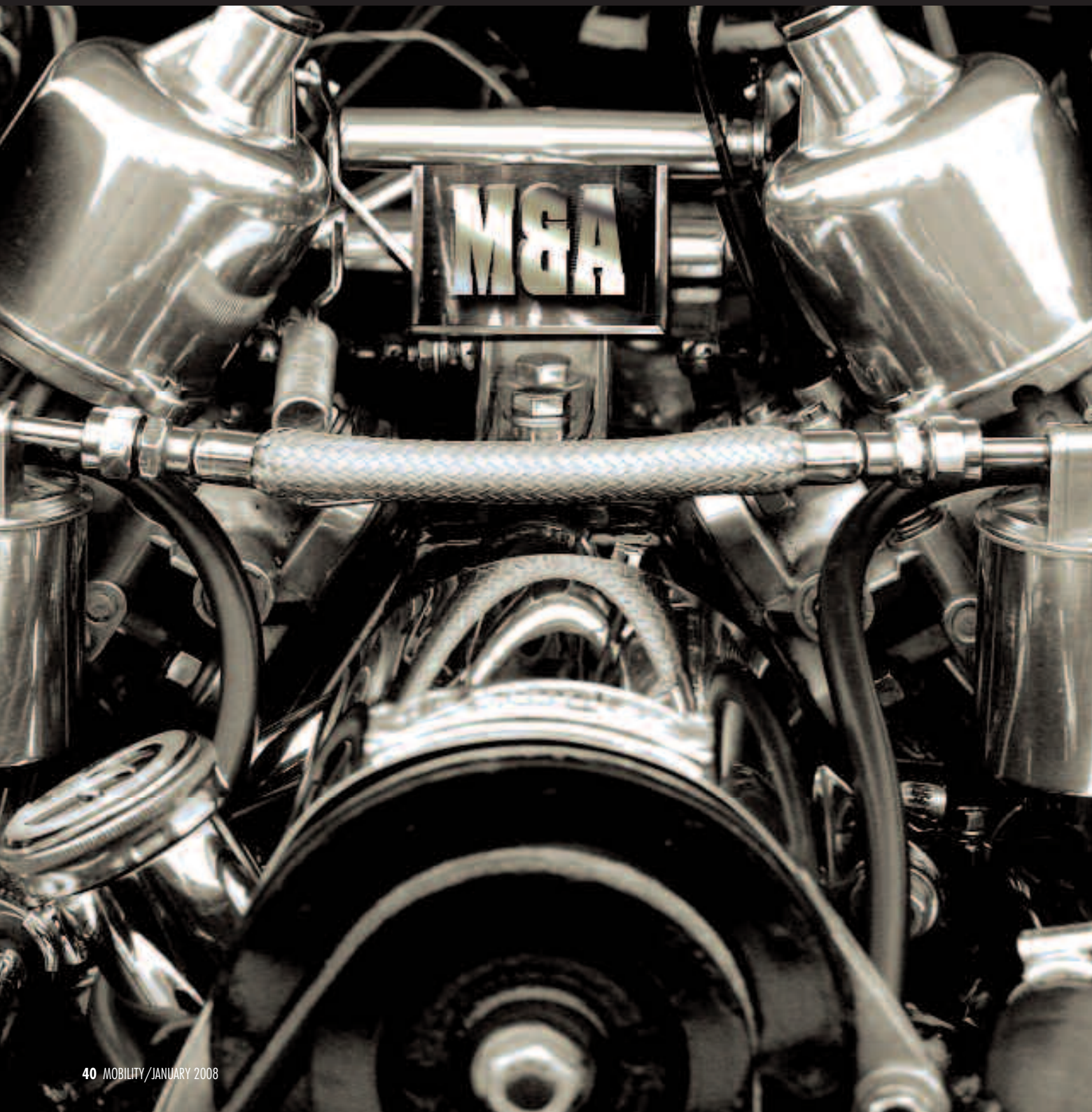


# THE INTEGRATION ENGINE

BY GAVIN DUNAWAY

## TOOLS AND PROCESSES THAT FACILITATE M&A: *PART 2*



ORGANIZATIONS THAT USE MERGERS AND ACQUISITIONS (M&A) AS A CORE METHOD OF GROWTH REALIZE THAT THE INTEGRATION ENGINE IS FUELED BY HUMAN CAPITAL; HUMAN RESOURCE (HR) PROFESSIONALS MUST TAKE ADVANTAGE OF INTEGRATION TOOLS TO ENSURE THAT THE TANK DOES NOT RUN DRY. IN THE SECOND PART OF AN EXAMINATION OF THE PROCEDURES ORGANIZATIONS EMPLOY DURING M&A, DUNAWAY INVESTIGATES THE PROCESSES USED TO ASSIST IN THE MERGING OF CULTURES, THE STRATEGIC ROLE OF RELOCATION, AND THE IMPORTANCE OF COMMUNICATION.

**B**ecause of advancements in medicine, there is a higher probability that conjoined twins can be surgically separated without losing one or both. Consider the integration stage of a merger and acquisition (M&A) the opposite of surgical separation—two organizations are stitched together to become a new organism. While it may look cold and gray on paper, the mechanics of combining the various living organs within each organization is no simple task and requires a skilled surgical hand.

“You’re building a human operating system,” said David Eaton, president and founder of Aperian Global, Boston, MA, who has been conducting a global M&A best practices study.


Nowhere is the potential for rejection and failure more perilous than during the merging of cultures—organizational or national. According to Eaton, combining cultures is a five-step process (see sidebar on page 42) that can be supported with certain tools. First, the post-acquisition culture must be determined, then the integration team can deduce the best path to reach that goal. That culture may be dominated by either legacy organization’s culture, or it might be a composite of both corporate cultures, plus a taste of something new.

The integration management office (IMO) or integration team will interview key players from all sides of the acquisition and take inventory of assets in a baseline diag-

nostic study. Building this baseline report highlights strengths while locating potential trouble spots. The team will ask what aspects are absolutely necessary to retain and what could be left behind. Cultural mapping also is employed to understand similarities and gaps in national and corporate styles. The importance of various cultural dimensions/orientations is weighed (See sidebar on page 44).

Afterward, the key players within the merger are informed of the discoveries unearthed during the investigation. The similarities and differences regarding various critical aspects—business styles, organizational tactics, reward systems, and so forth—of the acquirer and target are detailed for both staffs. Subsequently, team members will examine the reasoning behind the other organization’s operating style and culture. This will forge acceptance and, ultimately, respect.

The process becomes more complicated when M&A takes place on a global scale. In addition to differing corporate cultures, the two parties must examine their divergent national cultures—in particular, the aspects that will come to the forefront during the integration phase (including language barriers and cultural customs) and may hinder the long-term success of the merged operation. However, the same process used to fete out potential business-culture discordance—cultural mapping—can be applied to national culture, as well.



And just like clashing corporate cultures, sometimes national cultures are like oil and water when it concerns to business. Eaton cited an example of a *Fortune* 500 company that decided against acquiring targets in a certain country because the leadership felt the two countries' cultures were not a good fit—the *Fortune* 500 company noted a tendency in the country toward hierarchies and status consciousness, which the business leaders saw in conflict with the company's more egalitarian and individualistic culture that stemmed from its headquarters country and its corporate culture.

In the end, culture is culture, whether national or business, and the numerous aspects that define a culture, from gender roles to politics, will determine how an organization operates. According to Eaton, in using baseline diagnostic studies and cultural mapping, companies involved in mergers seek to answer the question: "How do you optimize the acquisition to extract and retain as much asset value as you can, make it as inclusive an environment as possible, and make it sustainable in the fastest amount of time?"

### Relocation Planning

Eaton has noticed some of the best integration implementation planning employs a buddy system—pairing department managers from each organization. He cited one merger where the HR integration managers from both companies shared an office for a year forging agreements on every aspect of the integration.

"For a year, they lived together," Eaton said. "If they couldn't move forward, they would pound out more hours until they could both agree on

### FIVE STEPS TO MERGING CULTURES

EATON HAS FOUND FIVE STAGES OF DEVELOPMENT FOR INDIVIDUALS OR ORGANIZATIONS CHARGED WITH THE MERGING OF CULTURES DURING M&A.

**1. AWARENESS.** THE INTEGRATION TEAM WILL NEED A LIST OF ALL THE MAJOR PLAYERS IN THE M&A, ALONG WITH PROFILES THAT INCLUDE THEIR AIMS AND STYLES OF OPERATION. THIS CAN BE ACCOMPLISHED THROUGH A BASELINE DIAGNOSTIC STUDY, CULTURAL MAPPING, AND WEIGHING OF CULTURAL ORIENTATIONS.

**2. UNDERSTANDING.** PARTICIPANTS WITHIN THE MERGER ARE INFORMED OF THE DISCOVERIES UNEARTHED DURING THE DUE DILIGENCE PROCESS TO DEVISE THEIR REPORT. THE GOAL AT THIS JUNCTURE IS TO GAIN COMPREHENSION OF THE REASONING BEHIND THE OTHER SIDE'S OPERATING STYLE AND CULTURE.

**3. ACCEPTANCE.** AFTER UNDERSTANDING THE WORKINGS OF EACH OTHER'S CULTURES, PARTICIPANTS MOVE TO A LEVEL OF RESPECT FOR HOW THE OTHER'S CULTURE OPERATES. THEY MAY NOT NECESSARILY LIKE THE CULTURE, EATON SAID, BUT THEY CERTAINLY ARE ABLE TO ACCEPT AND RESPECT IT.

**4. EVALUATION.** PLAYERS MUST DECIDE WHAT SET OF STYLES OR CULTURE WILL WORK BEST IN THE NEW ENVIRONMENT. THIS MAY BE THE ACQUIRER'S STYLE, THE TARGET'S, A COMBINATION OF THE TWO, SOMETHING ENTIRELY DIFFERENT, OR A COMBINATION OF BOTH STYLES PLUS A TOUCH OF INNOVATION.

**5. APPLICATION.** FINALLY, THE CULTURE IS CONSTRUCTED AND IMPLEMENTED. IN ADDITION, SUSTAINABILITY MUST BE CONSIDERED WHEN INSERTING THESE AGREED-TO SYSTEMS (OPERATING, PERFORMANCE MANAGEMENT, AND SO ON) TO ENSURE THE CULTURE SURVIVES. ONE EFFECTIVE METHOD EATON CITED IS SEWING THE SUCCESS OF CULTURE IMPLEMENTATION INTO THE PERFORMANCE MANAGEMENT OR REWARDS SYSTEM. "IT DEFINITELY GIVES THE NEW CULTURE AND ITS SUSTAINABILITY LEGS," HE SAID.


a solution.... Function by function, activity by activity, one at a time."

However, because it is best if both parties physically work together instead of communicating through various media, someone (or sometimes both employees) will have to move. Thus, the relocation department should be involved early in the merger or acquisition—in the due diligence phase or even as a member of the IMO.

When integrating, organizations decide on strategy, followed by structure, and an organizational chart is developed. The integration

team will apply responsibility mapping, which discerns the tasks associated with every position on the organizational chart. Next, a skills inventory is taken and analyzed in tandem with the responsibility map to see where gaps exist—mobility planning is devised by examining how to plug these holes. All of this can be accomplished in the due diligence phase.

"Once you've built your organizational chart and your roles have been installed post-merger integration, then you're going to use expats to fulfill your integration strategy," Eaton said.



In many M&As, there is a high chance that mass quantities of employees will be relocating—relocation departments will find that templates for group moves may come in very handy during an M&A. The earlier organizations involved in a merger or acquisition realize if there will be a change in headquarters locations and where that location will be, the sooner the relocation planning can begin, especially for the critical talent that is required at headquarters. Because the relocation process can be complicated—especially in cross-border M&A, which brings expatriate issues into play—successful serial acquirers allow a good-sized timeframe for relocation.

In addition, a target company may have several offices scattered across a country, a region, or the globe—once the acquirer has decided if it should send employees to those offices and how many, the relocation department will have to get cracking. It is bound to be busy times for the relocation professional.

“Several planning processes would be important in the case of relocation—for example, how to provide cultural and language training, how to familiarize potential transferees about the education and health care systems at the destinations, and how to provide support services for at least the first three months,” said Dr. Santrupt Misra, director of human resources (HR) and information technology (IT) for Aditya Birla Management, Mumbai, India.

Relocation also is important to the integration of cultures, national and organizational, Eaton said. When an acquirer places employees in the other target’s location, it builds empathy and speeds up cycle times of merging cultures.

## GEERT HOFSTEDE AND THE FIVE CULTURAL DIMENSIONS

BETWEEN 1967 AND 1973, DUTCH ANTHROPOLOGIST GEERT HOFSTEDE ANALYZED A GIGANTIC COLLECTION OF EMPLOYEE VALUES SCORES COLLECTED BY IBM, ARMONK, NY—THIS DATABASE REFLECTED EMPLOYEES FROM MORE THAN 70 COUNTRIES. THROUGH THIS RESEARCH AND SUBSEQUENT DATA ANALYSIS, HOFSTEDE NOTICED CONSISTENT TENDENCIES REGARDING THE INTERACTIONS OF NATIONAL CULTURES AND ORGANIZATIONAL CULTURES. HE DEVELOPED A SET OF FOUR PRIMARY DIMENSIONS THAT DISTINGUISH CULTURES; A FIFTH WAS LATER DEVELOPED.

*POWER DISTANCE INDEX (PDI)*—THE EXTENT TO WHICH LESS POWERFUL MEMBERS OF ORGANIZATIONS AND INSTITUTIONS (SUCH AS FAMILY) ACCEPT AND EXPECT POWER TO BE DISTRIBUTED UNEQUALLY. THIS REPRESENTS INEQUALITY (MORE VERSUS LESS), BUT DEFINED FROM BELOW, NOT FROM ABOVE. IT SUGGESTS THAT A SOCIETY’S LEVEL OF INEQUALITY IS ENDORSED BY THE FOLLOWERS AS MUCH AS BY THE LEADERS. POWER AND INEQUALITY, OF COURSE, ARE EXTREMELY FUNDAMENTAL FACTS OF ANY SOCIETY AND ANYBODY WITH SOME INTERNATIONAL EXPERIENCE WILL BE AWARE THAT ‘ALL SOCIETIES ARE UNEQUAL, BUT SOME ARE MORE UNEQUAL THAN OTHERS.’

*INDIVIDUALISM VERSUS COLLECTIVISM*—THE DEGREE TO WHICH INDIVIDUALS ARE INTEGRATED INTO GROUPS WITHIN A SOCIETY. IN MORE INDIVIDUALIST SOCIETIES, TIES BETWEEN PERSONS ARE LOOSE—INDIVIDUALS ARE EXPECTED TO LOOK OUT FOR THEIR OWN AND THEIR IMMEDIATE FAMILIES’ INTERESTS. IN COLLECTIVIST SOCIETIES, FROM BIRTH, INDIVIDUALS ARE MESHED INTO STRONG GROUPS (MANY TIMES EXTENDED FAMILIES) THAT PROVIDE PROTECTION IN EXCHANGE FOR LOYALTY.

*MASCULINITY VERSUS FEMININITY*—THE DISTRIBUTION OF ROLES BETWEEN THE GENDERS.

*UNCERTAINTY AVOIDANCE INDEX*—A SOCIETY’S TOLERANCE FOR UNCERTAINTY AND AMBIGUITY, OR TO WHAT EXTENT A CULTURE PROGRAMS ITS MEMBERS TO FEEL EITHER UNCOMFORTABLE OR COMFORTABLE IN UNSTRUCTURED SITUATIONS. CULTURES THAT AVOID UNCERTAINTY TEND TO INSTALL STRICT LAWS AND MAXIMS, AS WELL AS SECURITY MEASURES; CULTURES MORE COMFORTABLE WITH AMBIGUITY TEND TO INSTALL FEWER RULES AND ARE MORE OPEN TO DIFFERING OPINIONS.

*LONG-TERM ORIENTATION VERSUS SHORT-TERM ORIENTATION*—VALUES ASSOCIATED WITH LONG-TERM ORIENTATION ARE THRIFT AND PERSEVERANCE; VALUES ASSOCIATED WITH SHORT-TERM ORIENTATION ARE RESPECT FOR TRADITION, FULFILLING SOCIAL OBLIGATIONS, AND “SAVING FACE.”

“When people are living in the other’s shoes, they become advocates and liaisons/cultural interpreters back to their original company,” he said.

Finally, a cross-border M&A can be an opportune occasion for a company to send a high-potential employee on international assignment for career development purposes. M&A mobility can be useful in accelerating the growth of the next generation of corporate leaders.

“While there will be two career development strategies that exist already in the two legacy organizations, one of the HR integration strategies would be to review and incorporate those goals for global talent development into the merger activity,” Eaton said. “Therefore, it drives the goal of having more qualified global people.”

### Communication = Oil

The history of the target company may hold critical insight into whether the M&A will succeed, according to Misra. If company is the product of a series of acquisitions, it is likely that the acquiring company will be viewed with suspicion no matter what it does. Lacking knowledge of a rough past, HR professionals are bound to become frustrated when their attempts at communication are met with silence on the target side. If the communication drops, the M&A falls into jeopardy.

In “The Role of Human Capital in M&A,” by Towers Perrin, Stamford, CT, and the Economist Intelligence Unit, London, United Kingdom, a survey of 132 senior executives worldwide involved in M&A revealed that while 47 percent considered achieving cultural alignment a critical people issue, 62 percent saw ensuring effective communication as the most

## TWELVE LESSONS OF INTEGRATION

AFTER SERVING AS INTEGRATION MANAGEMENT DIRECTOR DURING THE MERGER OF B&Q CHINA AND THE CHINESE OFFICES OF OBI, FARROW COMPOSED A LIST OF 12 LESSONS LEARNED FROM THE ORDEAL.

1. INTEGRATE FAST—REALIZE SYNERGIES AND EFFICIENCIES SOONER RATHER THAN LATER.
2. DEDICATE THE NECESSARY RESOURCES.
3. MAKE TOUGH DECISIONS ABOUT ORGANIZATIONS AND PEOPLE QUICKLY.
4. RESTRUCTURE AND RE-RECRUIT TOP TALENT.
5. SET CLEAR SHORT-TERM OBJECTIVES; CELEBRATE COMPLETION OF THESE OBJECTIVES AS YOU MEET THEM.
6. COMMUNICATE STRATEGICALLY—BE OPEN AND FORTHRIGHT.
7. ALLOW THE ACQUIRED COMPANY TO CONDUCT BUSINESS—AFTER ALL, THAT IS WHY YOU ACQUIRED IT.
8. MANAGE THE CULTURAL INTEGRATION CAREFULLY.
9. FOCUS ON WHAT EACH EVENT MEANS TO INDIVIDUALS.
10. KEEP YOUR SENSE OF HUMOR.
11. BE HONEST WITH EMPLOYEES ON BOTH SIDES.
12. COMMUNICATE, COMMUNICATE, AND OVER-COMMUNICATE.

important human factor for M&A success. This was far higher than the 38 percent who cited securing the top talent and the 27 percent who cited performing thorough due diligence in HR-related areas.

During the merger of the Chinese offices of B&Q, Eastleigh, United Kingdom, and competitor OBI, Wermelskirchen, Germany, Andrew Farrow, executive vice president, B&Q China, who was integration management director, held daily integration team meetings to cull status updates, even though some found it over the top. Farrow already was stretched thin communicating between B&Q parent company Kingfisher plc, London, United Kingdom; B&Q headquarters; and the acquired OBI offices, attempting to keep all parties content when they had differing goals. In addition, retail employees from each of the 21 OBI stores acquired (each store had between 300 and 400 employees) were given the chance to bring questions to the B&Q board of directors through rep-

resentatives, in what Farrow called “grassroots communication.”

Communication is the oil that keeps the integration engine running; information transferred from party to party, acquirer to target, and so on. It is the common thread through all the various tools and processes involved in M&A, from the information gathering and capturing involved in checklists and performance metrics, to knowledge-sharing in merging cultures, to the formation of the integration team, to the dissemination of relocation assignments.

If communication runs thin or is watered down, the integration engine will stall out. But if communication is rich and flows steadily through the conduits of an organization and the targets it seeks to grow through, the engine will keep on running, growing speedier and more efficient with every acquisition. ■

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