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A reputational perspective for the processes of M&A

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The renewed investing interest in Spain is reactivating the activity of M&A. However, it is worth recalling that hardly 12% of the M&A achieve their economic goals (Davies and Chun). This is due to financial or legal factors, but especially to poorly-managed cultural problems derived from the perception that each of the organizations have of the other before, during and after the merger. 70% of the unsuccessful mergers present a poor communication and numerous issues related with integration. The dialectics of "them and us" remains during more than 6 years after a merger. For that reason, to analyse the reputation of both organizations, the so-called reputational *due diligence* which some organizations have started practising, is becoming one of the main recommendations to assure success after the merger.

REPUTATIONAL PERSPECTIVE OF M&A

Providing the operations of M&A with a reputational perspective implies incorporating this criterion as a priority in the processes of M&A. The analysis of the main mergers and acquisitions that took place in Spain during the last years in different sectors reaches a relevant conclusion: in all cases, mergers generate "issues" with a strong emotional component, especially between employees —who do not know if they will be able to continue in the new company, or if they will feel losers if all their work is wasted— which have direct impact on customers, in particular, in utility companies. The reputational perspective is also highlighting the marketing goals as an important driving force of transactions, and not only the cost savings (synergies) or other operating profits, which have been traditionally studied.

With this perspective, there are two main areas in the reputational management of the mergers to which special attention should be paid: the brand management and the corporate communication, not only towards society, but especially among employees.

OBJECTIVE: STRATEGIC ALIGNMENT

The ideal result of the management of the reputation during merging processes would be to achieve the highest degree of possible coherence and the relationship between the perspectives of the stakeholders of the company A, the ones of the company B and the new stakeholders who appear after the merger and whose point of view is more objective. In this section we have to consider not only the expectations of the stakeholders, but also the incentives and other cultural aspects such as the excessive corporate optimism (expectation management) or the risk aversion.

In the alignment of public merging processes, the corporate brand plays a fundamental role. The success of the corporate brand resides in the degree of harmony that it achieves between the values defined by the senior management, its effective implementation in the business model through the behaviour of employees and the acceptance of those values and the consequent relationship that it would establish with its stakeholders.

DECISIONS TAKEN ABOUT THE BRAND

The brand strategy in the case of mergers can suppose a hard process and imply reputational risks. To identify the

reputational risks and to inform the people responsible for the integration process is one of the key roles of the manager of the reputation and intangible in this process.

The research of 200 mergers in the global financial sector carried out by Mary Lambkin (University of Dublin) provides a theoretical framework that suggests that the advisors should put the decisions on the brand name at the heart of the merging process. The investigation focuses on the financial sector, but its conclusions are comparable to other types of sectors with companies with brand architecture basically of *branded house* (corporate brand). This type of brand architecture is typical of industrial, energy and infrastructure companies, but, especially, of service companies and, increasingly, of large consumption companies. *Branded house* are companies in which a large part of the value of their brand comes from their corporate reputation.

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When addressing merging processes in this type of companies, authors have identified 4 main strategies:

1 **Backing the stronger horse**. The entity with better reputation imposes its brand. It is the main strategy (40% of the cases).

2 **Business as usual**. The *status quo* (24% of the cases) of the brands is maintained. The merger is a simple transaction; there are no changes in the brand of merging companies.

3 **The best of both**. It is typical in mergers of equals (13% of the cases). Both brands merge between them. It represents the fact that we take the best of each entity.

4 **Different in kind**. Creation of a new brand (8% of the cases). It takes place when a merger that means a complete transformation, a new beginning, is represented.

The correct decision in each case has to take into account specific factors such as the relative weight and strength of merging companies; the type of products or services that are offered; the relationship between markets and products; and the geographic distance of merging companies.

The "*backing the stronger horse*" strategy is by far the most frequent, especially when one of the entities has a strong reputation. It presents positive aspects: employees can see that their professional career opportunities expand, consumers and users can also gain access to new services, etc. However, authors warn of the risk of creating a negative mentality of "winners and losers" which eventually can represent an obstacle to integration.

Whatever the decision adopted be, it is essential to take into account five decisive factors according to brand strategy: leadership, stability, market, international character and support.

COMMUNICATION STRATEGY

Together with the decisions taken on the brand, the communication strategy also plays an important role in the success of the operations of M&A. The creation of a credible and inspiring history on mergers is one of the main challenges of any M&A in which the chief executive of the company should be directly involved.

According to the message construction, the key is to create a *big picture*. It is much more efficient to communicate successfully the reason of the merger than to get lost explaining the details of the *what* and *how*. The world will judge the goodness of the merger if it understands the main reason behind all the process.

In the case of "*backing the stronger horse*" strategies, the main defect to be avoided is to convey a sense of over-confidence and pride when confronting the other party (messages such as "we do not have much to learn from each other" or "we acquire xx costumers", as if the customers could be acquired without their consent).

RECOMMENDED PAPERS

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