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Seven Steps to Merger Excellence

Mergers and Acquisitions often create winners and losers. One culture unseats another. One employee outweighs another. And, while policy and organizational decisions are made from above, the organization waits! It sits in limbo and disengages from its focus.

Mergers and Acquisitions (M&A) play a significant role in the survival and vitalization of corporations today. They have become a major strategy to improve profitability, market-share, and stock prices. The problem is that companies often view the merger itself as the strategic end game, rather than the start up event. According to Booz-Allen's studies from 1999 which looked at what they classified as "The Best Deals", only a small minority of the M&A studied increased shareholder value significantly while most underperformed industry peers.

Nearly all industry research seems to confirm that when mergers and acquisitions do work, the integration process was holistic and well executed. We will highlight five critical issues (Figure 1) hindering M&A success and outline a 7-Step Model to deal with these key factors. How the corporate leadership focuses its energy, as well as the timing and vision that drives employee engagement, impacts post-merger effectiveness. The single most important factor for post-merger success and long-term sustainability is the involvement and integration of employees from the start to create a common **New Identity** around a **Shared Vision**.

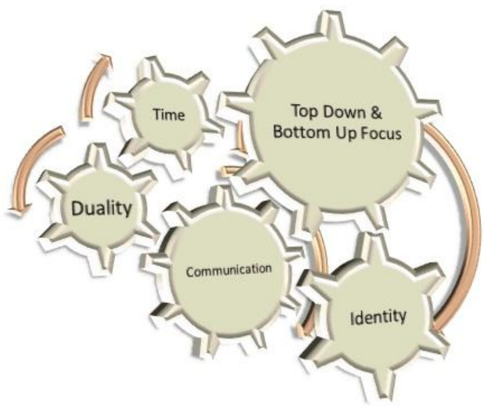


Figure 1

The Seven Steps

In the process of all change interventions a discussion around creating identities and a common vision for the organization is always evident. However, often these pieces of the process are not handled as clearly and as collaboratively as needed for merger excellence to occur. A **Culture of Engagement**, **New Identity** and **Shared Vision** are components of the integration plan that require diligence and focus. While the process should be lead by the newly created "C"-Level executive team it is usually assigned to the next level down – which we refer to as the project implementation team. But the continued involvement of the "C"-Level executive is most important throughout the integration process.

We have created a 7-Step process to address the specific and unique concerns of M&A to include additional activities and interventions. Beginning at the pre-merger stage, the 7-Step process drives the integration from a Top Down - Bottom Up approach in an organic and collaborative process. A **New Identity** around a **Shared Vision** is created:

Pre Merger	Cultural DNA Due Diligence: Collaborating on an integration strategy (**Culture of Engagement** framework)
Step I	Involvement and Engagement: Dreaming the dream of the future (**New Identity** formulation)
Step II	**Shared Vision**: Expanding the vision from mine to ours and giving it life
Step III	Analysis: Evaluation of current reality in line with strategy
Step IV	Action: Cascading the process by creating ownership in the process
Step V	Implementation: Building and creating momentum
Step VI	Maintenance: Focusing direction and energy of corporate **New Identity**
Step VII	Renewal: Re-evaluation and re-creation
REPEAT Step I	Integrated Organization: Dreaming the dream of the new future together

Lessons Learned: Communications

The greatest loss that most mergers and acquisitions suffer is not a result of a poor match, but stems from poor post-merger implementation. It can be noticed in staff disengagement and possibly, disintegration of the company itself. But the actual value of the company is in its human talent, its processes, its culture and its hidden, informal networks.

Negligent to this most mergers initially focus on financial and business systems integration. At the outset little attention is paid to the human factors. Communication is limited to "a need to know the basics". Stress increases, confusion reigns and rumors grow, loyalty diminishes and corporate identity becomes muddled. By the time the "soft" factors are addressed and people are involved on a broader scale, employees have either left the organization or become emotionally disengaged.

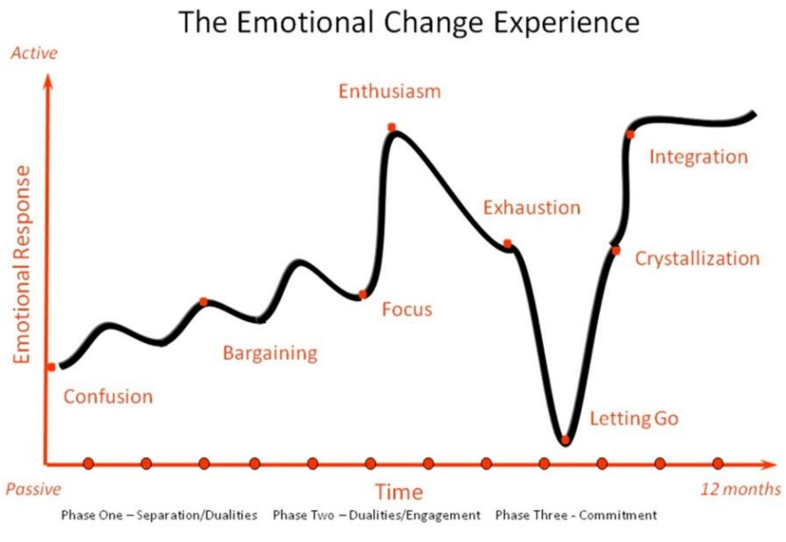
Employee disengagement is a key sign of post-merger dysfunction. The symptoms of disengagement – alienation or loss of identity with a company / organization / group / team result in the following outcomes:

- Day-to-day decision-making grinds to a halt as overall decisions and structure from the top are awaited.
- Key team members don't know where they are going to end up or how they will contribute.
- Employees feel their security and future are threatened.
- Staff members no longer feel a vital part of the company.
- Working morale plummets.
- Battle lines are drawn. An "us vs. them" stance emerges where cultural, corporate, regional country and continental differences are magnified and feared.
- Personal value is lost or at least undermined. The dominant question in most people's minds is: **Where do I fit?**

Conclusion: An on-going and cascading communications strategy developed in the pre-merger phase must be rolled out from day one. The more time that passes between the announcement of the integration strategy and the creation of a **Culture of Engagement**, the more challenging regaining footing becomes.

The Emotional Rollercoaster: Timing

The initial crisis, disengagement, soon leads to an even deeper crisis. Psychologists refer to it as the survival syndrome: top performers are the first out the door. Additionally, when employees are disengaged, it does not take long for customers and distributors to lose brand loyalty and begin to look elsewhere to buy products. In this environment, focus and energy are spent fire-fighting, rather than building a forward momentum.



Establishing engagement becomes more and more difficult as time passes. Creating a new Culture of Engagement is essential within the first thirty days of announcing the merger to create rapid corporate integration. Starting this process at the pre-merger stage and staying with it through to integration not only recreates a new identity, but employees' sense of belonging, motivation and focus are engaged. These are main drivers and are essential to maintain the energy and drive to successfully move through the stress and pressures of the duality stage.

Figure 2

If there is a lack of clarity or the process is not started early in the pre-merger stage and rapidly carried through, then chaos, conflict, confusion and employee disengagement are apt to follow. Employees must be involved from the start to create a unified **New Identity** so that ownership and commitment to the success of the new organization vision is established.

Around nine to twelve months, for small to medium-sized companies, energy and emotions are high. But even with a clear focus, there remains an internal emotional conflict as the old processes and identity give way to new systems. Exhaustion and frustration begin to set in (Figure 2). It is important to remember that this is normal and short lived. Unfortunately, too many "C"- Level executive teams begin to "give up" and look for other "quick solutions" instead of staying the course through letting go and integration.

Forming a Culture of Engagement

Historically, little time is spent defining the right strategy for the integration of the existing cultures. Will a policy of separation, assimilation, blending or the creation of a new culture (Figure 3) be incorporated? In most situations, employees resist assimilation and the "acquiring" organization finds itself imposing its values and practices. Another strategy that is often adopted is to "take the best of both cultures and create a new one" without sorting out what is really in the best interests of the company objectives long and short term. The strongest and most ingrained elements of each culture, whether good or not, fight to survive. A disintegrated culture emerges that is not aligned with the strategy, synergies are not achieved and morale continues to fall.

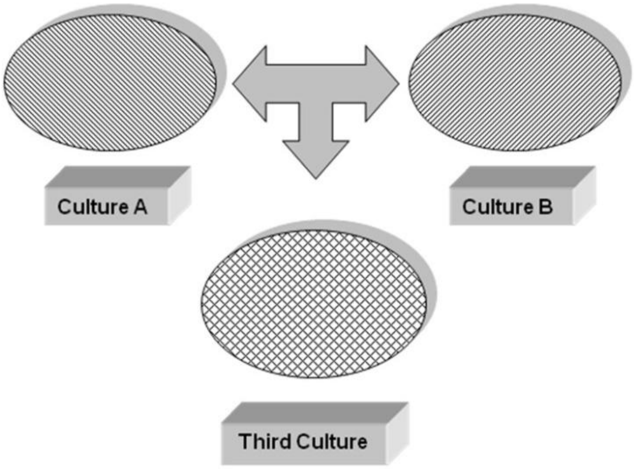


Figure 3

The co-creation and collaborative development of the **New Identity** through employee involvement creates loyalty and commitment enabling the realization of a shared future. Instead of focusing on a sense of loss caused by the changes, a sense of belonging and community is developed. At the same time, cross-organizational networks and project teams are quickly established. From this emerges a new, vibrant corporate culture, absorbing what is consistent and enabling the new direction and organization to emerge.

M&A Uniqueness: Duality

M&A differ from "normal" change processes in that their very nature requires that a new corporate identity and cultural integration be established for the merged organization. The process begins with a state of duality. Timing, clarity from the top and connection to the entire organization are essential for a fluid and successful integration process. While these issues can be factors in any organizational change initiatives they are key success factors in the M&A process and as such codependent. Consequently, whatever methodology or process is employed for integration one must address these factors simultaneously from the start of the change process.

The shared vision is co-created by the C-LEVEL executive team and incorporates individual perspectives to create a holistic vision. It is then further developed by the implementation team establishing a truly **SHARED** vision. From here, the new organization continues to develop around its core passion and shared perception of the future. In order to rapidly involve the energy and focus of the whole system, concurrently, a bottom up process involving storytelling around »Organizational Excellence« and the **New Identity** takes place.

Roadmap to Merger Excellence

Merged companies face dynamic cultural challenges that in today's environment are usually global. They will need to listen to customers and reconnect with their employees through a **Culture of Engagement**. The good news is that when done correctly, the process appears fluid and seamless with minimal stress. To make his happen, at each stage of the merger or acquisition clear guidelines and process are required:

1. A pre-merger process that targets companies with a good cultural match, compatible values and is in line with corporate strategy. It begins the integration through rigorous, yet flexible collaborative planning and trust-building en-

abling the two companies to move towards a **Culture of Engagement**, involving stakeholders from both companies from the start of the merger.

2. A merger process creating a **Shared Visio**n that can be owned at each level of the organization and readily expanded into an integrated strategy. It is strategically formulated to support and define where the new company is going and communicate how the formation of this new company fits the overall vision. This sets the groundwork for a **NEW IDENTITY** and a clear corporate brand.
3. A post-merger collaborative process in which time and people are of essence. Communication is open and transparent. Integration teams are comprised of members from both organizations across stakeholder groups. The process will reinforce core competencies, build a forward momentum and implement a flexible, collaborative, methodology for consolidation. Identification with the **NEW IDENTITY** becomes realty.

Top-Down – Bottom-Up Involvement

In general, companies focus purely on the financial side of the transaction. We feel that precisely this approach affiliated with delayed people involvement is the reason of 60 to 80 % reported failure rates. Our work with M&A has shown that the pre-merger integration activities (timing, communications and shared vision) are most critical, but mostly ignored. Our **Seven Step Model** (Figure 4) moves the "C"-Level executive team and the project integration team down and out through the organization. Concurrently it engages all employees (from the bottom up) in the sharing of stories and commitment to organizational excellence. There is often confusion regarding various responsibilities at the top.

Our approach results in alignment with and develops a focus on the **Shared Vision**, corporate mission and values. As an organic process, it brings the diverse groups of stakeholders responsible for the integration as well as internal and external stakeholders and key players (across the breadth and depth of both organizations) together in a timely manner.

The 7 x 7 Dynamic Model to Create Organizational Change

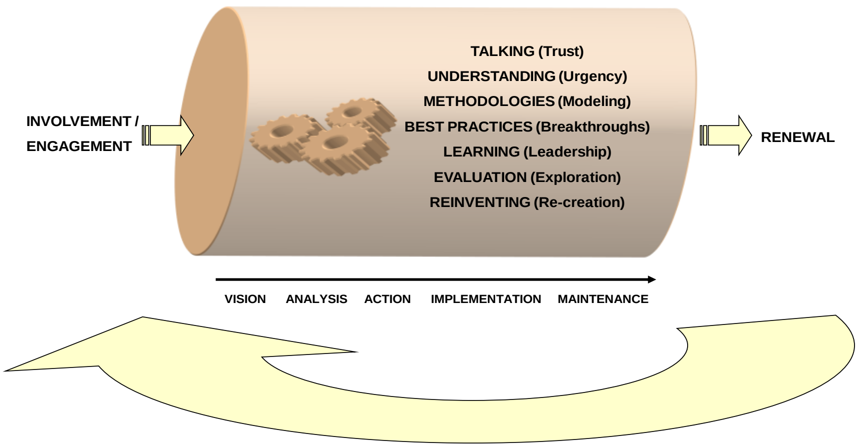


Figure 4

Together, implementation strategies are developed with a commitment to carry them out. It leverages cross-organizational knowledge, the most effective community-building techniques and the forming of internal networks around a shared purpose.

In M&A, the initial push must come from the top, be **continually reinforced by the "C"-Level executive team**, and then the project integration team. To enable momentum and confluence, all members must be on the same page. A clear and serious look at where each member of the "C"-Level executive team wants to be (their individual visions) must be brought to the table. Only from this process can an aggregate **Shared Vision** be truly developed.

Members must trust their colleagues and identify with the team above their own interests. They must be accountable to one another. It is often a hard and soul-searching journey that each member must be prepared to take in order to be personally engaged and then ask the same of those who report to them. We cannot ask others to change if we are not prepared to do so ourselves. Once trust and openness is established, key issues around duality can be addressed: what do we want to create; other strategic questions; and who are the »hate to lose employees«.

We recommend and encourage various collaborative large-scale interventions that get “the whole system into the room”. This step is critical early on for M&A, following the announcement as soon as possible in order to focus the organization’s energy toward a shared purpose, rather than drifting apart. Cross-stakeholder meetings are essential. The core or inner planning group (usually the project implementation team) is most effective when formed and meeting regularly as a whole group at the pre-merger stage. It is this new community that drives the process outward into the organization in a positive way. At the same time, it creates a knowledge center and a healthy, communicative, competitive environment. Its task is also to enable a positive customer interface and brand loyalty ensuring shareholder value.

The use of large-scale collaborative change methods, if applied effectively, can speed up and raise the effectiveness of the merger process. These methods produce an environment where new connections and strong emotional bonds between participants are evoked within the first few hours of these face-to-face meetings. It enables healthy relationships, communications and community-building between participants that would take years to develop under more traditional meeting methods.

A collaborative approach quickly establishes a corporate **New Identity** that supports the formation and implementation of an integrated corporate culture and core strategy. It engages internal and external stakeholders in a larger and wider process of engagement by creating a new corporate identity and roles. A “tipping point” of commitment rapidly unites the organization before disengagement and battle lines can be drawn. Those hate to lose employees are engaged in the creation and implementation of the change process. The whole of the organization is focused and integrating a **Shared Vision**.

A collaborative process is continuously co-designed with the corporate leadership and appropriate stakeholders to align to the needs and timing of the organization. Each organization has its own rhythm and must develop its own **Shared Vision**, mission, values, supporting strategy and processes – its own **Corporate Identity**. It is the role of consultants and coaches to follow this rhythm and hold the space for the organization’s process to emerge through appropriate change management, process design and facilitation, questions and coaching. There are no magical solutions or silver bullets. If the process is continuously co-designed, it will appear seamless and fluid with a high degree of positive, engaged energy throughout the organization. **Merger Excellence is achieved.**

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