Lessons from Master Acquirers: A CEO Roundtable on Making Mergers Succeed

Moderated by Dennis Carey

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The announcement in January of the merger between America Online and Time Warner marked the convergence of the two most important business trends of the last five years: the rise of the Internet and the resurgence of mergers and acquisitions. M&A activity has been at a fever pitch recently, and all signs point to an even further acceleration of deal making, spurred in large part by the breathtaking influx of capital into the Internet space. Many executives will be placing bets on M&A that will put their companies' futures at stake.

M&A is a critical strategy for growth in the new economy. Here's what the experts have to say about choosing the right targets and integrating them successfully.

We at HBR are very pleased, therefore, to share with our readers a lively discussion of M&A and its role in the new economy by a group of chief executives who all have deep experience in making deals work. In a roundtable held last December at a meeting of the M&A Group in Scottsdale, Arizona, these executives addressed a number of important and timely topics, including the trade-offs between acquiring a company and growing organically, the changing shape of M&A strategy, and the keys to successful integration.

The Editors

Dennis Carey: *I'm sure some of you are familiar with studies suggesting that most mergers and acquisitions do not pan out as well as expected. Has that been your experience? Are mergers and acquisitions worth it?*

Alex Mandl: I would take issue with the idea that most mergers end up being failures. I know there are studies from the 1970s and '80s that will tell you that. But when I look at many companies today – particularly new-economy companies like Cisco and WorldCom – I have a hard time dismissing the strategic power of M&A.

In the last three years, growth through acquisition has been a critical part of the success of many companies operating in the new economy. In fact, I would say that M&A has been the single most important factor in building up their market capitalization. I remember that when I bought McCaw Cellular for AT&T back in 1993, everybody said we'd paid too much. But with hindsight, it's clear that cellular telephony was a critical asset for the telecommunications business, and it would have been a tough proposition to build that business from scratch. Buying McCaw was very much the right thing to do. The plain fact is that acquiring is much faster than building. And speed – speed to market, speed to positioning, speed to becoming a viable company – is absolutely essential in the new economy.

The M&A Group

Founded in 1999 by Dennis Carey, along with Jan Leschly and Dennis Kozlowski, the M&A Group calls itself "the club for acquisitive CEOs." The purpose of the group, which currently has 40 members, is to bring together CEOs who are interested in M&A as a business strategy and provide them with a confidential forum to discuss ideas and share experiences. In addition to attending semiannual conferences, members can access information and interact with professional advisory firms at the group's Web site (www.themagroup.com). The principal participants at the M&A Group roundtable were (in order of appearance):

David Bohnett: I agree with Alex. For some Internet companies in particular, M&A is certainly the fastest way to expand and solidify their businesses. That was one of the driving reasons behind our decision to sell GeoCities to Yahoo! in 1999. The two companies had compatible cultures and a similar vision of how the Internet was evolving. But the real reason we came together was that it was a fast way for both of us to continue to build competitive mass and expand our user base.

> "In the last three years, growth through acquisition has been a critical part of the success of many companies operating in the new economy. In fact, I would say that M&A has been the single most important factor in building up their market capitalization. – *Alex Mandl*"

Ed Liddy: I'm not sure that it's so black and white. Acquisitions are certainly a very good way to add a product line or distribution channel that would be too costly to build from scratch. But they don't replace internal growth or alliances. In my business, as in many of today's knowledge industries, assets go up the elevator in the morning and down again at night. They can walk out the door if they feel disfranchised. The build or buy decision therefore becomes a bit more delicate. I usually like to build internally when I feel confident that we have the product and process knowledge to capitalize on an opportunity quickly. Only if we don't have that knowledge, and if we see a company that provides a good strategic fit, will we go the buy route.

David Komansky: You don't want to fall into the trap of making acquisitions just for the sake of it. Although we've made over 20 acquisitions at Merrill Lynch in the last decade as we've expanded – including a $6 billion purchase of Mercury Asset Management – we didn't set out to make them. We started out with what we considered to be a well-forged, highly tuned strategy and decided between acquisitions and green-field investments depending on which approach we felt would more quickly fulfill our ambitions. And we've had our ups and downs in both situations.

Ed Liddy: I'd just like to say one more thing about the bad rap on M&A. I think one of the reasons for it

PHOTOS BY ANN BERRY/RANDALL PHOTOGRAPHY

Dennis Carey (Moderator)

Dennis Carey is a cofounder and currently serves as cochairman of the M&A Group. He is also vice chairman of recruitment consultants Spencer Stuart US, where he jointly heads the company's Boards and M&A Advisory practices.

Alex Mandl

Chairman and CEO of Teligent since 1996, Alex Mandl was previously number two at AT&T, where he was responsible for orchestrating AT&T's takeover of McCaw Cellular. Teligent offers local and long-distance voice, data, and Internet services to small and midsized companies in the United States.

David Bohnett

David Bohnett was a cofounder and the CEO of GeoCities, which was purchased in 1999 by Yahoo! for $3.7 billion. Today, he runs an Internet start-up fund called Baroda Ventures and serves on the boards of several companies, including NCR, NetZero, and Stamps.com.

is that acquisitions are so visible. When they fail, they draw intense notice. But a lot of things in business fail; we've all started projects that didn't work out. The internal failures simply don't get as much attention.

Dennis Carey: *The obvious follow-up questions are, How do you raise the odds of success? How do you choose the right companies to buy or merge with?*

Dennis Kozlowski: Tyco has been very aggressive in making acquisitions. The key thing I've learned is that acquisitions work best when the main rationale is cost reduction. You can nearly always achieve them because you can see up front what they are. You can define, measure, and capture them. But there's more risk with revenue enhancements; they're much more difficult to implement.

Unfortunately, people are often too optimistic about revenues. One of the businesses we're in, for example, is medical products. I've seen a lot of health care businesses think that, just by virtue of having more products, they'll be able to sell more to hospitals or other medical service providers a lot quicker. But it takes a long time to train salespeople to bundle the new products with their existing ones effectively and have them accepted in the market. For one thing, the salespeople have to deal with new competitors – the people already selling the same kinds of products they've just added to their bundle.

Jan Leschly. I'm not sure I'd go along with that entirely. Of course, I'm more famous for the deals I didn't make than for the ones I did! But when we at SmithKline Beecham look at acquisitions, we do focus on revenues because our production costs, once we've developed a drug, are minimal. So if we can increase revenues, we're in great shape. And what really drives revenues in the drug business is R&D; there are enormous opportunities in the new technologies now being developed. When we looked at merging with Glaxo, for example, we were talking about synergies in R&D. By merging the two organizations, we probably could save in the neighborhood of $500 million. That's $500 million more a year we could reinvest in the R&D itself, and that's where the merger's real benefit would be.

In terms of improving growth, though, I'd have to say that we have been much more successful at acquiring products and technologies than at acquiring companies. We have a venture capital fund that in-

Ed Liddy

Ed Liddy became the chairman and CEO of Allstate, the insurance company spun off from Sears, in January 1999. Since his appointment, Allstate has made two major acquisitions for a total of $2.2 billion and has also entered into several promising alliances.

David Komansky

David Komansky has been chairman and CEO of Merrill Lynch since 1997. One of America's leading brokerage houses and one of the world's top investment banks, Merrill Lynch has made over 18 acquisitions in the last five years, including the purchase of Mercury Asset Management for $6.6 billion in 1997.

Dennis Kozlowski

Dennis Kozlowski has been chairman and CEO of Tyco International for eight years. Tyco is a diversified manufacturing and service company with offerings that range from fire and safety systems to underwater telecom systems. In the last two years alone, Tyco has spent about $25 billion on acquisitions, including the purchase of AMP for $12 billion. Kozlowski also serves as cochairman of the M&A Group.

vests in start-up biotechnology companies whose products and services we then buy. We invest small amounts – half a million dollars here and a million there – and we put our people on the boards. Once the companies get going, we can decide whether to buy them out completely or not. With large acquisitions, you're buying an awful lot of problems along with the products and technology they bring. Our venture capital investments, though, grow with us, and we can see exactly how they might fit in.

Raj Gupta: Obviously, acquisitions can add value in many ways, and you need to gear your M&A strategy to the needs of your company and the realities of your industry. In the chemical industry, where Rohm and Haas operates, much of the M&A activity is driven by the industry's need to consolidate. Currently, there are more than 200 chemical companies with more than a half-billion dollars in sales. As one analyst put it, a large specialty-chemical company is an oxymoron. With this degree of fragmentation, there's certainly plenty of scope for cutting costs through acquisitions. But cost reduction shouldn't be the sole goal; the most successful companies will be those that can grow, as well.

When we make acquisitions, therefore, our real aim is to create larger platforms for growth. When we bought Morton, the chemical and salt company, we knew we could make significant gains on two fronts. First, we were able to strengthen our technology base by tapping into Morton's expertise in polyurethane adhesives and powder coatings. Second, we were able to bring Rohm and Haas's considerable access to new geographic markets to the Morton portfolio.

Jan Leschly: But acquisitions aren't always a workable way to get into a new geographic market. We've been struggling for the last ten years with how best to build a business in Japan, for example. From a cultural perspective, it would be very difficult for us to acquire a company there. And the Japanese distribution system is so fragmented that we can't feasibly establish a direct presence. So we're trying to find other ways to do business – alliances, joint ventures, and so on.

Dennis Carey: *Looking at the deals we're seeing these days, it seems there's been a shift from buying companies outside your business space to buying ones within your business space. Is that the key to success?*

Mackey McDonald: We certainly view it like that. At VF Corporation, we focus on the core businesses that we know – like jeans and intimate apparel –

Jan Leschly

Just retired in April, Jan Leschly had been CEO of drug powerhouse SmithKline Beecham for about six years. Shortly after the roundtable, SmithKline Beecham agreed on terms for its long-anticipated merger with Glaxo, a deal valued at about $180 billion.

Raj Gupta

Raj Gupta has worked at specialty chemical company Rohm and Haas since 1971. He became its chairman and CEO in October 1999. Rohm and Haas recently completed the acquisition of Morton International, a manufacturer of specialty chemicals and salt, for $4.9 billion.

Mackey McDonald

Mackey McDonald joined VF Corporation in 1983 and became its chairman and CEO in 1996. Founded 100 years ago, VF is a leading apparel manufacturer with sales of $5.5 billion. The company's brands include Lee, Wrangler, Vanity Fair, JanSport, Jantzen, and Healthtex. Recent acquisitions include Penn State Textiles, Fibrotek, Horace Small Holdings, and Todd Uniform.

and we try to bring our core competencies to acquisitions in those areas. An acquisition becomes attractive if it offers us a new consumer segment or geographic market to sell our products to or if it adds new products to one of our core categories. In our business, we find that if we venture too far from our core competencies, the risk isn't worth it. Many of the companies we buy are run by entrepreneurs who generally know a lot more about why they're selling than we know about why they're selling. We like to stick to our core businesses so if we run into problems, we have the resources and know-how to resolve them.

Jan Leschly: That's true for us as well. Not so long ago, the pharmaceutical companies were on an expansion kick. They spread into cosmetics, then got into consumer products, and finally into service businesses. In our case, we've been successful as a pharmaceutical company and as a major consumer health care company. But when we expanded into service businesses, we soon found that service provision is just not one of our core capabilities. We are a company based on innovation. We're good at manufacturing and systems.

Dennis Kozlowski: I've worked at companies that did diversify outside their core businesses, and I can tell you that they were never very successful. They'd take profits from good, established businesses and put the money into the next high technology. But they usually didn't have the management talent to support the new products or the services that they were investing in. Diversification was the main reason for company failures in the 1960s, '70s, and even the '80s. You can come up with quite a list of companies – think of Hanson PLC, ITT, and SCM – that had good ideas and then spoiled them by going out to invest in the next hot business. In contrast, companies that are doing well today are very focused. At Tyco, we have the same core businesses as a $27 billion company that we had when we were just a $200 million company.

Dennis Carey: *Alex, you said earlier that M&A was a critical strategic tool for growth in the new economy. Can you expand on that for us?*

Alex Mandl: As I said before, the need for speed forces companies to acquire rather than build. The smart Internet and communications companies, for example, are using their high market caps as currency to buy companies and quickly solidify their positions as the new economy takes shape. Take WorldCom. Five years ago, I don't think anybody around this table had heard of it. Thanks to a series

Bill Avery

Bill Avery became CEO of Crown Cork & Seal, a global leader in consumer-goods packaging, in 1989. Since then, the company has made some 19 acquisitions, including the purchase in 1996 of France's CarnaudMetalbox for about $4.5 billion.

Nicholas Moore

Currently chairman of PricewaterhouseCoopers, Nicholas Moore was previously the chairman and CEO of Coopers & Lybrand. Trained as a lawyer, he has spent more than 30 years in the accounting and professional services world since first joining Coopers & Lybrand in 1968.

Tig Krekel

Previously CEO of AlliedSignal's aerospace equipment unit, Tig Krekel became president and CEO of Hughes Space and Communications in January 1999. HSC is a subsidiary of Hughes Electronics, itself a unit of General Motors.

of rapid and clever acquisitions, it's now one of the top two telecom companies in the world.

No one knows for sure where we're all going to end up. But we know that we need to get there quickly. You need to carve out your space. And the only way to do that is through acquisitions. The pace, in the telecom world at least, is furious, and it's not going to let up until we know who the major players in the broadband world are going to be.

Jan Leschly: Using acquisitions to expand into the Internet space is a much less obvious strategy for those of us who aren't already Internet businesses. A company like SmithKline Beecham faces huge challenges in figuring out what to do with the Internet. Before we can even think about acquisitions, we need to understand the implications of the Net for our business. I really think that when it comes to the Internet, SmithKline Beecham has a leadership crisis. At least, that's the sense I'm trying to create in our organization. I have to make people at the top understand that we have very little knowledge of how to work in the new market space. The people who really understand it are very low in our hierarchy. They have no responsibility, no authority, no money. We're getting into a situation where it's the young people who have to mentor us – not the other way around. That's a huge problem for middle and upper management to realize, and they're understandably reluctant to delegate too much authority to younger people.

David Bohnett: I agree that it's usually very difficult for traditional companies to integrate Internet start-ups. Traditional companies' processes, cultures, and business models don't work in the new economy. In fact, most successful Internet businesses have evolved on their own, relying purely on the commercial possibilities of the Internet. The huge amount of money out there for Internet start-ups, of course, has made it easy for them to do that.

Mackey McDonald: Jan's point reflects our experience in the apparel business as well. In building up our Internet capabilities at VF, we quickly found out that you can't just go buy technology companies. They have a whole different mind-set than apparel companies do, a different pace. It's easier to figure out how to do business in Japan than in the new technology culture. We've found that the best solution is to form partnerships with independent companies. That's what we are doing with 12 technologies in the business-to-business arena. Also, we can't lose sight of the fact that our business is still heavily dependent on traditional retail channels, and we think a lot more apparel will continue to be sold in stores, not on-line. So when you announce that you're going to compete with your customers – the retailers – and sell direct to consumers, you're bound to run into problems. You don't want to undermine 98% of the business for the sake of a 2% opportunity.

Dennis Carey: *David, you've been working hard to bring Merrill Lynch into the Internet space. Why did you decide to build rather than acquire?*

David Komansky: There was great debate within the firm about that. We could certainly have acquired almost any of the on-line brokerage firms if we had chosen to, and there were those within our organization who wanted to. But we didn't feel that it was the right course. After all, one of the great challenges facing e-companies is building an image and a brand. If you watch TV now, you'll be swamped with e-commerce companies advertising their wares. For us, though, the Merrill Lynch brand is probably our greatest asset. So our strategy is to leverage our name and move the battleground away from price and technology by offering much the same price structures as the leading on-line brokers. In our business, technology is going to be a sine qua non, so everyone in the game will have it. But if we can force the game to content, it will be very difficult for other on-line competitors to match what we can provide.

It's certainly been a very, very difficult trip for our organization. Adjusting to the new economy is like trying to change the tires on a 747 in the middle of landing. Something is going to get squeezed somewhere. It took us a long time to get over our denial and accept the fact that the Internet is not a temporary phenomenon but a true change in the marketplace. It had reached the point where we had earned the reputation of being Luddites. Now that's all changed. We recognize that a certain segment of our clientele wants to deal in the virtual environment. Either we provide that opportunity for them or they go over to companies like Schwab.

We still have a lot of work to do in teaching our sales force how to deal with the pricing pressures that the Internet is putting on our business, and the challenges of managing our core businesses along with the Internet are very trying. But I do think that the emotional transition is well behind us.

Dennis Carey: *Let's pick up on that thought and turn to some of the softer issues surrounding M&A. We often hear about deals collapsing because of cultural incompatibilities. What's been your experience with cultural integration issues?*

Jan Leschly: It's a necessary condition for any deal that there be a good rationale for integrating the businesses. But, in my experience, even if the rationale for a deal is terrific, the deal can still fall apart because of cultural differences. Merging a U.S. and a European company, as we have done, is a particularly complicated process. The management styles are totally different. People have different views on how to manage a global organization. Where should management be centralized, and where should it be decentralized? How should you pay people? The British and American philosophies are so far apart on those subjects they're almost impossible to reconcile.

Dennis Kozlowski: I'm not so sure that culture is as important as it's made out to be. I've never seen a deal really fall apart on a culture issue – or any soft issue. Most collapse on price, one way or another, and managers just use soft issues as an excuse. I accept that companies do have different cultures and that reconciling them can be a lot of work for both sides. But I've been able to live with different cultures and adjust to them.

> Adjusting to the new economy is like trying to change the tires on a 747 in the middle of landing. Something is going to get squeezed somewhere.
> – *David Komansky*

Bill Avery: Well, having just acquired a European company, I can tell you that there is one cultural difference still very fresh in my mind. Let's say you're not making your budgets because the selling prices of your products are falling. In the U.S., we'd think, "Well, if prices are going down, we've got to cut costs." But in Europe, some managers may be inclined to say, "Well, prices are falling now, but in a couple of years, they'll go back up." My experience at Crown has been that European management tends to be generally less aggressive in cutting costs than we are here in the U.S., perhaps because margins traditionally have been higher in Europe. That's a really big culture clash.

At Crown Cork, we think we are very, very good at cost control, so we are working hard to get a more consistent style across the company. In fact, in the packaging industry, our profits are the highest in our categories. When you buy a company outside the U.S. as we did, you really need to know what you're getting into, and that's hard to get at in due diligence.

David Komansky: It's totally futile to impose a U.S.-centric culture on a global organization. We think of our business as a broad road. All we expect people to do is stay on the road within the bounds of our strategy and our principles of doing business. We don't expect them to march down the white line, and, frankly, we don't care too much if they are on the left-hand side of the road or the right-hand side of the road. You need to adapt to local ways of doing things. The only firms in our industry that have been really successful on a global basis are Goldman Sachs, Morgan Stanley, and ourselves. That's because we've been more flexible than investment banks from other countries.

A very interesting statistic I once read says that people are normally productive for about 5.7 hours in an eight-hour business day. But any time a change of control takes place, their productivity falls to less than an hour. – *Dennis Kozlowski*

Nicholas Moore: Cultural differences are not just a matter of geography. Different companies can have very different attitudes and ways of working. In merging PriceWaterhouse with Coopers, for example, we've had to put together people who've been competing against each other for 40 years. So culture has been a really big part of the equation. You have to build trust, and that takes a lot of managerial attention and time.

Ed Liddy: It's important to remember that you don't always have to have a high degree of cultural integration. You can't try to slam every acquisition into one mold. In the last 12 to 15 months, we've probably made four or five acquisitions. In some cases, we've completely integrated them into Allstate. But in other cases, much to the chagrin of our very good Allstate executives, I've said, "I don't want you to 'Allstate-ize' them. I want them to be separate." In the end, what you do with an acquisition depends on the channels and the products that you and the acquired company are in.

Dennis Carey: *Let's shift to some of the mechanics of integration. How do you approach it, and what are your priorities?*

Raj Gupta: At the beginning of negotiations, you tend to concentrate more on the business portfolio, but as the deal advances, your focus switches to people and processes. And once the deal closes, you often have to move very quickly on those fronts. The first thing you have to do is settle the uncertainty of who's going to report to whom and who's responsible for what. When we bought Morton, we put the new management team in place just 24 hours after announcing the deal. Doing that helped people to focus externally rather than internally. Losing external focus is one of the biggest risks when you integrate two businesses – and that's when you lose people and customers.

Once you've answered the key people questions, then you have to start integrating the basic work processes, computer systems, financial systems, and so on. You shouldn't underestimate the difficulty here. You'll find that you won't always get the information you need to make a timely decision – especially in the early days. That's why it's essential to have the right people in the right places within your organization – people you can trust to use a solid combination of data evaluation and intuition to make the best and fastest decisions for your organization.

Ed Liddy: When we announce an acquisition, we try to have the management structure completely laid out. I think the work of integration really needs to start when you're planning the acquisition because it's tied up with the whole reason you're buying the company. You have to start asking the right questions early. At Allstate, we have an integration team that works hand-in-hand with our strategic-planning area. They'll press the planners: "What's the logic of this acquisition? Is it cost takeout? If it is, what processes do we have that we can transfer to the acquired company to bring it up to a level of performance that we're comfortable with? What can we borrow from them that would help us?" And we communicate, communicate, communicate. We say the same thing over and over again to the acquired company, to ourselves, to Wall Street. That way, a common understanding of what we're trying to do can emerge.

Mackey McDonald: After an acquisition, you have to face a room full of people who want to know, "What happens to me?" If you don't answer that question, they don't hear much else of the presentation. Obviously, you can't say, "Everyone here is fine, and no changes are going to take place." What we try to do is explain the process that will determine the new management structure. If you can show how that's going to work, it does relieve some of the concerns. You've then got to pull in the smartest people you have to implement the changes. It's particularly important to do this for international acquisitions. When we acquired our Wrangler-licensed business from Mitsubishi in Japan, we came across all the culture issues we've been talking about here. We couldn't put in people who would immediately try to Americanize the company. We had to understand the local culture, or at least be willing to learn about it before making any changes.

Jan Leschly: It's extremely important to reach out to the second tier of management quickly. When we acquired Sterling Drug in 1994, we used a consulting company to evaluate all our managers – not just Sterling's – in every single country in which Sterling operated. They did it in just three weeks. It was a tremendous morale boost for Sterling's managers, who didn't feel that they were just being slaughtered. In fact, we had to fill 87 jobs around the world in the integrated operation, and 57 of them were filled by Sterling's managers.

Dennis Kozlowski: A very interesting statistic I once read says that people are normally productive for about 5.7 hours in an eight-hour business day. But any time a change of control takes place, their productivity falls to less than an hour. That holds true in merger situations. Inevitably, people immediately start thinking about themselves. So moving fast and getting the right people in place are extremely important. At Tyco, we look to the companies we acquire to provide those people. We present our objectives and our philosophy, and we look for the people who respond. Often, it's not the top executives but rather the people under them who are the quickest to understand and embrace the new philosophy.

At one company we acquired, we took a group of about 25 people off to a small town in Germany for a long weekend to consider ways of changing the business. They came up with a drastically different organizational structure for the company, which we implemented pretty well 100%. But more important, the company owned those changes. They weren't forced on it by us – they came from within. The more you can create a culture that encourages actions like that, the greater your chances of success. I might add that it's almost impossible to build such a culture when you do hostile acquisitions, which is why we don't do them.

Dennis Carey: *When there are integration problems, where do they tend to arise?*

Tig Krekel: I've been in companies that have been acquired, and I can tell you that people become extremely sensitive to every announcement, to every detail. Where is headquarters going to be located? How many people are going to lose their jobs? The in-house rumor is 400, but the acquiring company says 200. You need constant communication to avoid paralysis and maintain morale.

Another flash point is the customer. In the drive to complete a deal, it's easy to lose sight of the concerns of customers. There's almost never any detailed analysis in due diligence of how the customers will react or of the pros and cons of the deal from their point of view. But if you're in a noncommodity business with a small number of large customers, as we are at Hughes, you really do need to have a handle on who will control those relationships after the deal. You can't have ambiguity when it comes to customers.

Jan Leschly: It's true that merger talk makes a lot of people unhappy. But it can also make a lot of people very happy, and that brings its own problems. Think of all the people who can say, "My goodness, this gives me the chance to retire a little earlier. I get this wonderful package. My stock options are vested. This is a wonderful opportunity for me to get out of here." The potential for an exodus of talent is very real. And it becomes even more real in hostile takeovers. As we speak, think of what's going on inside Pfizer, Warner-Lambert, and American Home Products – three companies in the midst of a whirlwind of takeover talks and rumors. What do you think is happening in those organizations today? Think of the opportunities to recruit from them. Whichever deal gets made, a lot of people will just cash in and leave. At SmithKline Beecham, we spend a lot of time figuring out how to retain people who have just become multimillionaires. What incentives can we give them to stay? In any deal, the impact on talent has to be at the top of the agenda.

> "It's true that merger talk makes a lot of people unhappy. But it can also make a lot of people very happy, and that brings its own problems. Think of all the people who can say, 'My goodness, this gives me a chance to retire a little earlier.'" – *Jan Leschly*

Dennis Carey: *One of the most delicate questions in any merger or acquisition is the composition of the board. Although good directors are tough to find, not many are being brought in from acquired companies. Why is that?*

Alex Mandl: It depends on whether people have an interest in joining. Most of the time, board members move on to something else. Craig McCaw, for example, declined a seat on the AT&T board because he realized that he was going to start up new businesses, as of course he has.

I think your comment about it being tougher to find board members really begs the question of why, in today's world, you would want to be on a board. Yes, it's an interesting group of people, and it can be an interesting experience. But I'm amazed, frankly, at how much talk there is in mergers about the importance of combining the two boards. Why is it important that both groups end up on the same board? Taking a board role, it seems to me, might make more sense with an exciting new company, where you might have a significant personal stake and where you can truly help get the company going.

Ed Liddy: We've certainly found very good directors through acquisitions. The challenge is finding people who are prepared to represent the interests of all shareholders, not just the management or the shareholders of the company whose board they were originally on. Clearly, you'll always have an affinity for that part of the organization, but you have to move beyond it. I think most people who sit on multiple boards understand that.

Jan Leschly: I have to say that we've never taken on any board members from our acquisitions. It's not a policy; it's just never happened. It's a different story for mergers, though, where board membership can be a very sensitive issue. It's tough to face your board and tell half of them that they're not going to join the new board. It doesn't exactly create an easy atmosphere. Normally, you just combine the two boards as one big one and then over a year or two it comes down to a normal size again. Of course, most mergers are really acquisitions. People called it a merger when Squibb teamed up with Bristol-Myers. I was president of Squibb at the time, and I can assure you that it was certainly not a merger of equals. It was an acquisition, and the majority, by far, of Squibb's management team was dismissed. If it really had been a merger of equals, that couldn't have happened.

Dennis Carey: *And with that, I'd like to bring to a close what I think has been a very productive discussion. Thank you very much.*

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