
Making mergers and acquisitions work: What we know and don't know –Part II

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ABSTRACT *This is Part II of a two-part paper that summarises what is known and not known about making mergers and acquisitions (M&A) work, and identifies best practices where appropriate. In Part I, which appeared in Volume 3 Number 2 of this Journal, the case for change was laid out. It was established that most M&A do not turn out to be successful. The experience of GE Capital and Cisco Systems, two companies that have successful track records was discussed. A systems approach was described, and a model for success was proposed in Figure 1. This model appears as Figure 1 of Part II for reference. This part discusses culture fit, structuring the integration team, leadership selection and integration issues. Taken together, the two parts of this paper outline the critical elements of a systems approach to making M&A work. Professional change agents and managers responsible for making mergers or acquisitions work will find that this paper will identify key levers for them to focus on as they go about the real work of making it happen.*

CULTURE FIT

One way to look at culture fit is the way Cisco does. Dan Scheinman is Cisco's 'culture cop'; what does he look for?

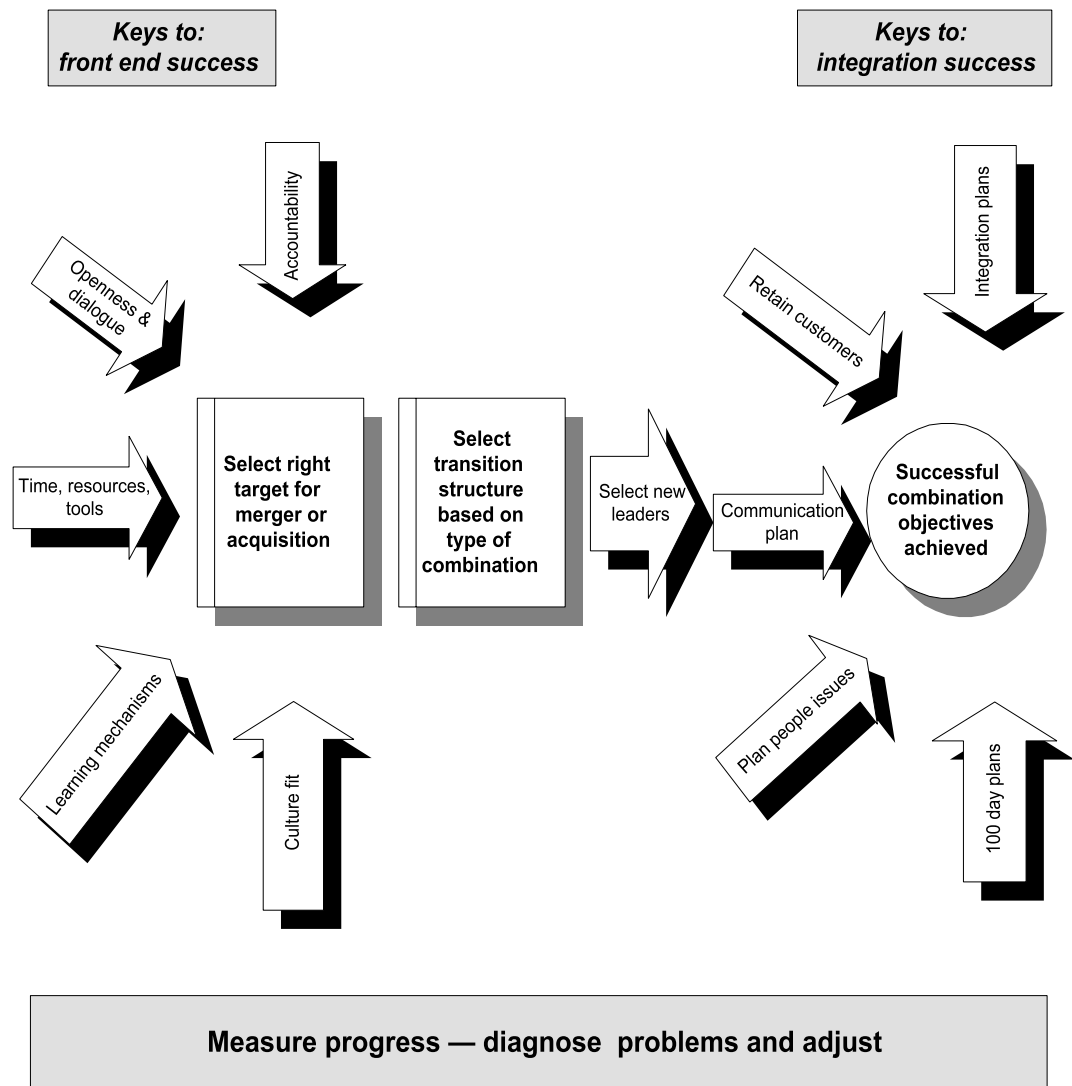
- If a company has not made a glaring mistake it is probably not daring enough, if it has made too many it is probably stupid.
- Role-play the key decisions the target

has made, if you would have come to the same conclusion, you are probably a good fit.

- Observe what is going on in negotiation. Are they a team or is there bad blood between departments in the target organization? Are people looking out for the organization and its stakeholder, or for themselves? (Goldbatt, 1999)

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Figure 1 A systems approach to successful mergers and acquisitions



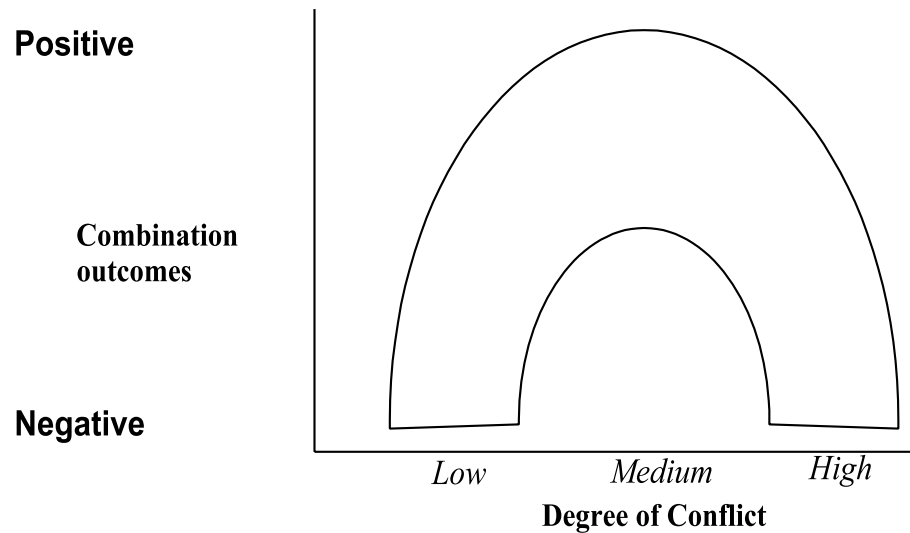
These points are insightful, but they have to be tailored for each situation; question one is highly industry specific, questions two and three should be generally applicable across industries.

Another way to look at culture fit is the way Marks and Mirvis (1998) do in *Joining Forces* (see Figure 2 for a graphic display). They feel that the best combinations occur when a fair amount of culture clash prompts positive debate about what is best for the combined organisation.

Of course all is not lost if there are significant cultural differences as long as the leadership of the corporation is willing to address the issues. See the Thompson Publishing case in Appendix 1.

Leaders set the tone for the culture and for how relationships are going to unfold in the combined organisation. Therefore, leaders need to be sensitive to cultural issues from the initial dialogue with the target organisation. It is easy to get off on the wrong foot. Marks and

Figure 2 Cultural differences and combination outcomes.
Source: Marks and Mirvis (1998)



Mirvis (1998) write that the rush of success from being the acquirer easily translates into condescending attitudes about the other side. That pressure for success often leads to unilaterally imposing integration plans on the target company. All of which does not build trust or good relationships.

The acquired company's managers almost always have significant negative feelings that need to be overcome, particularly in the merger of older, more established companies. John Handy did a study in 1969 of over 1,000 executives and found that 90 per cent were not prepared for the change in status and structure that followed an acquisition (Marks and Mirvis, 1998). This study needs to be updated to reflect the feelings of people in high-tech acquisitions. It is quite possible that even though many of those acquired in high-tech acquisitions stand to gain substantial wealth, their feelings about changes in structure and status might be very similar on average to those in the 1969 study, because most companies do not spend the time and energy that Cisco does on integrating their people.

What is the right approach? Top

leaders in the combined organisation need to have open dialogue about the behaviour needed to succeed in the new organisation. And they need to walk the talk. In the case of a GE Capital, this should take place in conjunction with discussion of non-negotiables which include items about the GE culture. In large combinations, it includes leaders at the VP and General Manager level discussing unique aspects of the culture needed in their subset of the organisation. There are aspects of culture that are core, and aspects that need to vary from one subset of an organisation to another. Without this variability, it is very hard for the organisation to be adaptable (a key to long-term positive impact of culture). For example, safety may be a core value in a company that all can adhere to, while values around speed of action may be very different in IT vs financial functions, owing to the needs associated with being effective in those functions. This discussion about direction for the culture of the combined organisation can be expressed in the options shown in Table 1, with examples of each type.

Key variables in the culture path taken

Table 1 Culture change options in mergers and acquisitions

| | | | |
|--|---|--------------------------------------|--|
| <i>High</i> | <i>Absorption</i> GE Capital Coke Cisco Systems | | <i>Transformation</i> Unisys |
| Degree of culture change in acquired company | | <i>Best of both</i> ExxonMobil | |
| <i>Low</i> | <i>Preservation of both</i> USX/Marathon | | <i>Reverse engineered</i> Lotus/IBM |
| | <i>Low</i> | Amount of culture change in acquiree | <i>High</i> |

Source: Marks and Mirvis (1998).

are the importance of integration, the degree of integration required, how hard or easy it will be to meld the cultures, and the expected benefits of deciding to engage in a culture change process. The most difficult culture changes will generally be associated with best of both, transformation and reverse engineered goals. Culture change is always difficult, but a combination affords a unique opportunity to take the culture and its impact on performance to another level.

Experts generally estimate it will take seven to ten years to change a culture; however, in an acquisition or merger, the time frame can be shortened considerably, because:

- The combination can force top management to focus attention on what the culture needs to be like to win. Top management attention is a key to successful change.
- If one actually takes the best from each company, there are people on both sides that know how to make that happen. What does it feel like to operate in that way?
- By carefully selecting leaders and

managers, one can reinforce the direction of the culture, sending very strong messages about what matters. During a combination, the number of managers and leaders selected to key roles in a short time is unprecedented — in a normal situation one has to wait for years for this much opportunity to change leaders.

- Infrastructure systems that would reinforce the new culture have to be selected, changed or remodelled anyway. They would take much more time to overhaul and change in the normal course of events. Things such as reward and compensation systems, information systems such as Lotus notes that encourage collaboration, all have to be decided upon.

More research is needed on the possibilities here, and the impact on speed of culture change. Of course the opportunity to create a total disaster also exists. Deciding to go to a transformed culture, using a poor selection process, so that a lot of the leaders chosen are selected based on seniority or politics, and then selecting existing infrastructure

systems because they are cheap and convenient even though they do not fit the new culture, will require years for leaders to recover credibility.

The bottom line on culture fit is that it is very important — a lot of thought needs to go into it and at many levels of the organisation. In many situations, companies should turn down targets based on lack of compatibility and the importance of cultural fit to financial success in that business. Individuals capable of analysing cultural issues should be involved with the selection team from the beginning when cultural fit is important to the financial success in the business.

INTEGRATION

Integration manager vs transition structure

Effective use of an integration manager is associated with situations in which one organisation's culture is being absorbed by the other or where both cultures are being preserved. This is the best approach because of the relative size and complexity of the task at hand.

Absorptions usually involve a much bigger company acquiring a smaller company. It is much easier for an integration manager and integration team to get its arms around the issues involved and work its way through the issues. The difficulty of doing this effectively should not be minimised — it is hard. In the case of preservation, again the complexity is usually much simpler, hence the integration manager and team. In situations where integration managers are used, selecting the right integration leader is critical. Competence models describing the most important skills, knowledge and characteristics of a good integration leader are not part of the public literature. Hence the straw

competency model (see Table 2), which may be used as a starting point. The model gives the rationale for selecting each competence. Competencies were selected from Daniel Goleman's (1998) book *Working with Emotional Intelligence* so that readers would have public access to more details about these competencies.

When big organisations combine, they are usually going to try for the best of both, a transformation or to reverse engineer. These concepts usually go beyond looking at the culture — the change often involves reformulation of major processes, rethinking how IT is run, developing new policies and procedures. The undertaking is massive and involves literally thousands of people when large firms are involved. A separate transition structure is required.

Experience with transition structures suggests that they should be formed early in the process, well before the change in control (CIC). The leaders of the transition teams should be the leaders of the new organisation after the combination. For example, the person heading up the IT transition team should be the new head of IT after the merger. This is true for the following key reasons:

- There will be continuity, rather than second-guessing and restarting of engines, if the same person is in charge of the transition teams before CIC and the new organisation after. This allows for a fast start, which is critical to integration.
- It allows the new organisational teams to get to know each other, and develop a good working relationship around the very tangible work that needs to be done in planning the future. This also leads to a fast start after CIC.
- The most important work of the organisation during a significant

Table 2 Integration manager competencies

Note: The lower and more functional the integration team, the more important technical/functional knowledge is, the higher and more important a General Management perspective is. All rationale for selection of a competence is the author's.

| |
|--|
| 1. <i>Self-confidence</i> — A strong sense of one's self-worth and capabilities. There are no road maps, this is a very difficult task to do well, and it is done under pressure. Leaders without sufficient self-confidence will not be up to the task. |
| 2. <i>Adaptability</i> — Flexibility in handling change — the situation demands flexibility. |
| 3. <i>Achievement drive</i> — Striving to improve or meet a standard of excellence. Given the promises of synergy at the announcements of mergers and the desire to move quickly, the leader must push the team to achieve to get the hoped-for synergies quickly. |
| 4. <i>Optimism</i> — Persistence in pursuing goals despite obstacles and setbacks. Inevitably, there will be significant obstacles and problems to overcome in a combination, it is easy for leaders to get down. |
| 5. <i>Political awareness</i> — Reading a group's emotional currents and power relationships. The integration team is often made up of people from both organisations, many of whom are unknown to the leader. Whoever the integration leader reports to will probably be a person the integration leader does not know. The situation they are working in is emotionally charged. |
| 6. <i>Influence</i> — Wielding effective tactics for persuasion. Integration managers need to influence a number of people, including senior executives that their recommendations are the right ones. |
| 7. <i>Communication</i> — Listening openly and sending convincing messages. There are a number of different ideas and issues that need to be heard to be effective. There is a lot of cynicism from employees about the organisation. Integration leaders are often on point to communicate with employees. |
| 8. <i>Conflict management</i> — Negotiating and resolving disagreements. There will be a number of significant conflicts to be resolved in a situation like this. |
| 9. <i>Change management</i> — Initiating or managing change. This is one of the most stressful types of change situations you can be part of. |
| 10. <i>Team capabilities</i> — Creating group synergy in pursuing collective goals. Teamwork is important to success, and it is a difficult environment to build a team in, owing to culture differences, the stress of the situation, and demands for results. |
| Source: Selected from Goleman (1998). |

| | |
|---|--|
| combination is to think through the future. Day to day operations can be run by a lot of other people in the organisation. So future leaders should be put on this assignment. | often reporting to the board or the executive committee for large combinations. A number of business and functional transition teams report to this steering committee. They address issues from HR to running International Operations. The specific make-up of committees has more to do with the business and how it is to be organised in the future than anything else. The author strongly recommends interlocking members to help in the coordination |
| Marks and Mirvis (1998) devote a great deal of time in their book <i>Joining Forces</i> to discussing transition structures, about which a few key points should be discussed. First, there is usually a steering committee made up of top executives | |

process. That is, to deal with interfaces, let members of one transition team also be members of transition teams where there is a good deal of interdependence. This will encourage constant dialogue.

Here are some choice pieces of advice from Marks and Mirvis (1998), who have had a lot of experience in this area.

- Top leadership's role is to set guidelines, oversee analyses and recommendations. Make sure everything fits into the bigger picture.
- Periodically bring the whole system into the room at once. That is, have large meetings where the different transition teams can see where other teams are going, identifying areas of interdependence, conflict, etc.
- Team building should be done early on to clarify roles and responsibilities, communicate and reinforce expectations, set standards, and get the teams off to a flying start. They also feel that team building should go on throughout the duration of the transition structure, since keeping everyone together and pulling in the right direction is critical, and there is little room for error.
- People should be full time on these teams, and they should be the 'A' players.
- Transition teams need their own space where they can come together as a team.

SELECTION OF LEADERS FOR THE NEW ORGANISATION

This issue is most important when combining large organisations where there is a significantly different structure in the combined organisation, and there are many more executives and managers than there are jobs. This is an opportunity to high grade the leadership of the organisation, to send clear

messages about direction, the future and how things are going to be different. If handled badly, it is an opportunity to demonstrate favouritism, that politics are alive and well in the combined organisation, and that the company is really not serious about the new direction it says it is going in. Nothing top management does in the early stages of a combination will do more to signal the troops about the 'real future' than these selections.

There is much room for improvement based on experience. To select effectively the best leaders for the future, an organisation must overcome these barriers to success.

- Shortage of time: there is a need to make decisions quickly.
- Lack of good information about the candidates: either because of the failings of the performance management system, or because they focus backwards.
- Often very different conceptions of what a good candidate looks like based on the differences in the cultures of the combining organisations.
- A tendency to hide the truth because real jobs, power and money are on the line.

Based on a very successful process used in one organisation, the following course of action is recommended. It takes bold leaders to do this right, HR cannot make this happen alone.

- A team of top executives with an HR executive or consultant should be put in place right from the word go to develop a set of competencies that will describe the type of leaders needed in the future organisation. A big study is not recommended. Existing literature should be built on.

If the right executives are on the team, this can be done in two or three meetings, assuming the executives are also thinking about the future of the organisation. If they are not, it is futile.

- The top team should have developed core competencies for very high-level executives. Each transition team should tailor these competencies so they will effectively guide selection at the level of the organisation they will be selecting. The net result is that the finance department should have a few competencies that are different from IT and manufacturing, etc.
- Leaders should be selected in a cascading process tailored to the organisation. The top person should pick their direct reports with the help of HR, input from the Board or their boss. Then they should involve those selected in the selection of the next level of the organisation, and so on through a level of management where people are managing 30–100 people.
- Each level of managers should make the selection by developing a candidate list for each job at the next level. The usual suspects should be included, but very good to excellent candidates should also be considered from outside the function or business unit. These people can bring in fresh ideas, and may be better than the current cast of candidates.
- It should be determined who in the current organisation would have a good deal of information about this set of candidates, customers, peers, bosses, etc. This list should be divided up among the set of managers making the selection, and they should call people to gather data on the candidates, using the competencies and a simple set of questions.
- HR or outside consultants should gather data on each set of candidates

from subordinates, using the set of competencies.

- HR personnel should gather existing data on the candidates from performance appraisals, succession planning documents, etc.
- An off-site meeting should be held to decide, position by position, who will get each job. All data gatherers and decision makers should be at the meeting. It should be structured so that the data are tabled first. A good facilitator is vital — the meeting will get hot. Enough time should be allowed — it may take a day or two to do a level.
- If this is done right, the quality of data, the quality of discussion and the quality of the final choices will be a pleasant surprise. The process will knock out many of those that would have got jobs based on politics or because they were someone's crony.
- *A disclaimer.* The top executive at each level has to own this process, want it to be fair and open, and be willing to live with almost all of the choices. They should participate in the process extensively. If not, it will not work.

The above process addresses all the issues raised above, if it is started very early and the importance of the decisions being made is appreciated. If this is done, line managers will not complain about the extra effort it takes to gather the data and discuss who the best candidates are for the future.

GETTING OFF TO A FAST START

There is good agreement that the first 100 days after a major change set the tone, signal the troops about the real direction of the organisation and its vitality. It is very important to get off to a good start. This can be complicated by the fact that key people are tired, even

exhausted, by all the energy expended in getting to CIC, particularly in large combinations. It is time to face up to it, however, not take a breather. If the ball is dropped here, it does not matter that a good decision was made about whom to combine with or acquire.

It should be kept in mind that the keys to integration success shown in Figure 1 must happen at multiple levels in the organisation to be effective, if the combination is very large. That is, business units and staff functions will each need to do this on their own, as well as at the corporate level. Large business units or staff functions will have to cascade this down into the ranks, involving managers of 30–100 people.

To do this right, and get off to a really fast start, by CIC, high-level game plans should be ready at the business unit and function level. The teams at the top of these units should have thought through future mission, values, strategies and objectives for the first year. These items are not negotiable when involving the next level down, though wise leaders will respond positively to the discovery of flaws in their thinking as the next levels down become involved. This level of management should also have its 100-day plan ready to guide its activities. If a business unit or function is relatively small, and cascading is not needed to involve all leaders, the above can be done in the first month after CIC.

For large business units and staff functions, off-site meetings involving all relevant leaders should be held within four to six weeks of CIC, even if these involve 100 or more people. These meetings often last three to five days. The meetings should focus on:

- Getting clarity about direction and the high level game plan.

- Values, and how leaders will be evaluated in the new organisation.
- Draft objectives and 100-day plans for the level attending should be generated. See Table 3 for some typical items in a 100-day plan.
- There should be peer review in the meeting of both the objectives and draft 100-day plans generated. This will help integration by emphasising interdependency and contributing to the sense of being a team.
- Time should be set aside in the meeting for people to get to know each other, and begin to develop the new networks they will need to get work done.
- If the organisational unit involves people from distant places coming together, and it is not easy to reassemble these people, it is recommended that time be set aside for subsets of the business unit or function to meet with each other on key issues during the meeting.

Everything developed at this off-site should be finalised within a week of the off-site meeting, and the leaders should be out executing the plan within ten days of the meeting. Biweekly to monthly review meetings should be held to measure progress on the 100-day plan. Information on progress and problems should be brought to the meetings. See Table 3 for suggestions on how to capture data on how it is ‘really going’.

Careful thought must be given to what should be done to retain customers. With the inevitable confusion and turmoil caused by a combination, it is very easy to lose sight of customers. In fact, communications with the customer should start well before CIC, and this needs to be two-way communication, not just a set of nicely-crafted letters telling them not to worry.

Table 3 100-day plan —Typical examples of items

| <i>Action items</i> | <i>Resp.</i> | <i>Due</i> | <i>Priority^a</i> | <i>Status</i> |
|---|--------------|------------|-----------------------------|---------------|
| <i>Key decisions to be made^b</i> | | | | |
| 1. Make decision on outsourcing | | | | |
| 2. Select managers for the three vacant leadership jobs (caused by resignation) | | | | |
| <i>Leadership/communication</i> | | | | |
| 1. Develop a communication template that all managers can use in talking to their staff | | | | |
| 2. Communicate information from this meeting to all employees and hold forums to discuss | | | | |
| <i>Product/service improvement efforts</i> | | | | |
| 1. Implement the game plan developed to retain customers | | | | |
| 2. Each manager call 25 of our key customers in the next month to see how well we are meeting their needs and identify any issues | | | | |
| <i>Infrastructure: procedures/support systems</i> | | | | |
| 1. Develop a new procedure to do X, combining the best of Company A's and B's current procedure | | | | |
| 2. Find a fix so that Company A and B e-mail systems can exchange data | | | | |
| <i>Organisational structure/R&R</i> | | | | |
| 1. Develop and communicate R&R between functions X and Y, addressing key interface issues affecting them | | | | |
| <i>Build organisational capability</i> | | | | |
| 1. Begin to develop strategic vendor relationships with our top ten vendors | | | | |
| <i>Measurement</i> | | | | |
| 1. Complete lower level scorecards | | | | |
| <i>HR Systems and support</i> | | | | |
| 1. Communicate new appraisal and compensation systems to all employees | | | | |

^aPriorities refers to the key priorities set by the leadership team. These should be small in number to keep the organisation focused; typically there are five to seven priorities at this level. This column is meant to show the relationship between the action item and the priorities by indicating what priorities it supports. The other columns are self-evident.

^bCategories can be generic as in this example, or a combination of generic and functional. Note these plans are usually six or seven pages long. Here, only a couple of examples are given per category, to give a flavour of the type of items included. It is also fine to have items that start in the first 100 days but do not get to be completed until later.

EFFECTIVE COMMUNICATIONS

Employee distrust and cynicism regarding business leadership is at an all time high. Only 20 per cent of employees trust what senior managers tell them. Nearly 75 per cent of all US households have a family member, friend or neighbour that has been laid off. This has created what the *New York Times* in 1996 called the greatest insecurity since the depression. Many employees have grown wary of change initiatives and leadership's ability to produce true enhancements in the workplace. When combined with the fact that the number one fear of executives is job loss due to M&A or downsizing, you see why a combination presents a significant communications challenge (Marks and Mirvis, 1998).

What do employees want to hear during a combination?

- A clear and convincing picture that this merger makes sense for their company and its future.
- Signs that the merger will be managed well and that it will lead to a new and better organisation.
- Signals that people matter in the new organisation
- Answers to what this means to me (from a presentation by Phil Mirvis at a professional seminar)

The following is what some senior executives had to say about communications during the 2001 World Congress on Human Resources:

'The people (managers) bearing the news must be credible. They must support (the transaction) and say to employees, "This is good and I believe in it". And employees must believe them.' (Jean-Luc Placet, Chairman and CEO of IDRH)
'You must outline the plan, tell people how you will implement the plan and do what

you say you are going to do. You must also share the bad news.' (Chief Operating Officer of Nissan Renault) (Fox, 2001)

On the day the acquisition is announced, successful acquirers sketch their high-level product road map and market vision for employees to see how the purchased company fits into the larger company and to communicate their enthusiasm and respect for the new people. They also bring in high-level people who have been acquired in other deals to be part of the announcement, so they can tell their story and help alleviate fears (Chaudhuri and Tabrizi, 1999).

Effective two-way communication is needed for success. This means really listening to what is going on in the organisation. Mirvis likes to start his workshops with managers going through a combination by asking them to draw a picture of how they see the combination going. Then he asks them to interpret it. This technique brings out many feelings that people are unwilling or unable to express directly in words.

The following is a list of effective communication elements.

- Leadership by management at multiple levels of the organisation.
- Hosted forums, breakfasts, focus groups — two-way vehicles.
- Networking and developing a set of people who will be honest.
- Listening posts — this role fulfilled part time by line and staff members.
- A few major meetings should be held which roll down to almost all levels of management.
- Executives should plan a communication itinerary so they cover the workforce.
- Actions speak louder than words.
- The way those who lose their jobs are treated speaks volumes to those that remain.

- Multi-media, e-mail, websites and videos should be used to get the messages out frequently.

Mindszenty and Roberts (2001) have written an insightful paper on the role of line managers in communicating with staff during difficult situations such as a combination. The following are some of their key points.

- While public relations departments develop and deliver increasingly sophisticated and attractive communications messaging mechanisms, research consistently verifies that employees look first to their managers and supervisors for information about the organisation. Unfortunately, research also confirms that too many team leaders are ill-equipped to deliver on employee expectations. But the very complexity of the organisations striving to succeed in today's global village demands that team leaders become motivators of those they lead, champions of the corporate cause, and missionaries for productivity.
- Without consistency and proper message context, cones of confusion are created throughout the organisation. These are created when there is inconsistent sharing of information in the organisation. Some managers and team leaders get good information and share it, others do not, and their people get a mixture of inaccurate information, rumours and grapevine tales. The people in that organisation then share their inaccurate information, creating confusion throughout the organisation.
- The authors developed a concept called the Arch of Understanding some 15 years ago. On the left side of the arch are the big picture messages that top management wants

to get across: vision, mission, objectives, challenges, etc. On the right side are messages about what all this means to the employee and to his/her team or work group. The team leaders/managers need to own this part of the arch, to interpret the messages so they will be relevant to team or work group members.

- One of the biggest mistakes that they see senior managers make is to try to sell their initiatives too hard. For communication to work effectively in these stressful change situations, where resistance to change lurks around every corner, the authors argue that communication has to focus on 'connecting'. This means effective communication starts with understanding and respecting personal impact. People will not listen if they do not think their concerns, issues, fears, etc. have been recognised. So effective communication starts with listening.
- Once the above connection has been made, one can start working on awareness.
- The next level is to get to understanding. Understanding of the goals, objectives, implications, their roles and responsibilities etc. At this level of communication, an employee can do his/her job. This is the level one should push to get to with one's communications. The more one pushes for acceptance, the more likely one is to encourage resistance, the authors feel.
- People will make up their own mind based on their experience: 'trust and support are gifts employees bestow on a management that's consistent over time in its walk and its talk'.
- They have a unique workshop that helps managers and team leaders prepare for an effective role as communicators in significant

transitions. Their experience is that managers and team leaders can dramatically improve in their ability to communicate and connect with employees. The process they teach is an on-going process that facilitates communication between management and employees throughout the transition period and into implementation (Mindszenty and Roberts, 2001).

If one agrees with their comment that trust and support are gifts from employees, and the author does, then one comes full circle to the importance of the selection decision. If the target is not selected for the right reasons, the possibility of getting the support and commitment needed from employees to reach the usually significant challenging goals of the combination is forever compromised. Without support and commitment, the goals become near impossible to achieve.

ADDRESSING PEOPLE ISSUES

In 'Making the Deal Real: How GE Capital Integrates Acquisitions', Ashkenas *et al.* (1998) write that decisions about the management structure, key roles, reporting relationships, layoffs, anything impacting on careers should be made as quickly as possible and communicated. They interviewed ten CEOs of companies that GE had taken over, and all agreed that, while at the time GE seemed to be moving very quickly, in retrospect it was not quick enough (Ashkenas *et al.*, 1998).

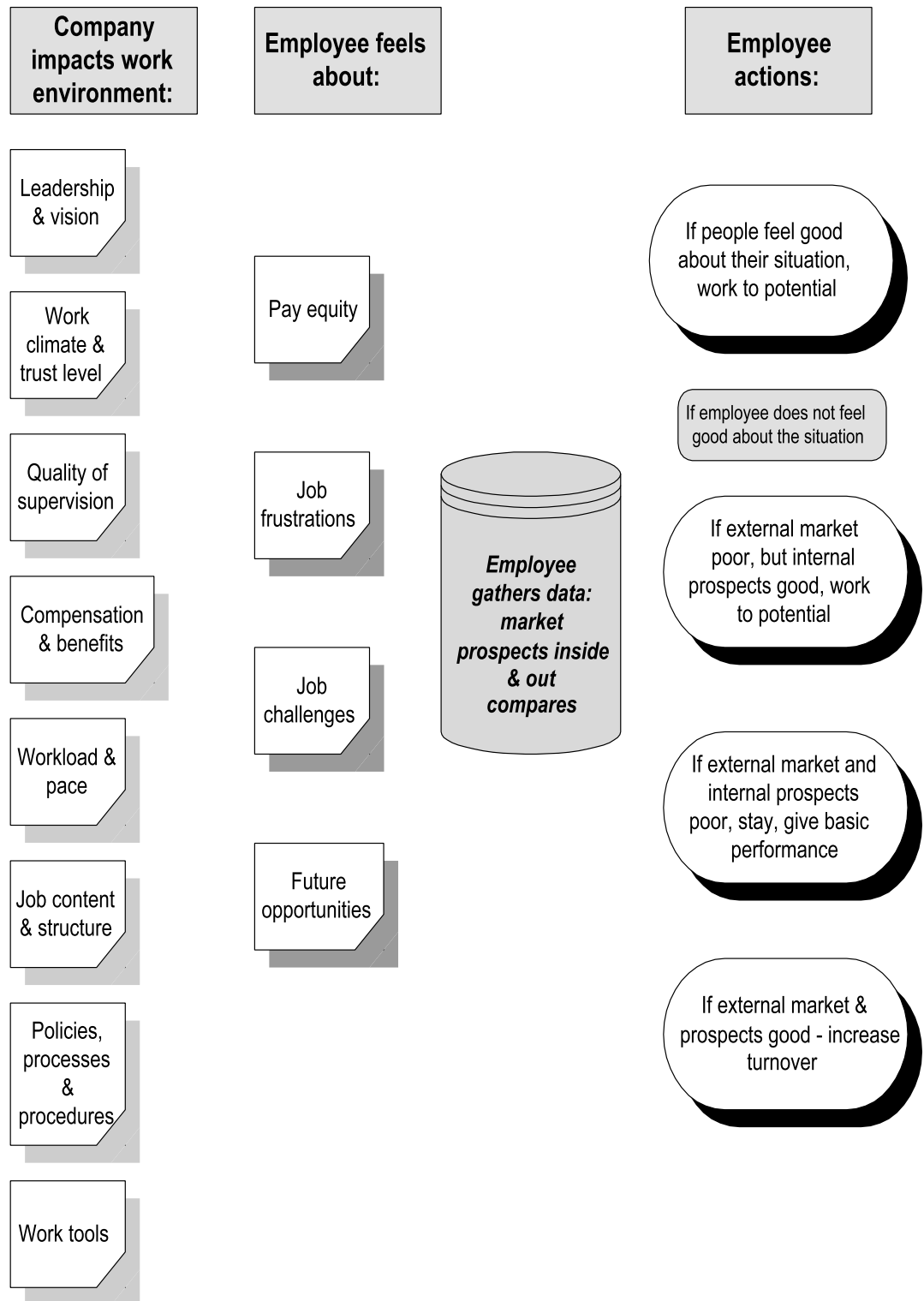
A research study at Illinois Bell after divestiture found that the set of managers that were least affected by the divestiture were 'psychologically hardy'. That is, they had four things in common: commitment, control, challenge and connections. The managers:

- were committed to a cause or mission, had a sense of responsibility toward a higher purpose;
- felt how they implemented the change was under their control;
- were able to see the change as a challenge instead of a problem;
- had strong connections to other people, either inside or outside the company: the support of these connections helped them weather the tough situation. (Buckner, unpublished paper, 1991)

Some of these feelings are internally generated, influenced by managers' own personality and perception of the world. Top leadership can do a lot to encourage the factors above. For example, it can make sure there is a good cause by the selections it makes and the way it communicates about why the combination was necessary. It can do a lot to position the change as a challenge.

The two key things management is trying to do relative to managing people after a combination is to retain the best people and get people to be motivated to work to their full potential. Figure 3 is one way of looking at the key variables involved. These issues are very much in play after a combination. The ability to affect these in a positive way, both through systematic initiatives at the corporate and/or division level, as well as by engaging all managers and supervisors in talking to employees about their roles and responsibilities and their future opportunities, is key to success in addressing people issues. With all the work that needs to be done after a combination, it is easy for managers to put off dealing directly with employees at the one-to-one level, especially when they know that some of those conversations are going to be unpleasant. This is why special attention needs to go into how to address this in 100-day

Figure 3 Turnover
— work
motivation



plans, and specific measures should be set up to see the impact that efforts are having.

MEASUREMENT OF COMBINATION SUCCESS

How can it be determined whether the acquisition or merger is going well or is successful? Here are some thoughts:

- Talent retained — particularly important in high-tech acquisitions.
- Speed to market of new products — very important in high-tech firms.
- Customer surveys or measures of customers retained, lost or gained.
- GE Capital gets its sales people on the phone periodically to discuss customer feedback, so they can identify problems quickly and deal with them.
- Synergy capture.
- Employee interviews or surveys, indicating how things are going and highlighting issues.
- Service problems.
- Product problems.

There is need for more work on what are the best measures, and for comparative data to enable companies to measure success effectively. There is also a need for good measurement of the front end, which would be most helpful in deciding if an organisation should go forward with the combination.

Regardless of the measures a firm uses, it should be clear by now that a significant combination is unlikely to go forward without difficult problems cropping up that need to be resolved. Therefore, establishing a climate in the organisation that encourages honest reporting of issues, and a can-do attitude about fixing them is critical to success. One should think of getting to the 'Promised Land' of synergies as a route

of successive approximations, not a direct flight.

CONCLUSION

Merger and acquisition activity has grown steadily over the last decade, and even though activity is lower in this economic downturn, it is much higher than it was ten years ago. How well these combinations are handled has a significant economic impact, and affects many stakeholders: stock owners, customers, employees, vendors and executives. While the complexities involved mean that there will always be errors made in M&A, the current track record could be improved significantly. Some companies such as Cisco Systems and GE Capital have shown us some of the answers. The answers lie in a very systematic approach to both selection and integration, and not just a systematic approach on paper, but one that gets executed. Top executives and boards of directors have an obligation to see that a systems approach is developed and implemented in their company if the company is using M&A activity as a significant part of its strategy. These same people should be looking for better ways to benchmark their strengths and weaknesses so their company can continue to improve its competence at M&A.

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APPENDIX 1: THOMPSON PUBLISHING

In June of 1996, Thompson Publishing and West Publishing merged. They knew there was a wide culture gap between the two companies. Jim Greenawalt, head of HR, describes the differences as one side emphasised speed and results,

the other quality. One side was hierarchical and the other informal. One encouraged risk taking and another was risk averse.

A transition team made of executives from both former companies identified 25 areas to develop policy and practice. The team sought best practices from both former companies and from the outside.

Today, the West Group is reaping rewards from its paying attention to cultural integration. They have met their financial targets each year, and held on to their best talent, with turnover at half the industry average.

Their communication philosophy is 'When we know, we'll let you know — even if we don't know everything.' They communicate on a regular basis using many media, face-to-face meetings, videos and newspapers (*HR Magazine*, 2001).

