chez Air France, Une petite révolution a débuté’,

have succeeded, and is already successful to a significant extent, when the average citizen naturally thinks of him- or herself as "French and European" or "German and European," and so forth. The disintegration of the USSR illustrates the depth and persistence of underlying identities.

In business, federalist integration has been successfully and consistently implemented by U.S.-based giant Johnson & Johnson and the Paris-based luxury brands conglomerate LVMH. Johnson & Johnson is a household name and is recognized as a global leader in the health-care industry. It operates through a family of more than 250 widely autonomous companies employing 115000 people in 60 countries[11]. The management structure of Johnson & Johnson enables operating companies to have their own management structure and local identity. The integration of ALZA, the worldwide leader in drug delivery solutions, after its acquisition in June 2001 is a good illustration of the federalist approach at Johnson & Johnson. After the acquisition, ALZA retained its identity and managerial autonomy. Without knowing that ALZA is a member of the Johnson & Johnson family, one can hardly determine its relationship with Johnson & Johnson from browsing the subsidiary's website. J & J's recent problems with quality control in a number of its subsidiaries, however, is a reminder of the managerial challenges in maintaining consistency across operating units in a highly decentralized system.

Bernard Arnault, current chairman and CEO of LVMH, has consistently reinforced the federalist model as a way to balance two contradictory imperatives: preserving the uniqueness of the organizations supporting luxury brands and, at the same time, achieving economies of scale and scope in selected areas. The federalist model has enabled Arnault to maintain the identities of a galaxy of highly autonomous organizations supporting unique brands such Louis Vuitton, Moët et Hennessy, Christian Dior, Sephora, Céline, or Kenzo to cite a few. At the same time, the LVMH Group identity has enabled Arnault to put a recognizable face on this highly diverse portfolio of organizations and brands, thus enabling LVMH to achieve economies of scale and scope in distribution, advertising, human resources management, and efficient access to financial markets.

---

[11] www.jnj.com accessed on June 10, 2011.

4. Metamorphosis

Metamorphosis is the process by which the identities of merged firms are dissolved and fused into a new identity that did not exist before the merger. The key benefit of this approach is the avoidance of uncertainties and anxieties among people on all sides about who are the winners and losers in a merger.

Efforts by top management to establish a new identity for the combined organizations create a neutral terrain. The process enables members on all sides of the merger to “forget” the identity of their original organization. This, in turn, permits the development of a common, shared identity, in which all parties feel they have voice and contribution.

Managers must ponder the benefits of metamorphosis when the potential benefits of maximum strategic and operating integration are very high but the merged organizations have equally strong identities. In this case, it is risky to dissolve one organization in the identity of another (assimilation). A more effective strategy would be to articulate a new, neutral identity where people and organizations with strong historical identities can build a common destiny and organizational framework.

This approach was illustrated by the merger, in June 1999, of the French Rhone Poulenc with the German Hoechst in the pharmaceutical industry. In anticipation of concerns about whether the French were taking over the Germans or vice versa, Jean René Fourtou, then head of Rhone Poulenc, and his German counterpart Jurgen Dormann, then head of Hoechst, decided to create a new, country-neutral identity. They gave the merged company a new name, Aventis, located its headquarters on the Franco-German border, adopted English as the working language, and made a concerted effort to assign the top 800 jobs in the new company on the strict basis of professional merit, not nationality.

Another examples of metamorphosis is provided by SSL International, the result of a three-way merger between Seton (maker of Durex condoms), Dr. Scholl’s (orthopaedic footwear), and the London International Group (maker of disposable products used in hospitals). Instead of using the identity of one of the companies to integrate the others or keeping the merged companies at arm’s length within a confederate or a federal structure, Brian Buchan, a former Procter & Gamble (P&G) marketer, sought to create a new organizational identity for the merged company, a new identity that would replace the old ones. To build the new identity, he set up an integrated corporate strategy and organizational structure, picked a leadership team from the three merged companies, and contracted with a business school to design an executive training program where we were asked to facilitate the identity part. The training program enabled the leadership team, and about 200 key executives, to get to know each other and acquire a sense of belonging to the same organization. Interestingly, SSL International was acquired in 2010 by Reckitt Benckiser which has followed the assimilation approach and dismantled the SSL organizational structure and identity.

Symbolic and Substantive Levers of Identity Integration

In our book, The Soul of the Corporation, we noted that managers can shape and reinforce an organization's identity through effective use of two different and complementary levers: symbolic and substantive.

Symbolic identity management levers consist of discourse about what the merged organization stands or should stand for. Symbolic management of identity includes crafting a mission or identity statement, defining organizational values, corporate branding (name, logo, slogan, and visual identity), writing an organizational saga or strategic use of a sponsoring budget.

From our experience, most senior managers think of identity management in terms of symbolic initiatives. There is a common belief that giving an identity to an organization comes down to giving it a name and a visual appearance. While these cosmetic artefacts can help managers to convey the kind of organization they want to build after a merger, their work is hardly done when they have put a nice layer of make-up on the new organization. For cosmetic work on the organization's skin to have a lasting influence on how it will be perceived internally and externally, managers need to undertake substantive actions to give meaning to the symbolic representation.

Substantive levers of identity management refer to acts and decisions, not only discourse, about the organization. They include decisions regarding ownership, governance structure, leadership team composition, recruitment of people who can embody and promote the new organizational identity, letting go of people who are not in line with the new identity, changing organizational structures and management systems, and, perhaps, insuring consistency between the firm's business strategy and the new identity.

When a merger involves the creation of a new identity, swift symbolic initiatives (mission statement, name or logo) enable managers to communicate the new projected identity fairly quickly. For these efforts to be fruitful, however, they need to be followed by substantive decisions regarding people, business strategies, and operations. Problems arise when managers 1) fail to realize the importance of supplementing symbolic initiatives with consistent, and often more difficult, substantive decisions regarding people, business strategies or operations or 2) undertake divergent symbolic initiatives and substantive decisions. The skin and the soul need to be aligned.

III. Conclusions

The four paths to identity integration offer alternative approaches to making one organization out of many. Each model represents particular trade-offs between how to deal with legacy identities in building a common future. The cases used to illustrate each model show that all four can be successful when they are a good fit with the context and objectives of a merger and, more importantly, when they are implemented consistently. Our experience with and observation of how some large and well known firms have practiced identity integration lead us to the following conclusions.

First, the new merger math is intended to sensitize managers to the importance of a set of issues that tend either to be overlooked entirely or to be under-appreciated as mergers are contemplated and consummated. In no way do we minimize the importance of financial architecture in influencing the success of M & A; we only emphasize that it is not the whole story. If you want to up the odds of success, you need to take the new merger math into account.

Second, there should be some assessment in the pre-merger phase of the extent to which identity issues might preclude successful fusion. By including an identity audit in the due diligence process, managers may, in extreme cases, decide that, despite potential economic synergies, a merger should not be pursued because psychological synergies would be very difficult to achieve. In less extreme cases, the identity audit would enable managers to identify the issues and obstacles that would need to be addressed in order to make 1+1=1.

Third, it is dangerous to use language from one model and pursue integration through a different one. Although it may be tempting to use language from the metamorphosis or federalist model to disguise what is really assimilation, especially when the architects believe that open admission of assimilation might derail the transaction or increase the price tag, the longer run credibility price is steep. For example, by adding together the two companies' names in DaimlerChrysler and using the "mergers of equals" phrase, Jurgen Schrempp, the man who drove the ill-fated merger, raised the expectation among Chrysler people of a federalist design where the U.S. automaker would retain its autonomy, U.S. born leadership, and identity. Two years later, he admitted that he had never taken seriously the "merger of equals"[12].

Open admission of deceit is rare from a leader of Schrempp's calibre. But discrepancies between espoused and actual integration practices are a common fact of business life and fuel feelings among senior executives of acquired companies of having been lied to in order to secure their agreement to a merger. The long term effects of such a strategy on psychological synergy are likely to be highly toxic.

Fourth, managers should be pragmatic with regard to the four integration models and not fall in the "one-size-fits-all" trap. The approach followed by Unilever and L'Oréal respectively with regard to Ben & Jerry's and The Body Shop suggests that the uniqueness of an acquired organization can justify an exception to a standardized post-merger integration template. Unilever, a successful practitioner of assimilation, acquired Ben & Jerry's in 2002 and has made a set of formal commitments to maintain its independence and unique identity. To find a reference to Unilever, one has to search very hard on Ben & Jerry's website. The same is true for The Body Shop, acquired by L'Oréal in 2006, and still operating as an independent company.

The experience of Cisco suggests that the multiplication of exceptions can lead a company to add a new chapter to its post-merger integration playbook. While Cisco was, and still is, known for elevating the dissolution of acquired identities to an art form, the company made a series of exceptions starting with the 2003 acquisition of LinkSys and continuing with the acquisition of Scientific Atlanta, IronPort and WebEx[13]. Cisco has developed a hybrid identity integration model with assimilation applied to targets operating in the company's

---

[12] Financial Times, October 30, 2000 : « The Schrempp Gambit- The Chairman of DaimlerChrysler Offers a Passionate Defence".

[13] Wall Street Journal; April 17, 2008: "Cisco Changes Tack in Takeover Game".

historical core business and federation applied to firms operating in new areas where Cisco has been diversifying.

Fifth, we stress that, while they have privileged access to powerful symbolic and substantive levers by which they can shape identity, defining the identity of an organization is not the province of senior managers alone. Identity is, in fact, shaped, owned and reinforced by the organization's key stakeholders. Failure to acknowledge this simple fact can lead managers to promote definitions of their organization that are disconnected from, and sometime at odds with, how other stakeholders perceive them. To avoid divergence and contradictory claims about what the merged company stands for, managers should include an initiative designed to monitor how employees, customers, shareholders and other relevant stakeholders perceive the merged company in the post-merger plan.

Finally, we would underline the importance of the time dimension in identity integration. With the goal of maximizing psychological synergy as a priority, managers should remember that, in contrast to strategic and operational alignment, identity alignment is not a "one-off" task but a process that can take several years. The Renault/Nissan case provides a good example of what we mean by gradual identity integration. Given the globalization of the car industry and the size of potential synergies and economies of scale, full-fledged integration of the two carmakers would have probably been the most optimal economic solution. However, neither Nissan nor Renault were prepared for assimilation (of Nissan by Renault) or for metamorphosis (full integration of the two carmakers into a new identity). The wide geographical and psychic distance would not have allowed a federalist scenario, which would have meant the creation of a new identity and common management structure above the historical identities of Renault and Nissan. Therefore, the confederate model provided a good starting point for the two companies, but it is clearly not the end of the story. As with KLM and Air France, the next step will most likely be a move toward a federalist management structure, where a central authority makes major decisions for the two carmakers (phasing of new product launches, more shared parts, and more cross-assembly of cars, for example) while the two organizations keep their own management structures and operating autonomy. When the federalist phase has allowed for the creation of enough bonds and sense of common purpose, then the time would be ripe for a full-fledged metamorphosis, whereby Renault and Nissan would cease to exist as separate organizations and would continue to be promoted as mere brands.

This hypothetical, though plausible, scenario is meant to demonstrate that leaders can gain from an understanding of identity integration as a long-term process and from choosing consciously among the four integration models to ensure viable and dynamic balance between theoretical synergies and organizational realities. The returns from combining the resources of more than one organization under a common ownership structure will be enhanced only when the importance of identity integration is fully recognized and when the same careful planning and execution that tend to accompany the economic aspects of the operation simultaneously accompany the psychological dimensions. When this “merger math” is done carefully and professionally, $1 + 1 > 2$ ***and*** $1 + 1 = 1$.