FINANCIAL TIMES
HANDBOOK OF MANAGEMENT
THIRD EDITION
FINANCIAL TIMES

HANDBOOK OF
MANAGEMENT

THIRD EDITION

Edited by
Stuart Crainer and Des Dearlove
## Contents

<table>
<thead>
<tr>
<th>Foreword</th>
<th>xv</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preface</td>
<td>xix</td>
</tr>
<tr>
<td>Acknowledgements</td>
<td>xx</td>
</tr>
<tr>
<td>Publisher's Acknowledgements</td>
<td>xxii</td>
</tr>
</tbody>
</table>

### ONE: The state of the art

#### Management in the 21st century

- The rise of management: Stuart Crainer and Des Dearlove 5
- The age of the individual: Jonas Ridderstråle and Kjell Nordström 15
- The new knowledge landscape: Leif Edvinsson 19
- A message to Garcia: Thomas L. Brown 24
- **Essentials:**
  - Peter Drucker; Henri Fayol; Adam Smith; Frederick W. Taylor 30

### TWO: Foundations of management

#### 1. Strategy and competition

- Strategy and control: John Kay 41
- What is strategy and how do you know if you have one?: Costas Markides 48
- Trajectory Management: Paul Strebel and Anne-Valérie Ohlsson 57
- Making mergers and acquisitions work: Roger Pulney 63
2. Globalization

Can globalization be fixed? Deborah Doane

Strategies for China: Jonathan Story

Great global managers: Ken Moore

Transnational corporations: International citizens or new sovereigns?

Dennis A. Ronalde:

Interview: Yves Doz and José Santos

Essentials:

164

Geert Hofstede; Akio Morita; Kenichi Ohmae; Transnational corporations, Pons Trompenaars

3. Managing human resources

What managers do: David W. Birchall

Leading the democratic enterprise: Lynda Gratton

Succeeding at succession: Des Dearlove and Steve Coumber

Commentary: When employees attack

The management of humor and the humor of management:

David L. Collinson

Recruiting, selecting, and compensating board members:

Charles H. King and Caroline W. Nahas

Non-coercive thinking: Henri J. Ruff

Essentials:

225

Broadbending; downsizing; empowerment; Mary Parker Follett; Frederick Herzberg; interim management; Jacques Elliot; Rosabeth Moss Kanter; the Managerial Grid; Maslow’s Hierarchy of Needs; Elton Mayo; David Packard; Tom Peters; psychological contract; Edgar Schein; succession planning; Theories X and Y (and Z); 360-degree feedback
4. Operations and service

The laws of logistics and supply chain management:
Alan Blairdale and Richard Wilding 249
Performance measurement: the new crisis: Andy Neely 260
Design to be different: Kjell Nordstrom and Jonas Ridderstrale 266
Outsourcing HR: Stephen Coomber 276
Interview: Andrew Kakabadse 278
Project management as value creation: Sebastian Nokes 281
The quality revolution: Stuart Crainer and Des Dearnlove 290
Understanding the sources and drivers of supply chain risk: Helen Peck 300

Essentials:
Benchmarking: channel management; crisis management: W. Edwards Deming; Henry Ford; Joseph Juran; just-in-time (JIT); kaizen (quality circles); lean production; outsourcing; reengineering; supply chain management; time-based competition; total quality management

5. Marketing

Challenging the mental models of marketing: Yoshim (Jerry) Wind 327
Marketing with a heed edge: Peter Fisk 336
Interview: Philip Kotler 350
Designing the market-facing organization: Sam Hill 354
David Newkirk and Jong Chou 362
Understanding brand potential: Watts Wacker 366
Global marketing: H. David Hentschke 366
Capturing growth through lifetime customer value:
Sandra Vandermeere 371
Interview: Chris Zook 383
Eleven misconceptions about customer relationship management:
Peter C. Verhoef and Fred Langerak 387
Seven of the best: Tony Cram 401
Connecting brand equity, brand economics, and brand value:
David Haigh 408
Corporate religion: Jesper Kunde 420

Essentials:
Affiliate marketing; Four Ps of marketing; Philip Kotler; Ted Levitt; permission marketing; relationship marketing

6. Finance

Better pricing processes for higher profits: Hermann Simon, Stephan A. Butscher and Kai-Diern Sebastian 433
Essentials:
- disintermediation; dynamic pricing; e-commerce; incubator; intellectual capital; intellectual property; knowledge management; Alvin Toffler

9. Entrepreneurship
- The entrepreneur: Stuart Crainer and Des Deallove
- Commentary: Pitching and catching
- Interview: Liam Black
- Social entrepreneurship: The emerging landscape: Alex Nicholls
- Commentary: The best of the fringe
- Interview: Jeff Skoll
- Where do good ideas come from?: John W. Mullins
- Making corporate venturing work: Julian Birkinshaw

10. Ethics
- Do principles count?: Eleanor R.E. O'Higgins
- War and the corporation: Eric W. Otts
- Commentary: Is corporate responsibility worth it?
- Wanted: Boardroom coach: Susan Bloch
- Commentary: Profiting from corporate philanthropy
- Pathways to commitment: Values-driven performance: Matthew May
- The changing role of business: Lennie Moir
- Interview: Robert A.G. Monks

THREE: Management skills

1. Managing globally
- Doing business the American way: Allyson Stewart-Allen
- Commentary: The art of Swedish leadership
- Global account management: H. David Hennessey
- Interview: John Micklethwait and Adrian Wooldridge
- Interview: Jorn Tropenas
- Commentary: Things to do in airports
- Commentary: Traveling light

2. Leading
- Leadership for the future: Des Deallove
- Commentary: What do CEOs really do?
Contents

Interview: Paul C. Reilly 741
Leadership roles and role models: Randall P. White and Phil Hodgson 745
The mantle of authority: Rob Cofee and Gareth Jones 755
Commentary: Weaklers and the leader 761
Leading the way: Robert E. Gandy and Marc Effron 763
Interview: Michael Critelli 773
Value leadership: The principles driving corporate value: Peter S. Cohan 777
Welcome to the real world—eight essential perspectives for the new top leader: Phil Hodgson 784
If Colin Powell had commanded Enron: The hidden foundation of leadership: Oren Harari and Lynn Brewer 790
Interview: Warten Bement 801

Essentials:
Warten Bement: employability; the Peter Principle; Robert Townsend 805

3. Managing change

The reality of transformation: Tony Eccles 811
Commentary: Tipping over the edge 819
Interview: James Champy 821
When two companies become one: Andreas Hinterhuber 824
The myths of change management: Michael Jarrett 834
Interview: Rosabeth Moss Kanter 846

4. Communicating

Creating Strategic Dialog: Dan Yankelovich and Steve Rosell 850
The write stuff: Stuart Crainer and Des Dearlove 851
Commentary: Silence can be golden 856
Communicating in the age of consent: Mark-Stuart 866
Commentary: We're blogging it 877

5. Managing yourself and your career

Who are you?: Georgina Peters 879
Commentary: Who gets training? 880
Generational Shift™: Bruce Tulgan 892
Interview: Alan Brinkin 894
Personal agility: Elizabeth Weidman 903
Commentary: Beware burnout 905

FOUR: Resourcing

Executive coach
Improving on
So you think you
Training and
David Binchall
Commentary:

50 great managers
80 books all
50 concepts all
Six classic cases:
Contributions
Top lists
Index

Essentials:
Dale Carnegie,

6. Making It happen

H.O.T. Manager
Decision making
Measuring an
Andy Neely
Valuing the
Making projects
The rise and fall
Essentials:
Decision theory

7. Developing

Executive coach
Improving on
So you think you
Training and
David Binchall
Commentary:

50 great managers
80 books all
50 concepts all
Six classic cases:
Contributions
Top lists
Index

Essentials:
Dale Carnegie,
**When two companies become one**

ANDREAS HINTERHUBER

Mergers and acquisitions are an accepted part of corporate strategy. Yet despite their enduring popularity, their success rate is surprisingly low. This article shows how M&As can be made to work.

As frenetic as merger and acquisition (M&A) activity in recent years, so heated are debates questioning and defending its potential to add value. On the one hand, CEOs are usually enthusiastic and quick to affirm that broader reach, increased efficiency, and a more comprehensive product portfolio will allow to significantly enhance shareholder value. Stock markets, on the other hand, are more cautious. Within our own research on Best Practices in M&A, we compared the stock-market performance of the largest mergers and acquisitions completed in 1999 with the development of the S&P 500 index. The results were surprisingly disappointing.

Merged companies, including Vodafone, Exxon, Astra Zeneca, Honeywell, and SRC, not only significantly underperformed the S&P 500 index but have to date failed to create any significant value at all.

![Diagram](image)

Change in market share from year before merger to 1998

Figure 3.3: Market share of merged companies: the case of the pharmaceutical industry
Broader research (summarized in Table 3.1) thus suggests that the average merger is doomed to fail.

The stock market is not the only place where mergers are win or lose. Equally important is the marketplace. An analysis of the market share development of pharmaceutical companies reveals that the market share of merged companies usually declines strongly in the period following a merger. On the other hand, significant growth in market share is usually realized by independent companies (see Figure 3.3).

Finally, as job losses accompany most mergers, employees are usually the least enthusiastic constituency – recent empirical research shows that employee productivity can decline up to 80 percent in a merger phase. In this context it is clear that

Table 3.1: Merger research

<table>
<thead>
<tr>
<th>Source</th>
<th>Scope of study</th>
<th>Period studied</th>
<th>Main findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.T. Kearney</td>
<td>115 mergers and acquisitions</td>
<td>1993-1996</td>
<td>58 percent do not create positive shareholder value</td>
</tr>
<tr>
<td>Mercer Management</td>
<td>All mergers from 1990-1996</td>
<td>1990-1996</td>
<td>48 percent destroy shareholder value</td>
</tr>
<tr>
<td>Consulting</td>
<td></td>
<td></td>
<td>Over 40 percent fail to create shareholder value</td>
</tr>
<tr>
<td>Price Waterhouse</td>
<td>97 mergers and acquisitions</td>
<td>1994-1997</td>
<td>Over 50 percent underperform relative to industry peers</td>
</tr>
<tr>
<td>Coopers</td>
<td></td>
<td></td>
<td>53 percent of deals reduce shareholder value. 82 percent of CEO's view transaction as successful</td>
</tr>
<tr>
<td>Booz Allen &amp; Hamilton</td>
<td>117 mergers and acquisitions</td>
<td>1994-1996</td>
<td>56 percent of mergers destroy shareholder value</td>
</tr>
<tr>
<td>KPMG</td>
<td>700 mergers and acquisitions</td>
<td>1996-1998</td>
<td>89 percent of companies fail to increase revenues after merger</td>
</tr>
<tr>
<td>Boston Consulting</td>
<td>277 mergers and acquisitions</td>
<td>1985-2000</td>
<td></td>
</tr>
<tr>
<td>Group</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
companies planning to merge face a steep uphill battle, despite all promises of future growth, reduced costs, and rising profits.

Our research into M&As produced two main findings. First, most mergers fail because managers apply a set of apparently commonsense rules. Second, outstanding "integrators" are able to create extraordinary growth in shareholder value, and employee and customer satisfaction by applying a set of apparently countervailing measures in M&A integration.

**Common assumptions in M&A integration**

Most executives implicitly follow a set of commonly held assumptions when merging or integrating two companies. The most widely spread assumptions are:

**In-depth planning as key requirement for success**

The prevailing opinion is that an over-investment in planning pays off in the integration and longer-term performance of the two companies. Therefore, the average deal is "closed" 8-12 months after announcement, in order to allow for enough time to hammer out the details of the deal. A VP of Siemens summed up the prevailing wisdom in the following way: "Speed is not enough; planning is more important than speed."

Synergy realization as primary goal once deal is closed

There is no doubt that the ultimate goal of mergers is an increase in profit beyond what each company individually would have been able to do. Thus, in the first year after a merger, synergy realization is generally seen as the single most important task of management in relation to ensuring merger success.

"Early win" in integration – pick low hanging fruit first

It is common wisdom, that early wins in the integration stage build the necessary trust and commitment to attack more complex issues at a later stage. As Nelson and Lages, two principals with management consultancy A.T. Kearney, say: "During the first year, it is important to combine two cultures and organizations, but it is hard to get bogged down in lower operations integration. Start by picking the low hanging fruit" (Nelson and Lages 1993).

Integration not synergies

In nearly all of the failed cases of the organizational synergies. The failure, and regret realization. Only emergence, external or internal.

Financial yardsticks

Finally, most do not benchmark the companies have Rapid Implementation targeted synergy company.

**Outstanding**

When we started Immense acquire others, the CEO of the CEO: When we did not look at the cross-sectional assumptions radically different. First, the focus of the organization was to change. Second, the mindset was the most important issue. The key lesson is: Backward integration must be: Backward integration must be.
Integration managers are appointed for monitoring and implementation of synergies

In nearly all of the companies we studied, integration managers at various levels of the organization were specifically nominated to monitor the implementation of synergies. The globally identified synergies are broken down by year, business line, and region, with integration managers monitoring progress in synergy realization. Objectives is to ensure that reported synergies are also auditable by external or internal auditors.

Financial yardsticks are best instrument to monitor progress of integration activities

Finally, most companies studied have strong controlling instruments in place to benchmark the progress realized in the integration process. Consultant companies have developed a broad array of tools, such as the ERI (Enabling Rapid Implementation) tool by BCG in this area, aimed at ensuring that the targeted synergies are also reflected in the P&L statement of the merged company.

These practices appear commonsensical. Yet our research indicates that they lead many companies dangerously astray. Though apparently focused on the integration process, they ultimately distract companies from the ground, where the real battle for integration success is fought — the marketplace. This is the main reason why many mergers fail.

Outstanding M&A integrators

When we started to study the integration practices of some companies with immense acquisition experience such as GE, Thermo Electron, Citigroup, and others, a set of counterintuitive patterns began to emerge. Similar patterns surfaced when we studied the rare cases of successful mergers, such as Aventis. The implicit assumptions of managers responsible for integration within these companies were radically different in critical ways.

First, the focus of all integration activities was the creation of an immensely competitive organization, rather than beating analysts’ estimates of expected synergy levels. Second, managers in these companies realized that the creation of a common mindset was the most important prerequisite for achieving this objective.

The key lessons from outstanding integrations can be summarized in the following way:
The window of opportunity is small — if after 3–6 months integration is not complete, it will never occur

The best integrators recognize the need for urgency, rather than planning, in integration. Less focused on producing detailed business plans with the next three-year sales and earnings developments, they know that the window of opportunity in integration is open for only a very limited period of time. A distinctive feature of outstanding integrators is speed. They start very early in pre-merger assessment and move very quickly in integration.

Success is determined largely by how quickly a common mindset is created

The creation of a common mindset calls for the perpetuation of strong values and a performance-oriented corporate culture attentive to signaling effects.

Strong values and a strong corporate culture are necessary to give the employees joining the new organization a powerful sense of what the organization will stand for. These values are a combination of external market requirements, the unique strengths of both organizations, and the envisioned future of the new organization. They should also carry the organization toward a point in the future that is never quite reached yet is powerful enough to guide day-to-day decisions.

While most organizations pay at least some attention to values and corporate culture, only outstanding organizations realize the strong signaling effects that all actions implicitly have on the enforcement of corporate culture. In a merger, these effects are particularly important in two instances: commitment to start at the top with synergies, and commitment to let top performers go if needed.

The outstanding integrators in our sample realize that synergies implemented at the executive floor send a strong signal to the rest of the organization about top management commitment to synergies. By contrast, weak integrators, in their reluctance to let senior executives go, frequently move these people to staff positions deliberately created, thereby implicitly communicating to the organization that complacency is more important than performance, that history matters more than the future. With this, middle managers are tacitly encouraged to be softer than the requirements of the external marketplace, making it impossible for the company to realize any significant cost savings beyond what each organization would have been able to do individually.

Signaling effects are also important in decisions regarding top performers violating company values. In weak organizations, high performance confers the license to do everything not prohibited by law. Outstanding integrators know that top management commitment to company values is credible only when adherence to values is put above performance, which means to let high-performing individuals go on occasion. These considerations apply especially during the integration phase, where
The vision of creating an immensely competitive organization drives all integration activities

Outstanding integrators realize that the only vision worth pursuing in the disruptive phase following a merger is the vision of creating an organization focused on being extremely competitive in the marketplace. Several steps are involved.

First, an audit of the competitive profile of the two companies is conducted by an independent party to assess strengths and weaknesses of the two companies in the eyes of key customers. This view is then compared with the perception of executives about strengths and weaknesses of their own and of the merged or acquired company. Second, an ideal competitive profile is drafted, taking into account the requirements of a competitive marketplace, company aspirations, and existing strengths and weaknesses.

Third, in light of usually considerable gaps between current customer perceptions of the company's strengths, management perception of actual strengths, and the competitive profile required in the future, action plans--frequently requiring drastic changes in operating logic, staffing, and strategy--are laid out, discussed, and implemented.

Finally, the company has to be energized toward achieving the desired goal of competitiveness from the very beginning of the integration process. Training, lectures, and so on are usually helpful but, in the end, frequently only drastic changes in the way people perceive themselves, the company, and competition are able to
produce the required changes. In addition to sometimes demanding implementation skills, outstanding integrators have the skills to deeply touch and affect people's minds and hearts.

The energy level generated during this kind of integration process is in no way comparable to the lackluster atmosphere resulting from the fruitless attempt to motivate employees to achieve abstract synergy goals, frequently encountered in mediocre integrators.

Start with radical changes - manage the easier parts later on in the process

In contrast to cautious changes and multiple rounds of reorganization typical of inexperienced integrators, we found outstanding integrators reorganize aggressively from the start. The desired competitive profile, discussed above, is the blueprint for reorganization at this stage. In the experience of outstanding integrators, which we amply support, it is far preferable to reorganize heavily and drastically at the beginning of the integration process - but only then. Afterwards, the organization is given the time and the psychological reassurance to establish its own identity and internal cohesion.

Compare this to the erratic rounds of reorganization observed in the vast majority of mergers. At the beginning, fearful of provoking conflict with the other party, only minor adjustments are made to company structure; later, a second round of reorganization, resulting from inefficiencies are eliminated until, in a further round of restructuring, changes in the marketplace can be addressed. During this process, employee morale goes from bad to worse while the executive management is unable, even if it were willing, to provide any direction to the company.

Integration managers focus on the competitive profiling of the new organization

It follows naturally that integration managers will not be held responsible for synergy planning and implementation. Experienced integrators, although aware that synergies are followed by financial analysts on Wall Street, know that synergy realization can never be the ultimate aim of a merger or acquisition; they also know that a highly competitive organization will produce earnings and cash flow consistently above expectations.

This, in turn, defines the role of the integration managers. Con Lorenzo with business line, functional, or country heads, they ensure that the competitive profile of the merged company is consistent with the company's aspirations. The strategic impact resulting from this task usually far exceeds the rather mundane surveillance of cash discount reductions. Here, external critical success factors, customer requirements and the position of linking competitors are monitored periodically - at least twice per year. The action-items follow. In some organs, the market are fragmented, their supply of products is rare, a "middle-of-the-road" but also no significant extremely focussed.

Performance as an Instrument for a Competitive Advantage

Outstanding integrations create a new mindset - shared vision, with integration progress outlined in the process.

Alongside, indication - some of the leading organizations through the organic framework levels than less inspired operations.

Figure 3B: Performance measured against ideal.
When two companies become one

The vision of a strongly competitive company is then translated into

action items following current customer perceptions and market
demands.

In some organizations, the observed impact of this periodic feedback loop with
the market is huge: organizations, happy with delivering products in the past, inte-
grated their supply chains with key customers and redesigned key attributes of some
of their products in order to consistently exceed customer specifications. In another


case, a "middle-of-the-road" profile shortly after the merger (no specific weaknesses
but also no significant strengths) evolved gradually into a competitive profile


extremely focused on lowest costs and superior delivery reliability.

Performance along external critical success factors is the primary
instrument for assessing integration progress

Outstanding integrations recognize that integration success means that a common
mindset creates an intensely competitive company. For this to occur, this common
mindset - shared values and cultural identity - is established quickly. Second, the
integration progress is measured by comparing the performance along external, cus-
tomer-defined, CRITICAL success factors against the targeted competitive profile
outlined in the previous section (see Figure 3.5).

Alongside, indicators for internal efficiency are spread throughout the organiza-
tion - some of the outstanding integrations created a "library of best practices" on
working capital efficiency and other internal benchmarks that was then cascaded
through the organization. Again, this permanent focus on the requirements of the
competitive marketplace provides a much clearer orientation for employees at all
levels than less inspiring calls for quicker implementation of synergies.

![Figure 3.5: Performance measurement in integration - actual competitive profile is periodically monitored against ideal](image-url)

- Ideal competitive profile
- Profile 12 months after closure
- Profile 6 months after closure

Product range

Price

Integration with customer

Lead time

Supply chain

Figure 3.5: Performance measurement in integration - actual competitive profile is periodically monitored against ideal
The rules of outstanding integrators

1. The window of opportunity is small — if after 3-6 months integration is not complete, it will never occur.
2. Success is determined largely by how quickly a common mindset is created.
3. The vision of creating an intensely competitive organization drives all integration activities.
4. Start with radical changes — manage the easier parts later on in the process.
5. Integration managers focus on the competitive profiling of the new organization.
6. Performance along external critical success factors is the primary instrument for assessing integration progress.

Integration distilled

In the end, the unconventional wisdom of the world’s best integrators boils down to a few essential rules. Whereas most companies get caught up in internal struggles and start to concentrate far too much upon themselves, outstanding integrators focus on the vision of competitiveness during the whole merger process — the demands of the external market take precedence over self-contemplation.

By the same token, soft issues are treated as the real hard issues. The creation of a common mindset, linking people’s values with company culture, is seen as the single most important requirement for a successful merger by successful integrators. For this to be achieved, the organization is integrated with a set of values derived from the demands of the marketplace, future aspirations, and current strengths of the merging companies.

Finally, speed takes clear precedence over accuracy. Today’s mediocre integrators fail to see that the competition eagerly and happily waits for any slowdown accompanying the typical search for a detailed pre-merger plan. By contrast, the world’s best integrators are fast: internally, in creating a common mindset, and externally, in becoming very competitive very quickly.
When two companies become one

RESOURCES


Diffusion builds down to internal struggles - a key concept in understanding the process - the problem.

The creation of a culture, in this case, is seen as the essential integrator of values, derived from the strengths of the two companies.

Insecure integrators slow down accompaniments; they find the world's market, and externally, in