Linking Behaviour to Bottom Line Performance

Merger and Acquisition Integration

Acquisitions vary widely in ambition and scope, ranging from relatively small bolt-on transactions to transformative mergers. Whilst it is true that deals based solely on acquiring a new technology or product can be relatively straightforward to integrate, the majority of transactions require a more sophisticated approach and therefore pose more complex challenges and ultimately risks to the acquirer.

On the whole, acquirers are adept at executing the technical or process side of the transaction, such as technology, systems and infrastructure. However, many acquisitions fail to deliver the anticipated benefits because they do not take into account the more intangible aspects of integration. The difficulties encountered when it comes to integrating two independent entities can quickly lead to unexpected costs, increased frustration, poor morale and require considerable time and energy from senior management.

Four Groups has developed a set of simple processes and tools which address some of the potential pitfalls of the integration process; by identifying where difficulties or problems are likely to emerge and where easy wins can be made, it is possible to accelerate and smooth post-acquisition integration, reducing the risk of the transaction failing to deliver the anticipated benefits. Specifically, these tools address cultural compatibility, assembling the optimum integration team, retaining and motivating key staff and managing formal and informal communication.

Background

Acquisitions vary widely in ambition and scope, ranging from relatively small bolt-on transactions to transformative mergers. Whilst it is true that deals predicated solely on acquiring a new technology or product can be relatively straightforward to integrate, requiring the assimilation of new technology and know-how, the majority of transactions place some value in the people and values of the acquired company, requiring that morale and goodwill is maintained through what is a period of considerable stress and uncertainty. In order to achieve this, acquirers need to pay attention to the careful management of the people involved and other intangible factors surrounding the integration. Assuming that only motivated employees add value, treating each transaction as unique and understanding the type of approach required to optimise the potential of the acquisition lies at the heart of a successful integration strategy.

There are a number of reasons why companies acquire others. The rationale behind an acquisition may range from; gaining entry into new markets, acquiring new capabilities, diversifying product range, boosting market share, accelerating growth, accessing new technology or in most cases a combination of factors. Underlying nearly all transactions is the belief that the combined organisation will be stronger and more profitable than the current entity.

On paper and in financial models, a transaction may make sound commercial sense, however the reality is often very different. This is generally because the data used to justify a transaction is the information that is most readily available and easily quantified. Rarely does one come across a quantitative comparison of organisational cultures, and key internal and external networks. Numerous studies over the past 40 years, using a variety of criteria suggest that historically only around a third of all acquisitions deliver the benefits originally envisaged. Given the amount of time and money put into undertaking these transactions, this is a statistic which should make companies think long and hard before executing such projects[1].

Whereas the process side of making an acquisition is well understood, such as dealing with IT systems, accounting practices, payroll and benefits, it is the more abstract or intangible issues of the transaction which often cause the most trouble. Common factors undermining the success of acquisitions include;

• Failure to accurately understand and gauge the cultural implications of combining the two organisations
• Failure to understand the networks and relationships which are key to the functioning of the target company
• An inability to identify, retain and motivate key staff at the target company
• Failing to assemble an effective integration team
• Poor formal and informal communication between acquirer and target

In summary, many acquirers fail to take into account the often intangible or hidden aspects of what makes each transaction unique. Taking a one-size fits all approach or ignoring the personal and cultural element of the acquisition is likely to lead to missed opportunities and an inability to maximise the expected gains from the transaction.

Cultural Compatibility

The failure to appreciate or manage the cultural aspects of an acquisition is often cited as a cause of a poor or disappointing outcome. In this case, acquirers should not only focus on the strategic or commercial rationale behind the deal but also take into consideration how the transaction will impact the identity and values of the organisations involved.

Despite thorough due diligence and planning, many acquirers fail to take into account the more intangible aspects of integration, in particular a thorough understanding of the cultural differences between bidder and target. Culture is often an intangible or abstract concept which is difficult to quantify and compare. In simple terms culture can be summarised as “how we do things here” and represents considerations such as how information is communicated, how decisions get made, the working style of the organisation, attitudes to risk and other variables which define each organisation as unique.

Taking a systematic approach to compare organisational cultures and understand areas of compatibility helps develop a clear and consistent understanding of the challenges and potential pitfalls facing the acquirer. Furthermore, understanding how the combined organisation will be different from the current reality is also a relevant consideration. This process of “acculturation” is worth investigating, particularly for relatively large transactions where effects of the transaction will be felt across all areas of the combined organisation.

The compatibility or lack of it between bidder and target is likely to indicate the relative ease or difficulty with which the two organisations can be integrated. One pertinent question bidders should ask themselves is, “Do our corporate values and culture represent an attractive alternative to those of the target?” If the answer is yes, fully integrating the target should be a relatively smooth process, if the answer is no, alternative scenarios should be considered such as letting the target maintain a higher degree of autonomy and distinct identity.

Retaining, engaging with and motivating key personnel

When executing an acquisition, one of the key issues facing acquirers is how to identify and retain key personnel. Considerable value can be destroyed by departures and the subsequent loss of knowledge. Many acquirers will look to avoid this outcome by identifying key individuals and offering them financial and other benefits in order to remain with the enlarged organisation. Although effective in the short-term, this strategy often turns out to be a divisive and negative influence on morale.

In order to understand how best to deal with this issue, it is important to bear in mind that when making an acquisition, companies buy more than the assets and infrastructure of the target company. Acquisitions also involve a series of relationships and networks, between individuals, teams, departments, suppliers and clients. The challenge facing the acquirer is to understand the key relationships which are likely to enable the fulfilment of all the goals of the acquisition. This means that acquirers need to do more than identify the "stars" or key performers, it is also necessary to understand the networks and relationships which allow these individuals to excel.

By identifying and prioritising the relationships and networks which allow key staff to perform, acquirers can identify where the most value lies in terms of people and resources. Efforts to maintain and develop these networks make the success of the integration far more achievable.

Assembling the right team to lead the integration

Failing to allocate sufficient resources or assemble an effective team to manage the integration process is a further cause of poor post-deal performance. An integration process that is under-resourced and lacking commitment and effort from senior management becomes a burden on both companies. For the target company in particular, this can lead to decreasing morale and a poor perception of the acquirer.

In addition to allocating sufficient physical resources to the integration process, it is also necessary for the composition of the integration team to reflect the nature and demands of the specific acquisition. A team that successfully completes the integration of one company may not be exactly the same team to successfully work on the next project where a different approach may be required. Organisations need to be aware of the need to combine individuals who are process specialists and capable of dealing with the nuts and bolts of the transaction with managers who can execute a communication strategy suited to the target and other informal day to day aspects of the integration. By aligning the integration team with the senior management at the target company, the acquirer is maximising the chances of strong relationships and understanding developing between the organisations.

Communication

Communication is another key factor often neglected or mis-managed by acquirers. Done well, it can accelerate and strengthen the links between the two organisations and increase the likelihood of the goals of the transaction being realised. Done badly and it will have the opposite effect.

By delivering a transparent and clear communication programme, acquirers can address a number of key concerns of personnel and avoid widespread rumour and speculation from spreading. By being consistent and transparent, it is also likely that the acquirer will more develop a reputation as being credible and trustworthy.

In addition to having a formal communication structure in place, covering areas such as new employment terms, redundancies or any future relocation, informal communication is equally important in ensuring a smooth integration. Day to day contact with staff, customers and suppliers should reflect the strategy and rationale behind the transaction. It should also acknowledge the strengths and achievements of the target company. The quality of informal communication is likely to impact on the speed with which relationships are formed between the two organisations.

By assembling an integration team where individuals are fully aware of the culture and values of the target audience and capable of forming a strong collaborative relationship with key executives at the target company, communication is likely to be consistent and transparent on all levels.

Where Four Groups fits in;

Four Groups has developed a set of proprietary tools and processes which shed light on some of the more intangible aspects of information gathering prior to and during the integration process; in particular providing systematic and quantitative information comparing corporate cultures, assembling the most effective integration team and identifying key individuals and relationships necessary to make the acquisition successful.

Four Groups helps the integration process on a number of practical levels;

Pre-deal Screening and Planning

During the pre-deal evaluation phase, using Four Groups' proprietary Merger Scan system enables acquirers to systematically compare the compatibility between corporate cultures. This enables the potential acquirer to understand the cultural gaps or similarities between organisations. The process is quick and simple to undertake and can therefore be used to consider and compare a number of potential targets. Merger Scan makes the cultural aspects of integration tangible meaning that the process becomes easier to plan and more manageable. In addition to identifying cultural similarities "merger-scan" also highlights areas of incompatibility or likely conflict. For relatively large scale transactions the use of "Merger Scan" will also provide information as to how the culture of the combined organisation will change from the existing scenario.

Once the culture of a target company is understood, it is then possible using Four Groups' proprietary psychometric tool, 4G to identify and assemble the optimum integration team to lead the project. By putting together a team that understands the target company and has strong levels of internal consistency and communication, the likelihood of strong mutual understanding developing between both organisations is maximised.

The integration process

Once a deal has been agreed and the integration process started, 4G provides significant elements of valuable data to help acquirers manage the integration process. In particular, 4G helps the acquirer understand where the key networks and relationships in the target company exist. This enables a far more effective approach to identifying key individuals and the people they rely on to get the job done.

4G also enables, acquirers to manage the communication process more effectively, in particular, aligning members of the integration team with key individuals at the target company. By ensuring that these key relationships are strong and robust, communication between the organisations will be clear and consistent. Furthermore, strong relationships will help develop trust between the organisations.

Conclusion

In conclusion, 4G helps quantify and optimise the intangible elements of a transaction. Starting with pre-deal selection and cultural compatibility, through to retaining key personnel, building strong relationships between both parties and creating the right integration team, 4G makes new and unique insights available to those charged with realising the value from mergers and acquisition activity.

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Footnote
1. http://tinyurl.com/69yuvp

About Four Groups

Four Groups has developed a new approach called 4G to understanding behaviour, relationships and culture. 4G provides its users with insight into personal characteristics, how relationships develop within teams and groups and how culture can be best defined and managed.

4G provides organisations with information on how best to deploy and optimise the performance of their people. It also enables preventative measures to be taken which prevent the more negative aspects of interaction and group dynamics such as minimising personal friction and reducing misunderstanding between colleagues.

4G represents a systematic approach to managing previously intangible aspects of organisational life. The methodology is easily replicable and can be implemented quickly and efficiently.