

A MERGERS & ACQUISITIONS ADVISOR EDUCATION SERIES:

ACCELERATING M&A INTEGRATION SUCCESS IN TODAY'S MARKET

RECOGNIZING AND PREPARING TO MANAGE PEOPLE ISSUES EARLY WILL SMOOTH THE PROCESS

By Susan C. Felix

The pressure for companies to perform following mergers and acquisitions is tremendous. To attain the financial potential of the transaction, the company must integrate the organizations rapidly.

Integration is a challenging and time-consuming endeavor. The complexity of the integration effort takes its characteristics from the events leading up to completion of the financial transaction and the fundamental differences between the two companies.

Many forces counteract one another during the negotiation process that can adversely affect integration. During the negotiation process, personal agendas, egos, and compromises made between the parties can play a large role in the outcome of the negotiation. Remnants of these forces linger well beyond the closing of the transaction.

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Consequently, it is important to focus on many aspects of merger and acquisition integration during the evaluation, negotiation, and due diligence phases. During these phases, the differences in values, culture, vision, management style, and operating principles of the companies can begin to be understood. The larger the gap between these fundamental

aspects, the greater the challenge of achieving financial success and the more effort will be required to successfully integrate the companies.

Many of these fundamental differences result from dissimilarities in the people running the companies and the people working in the companies. The greatest challenge to merger and acquisition integration is addressing the people issues that underlie many of the roadblocks that are introduced into the process. Mergers and acquisitions create tremendous change in the business environment, and people seldom welcome major changes.

Changing Economic Times

Today's tightening capital markets further complicate the people aspects of integration. There is accelerated "belt tightening" in companies on both the buy and sell sides of the transaction. This phenomenon is now driving even the industries that were most greatly rewarded by the recent abundance of capital — such as high technology — back to the basics of cost-effective business practices.

When acquisitions are driven by this business philosophy, the transactions are more highly scrutinized with a focus on retaining only key assets and divesting others to improve the bottom line. This strategy creates greater uncertainty for the staffs involved in an acquisition.

Each staff position and the contribution of each person in both companies involved in the transaction may be closely reviewed to ensure that the highest caliber talent is retained and cost-effective staffing levels are achieved. This results in an entirely different mindset and reaction from the teams involved in the acquisition. Job security is no longer a valid assumption and corporate change can affect each individual in a significant and personal way.

Thus, the need to address people issues is magnified. The faster the company overcomes the fundamental people-related hurdles and gets the teams, products, and organizations working in tandem, the sooner it can focus on the bottom line and attain the financial potential of the transaction.

This article outlines seven steps that lay the foundation to accelerate integration in transactions where people issues are prominent. These steps form the foundation for quickly building a strong, integrated organization.

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Step 1. Early in the acquisition process, identify the characteristics of the acquisition you are making.

Figure 1 highlights some key indicators of the amount of change the staff and corporation will experience as a result of an acquisition.

FIGURE 1. KEY INDICATORS OF CORPORATE CHANGE AND STAFF IMPACT

Indicator	Minimal Change	Maximum Change
Stage of Corporate Growth of Acquired Company	Early stage	Established company
Executive Team	Minimal overlap of positions	Significant overlaps
Staff Retention	Retain essentially all staff	Achieve economies of scale, consolidate, remove redundancies
Location of Teams	Close proximity	Geographically dispersed
Products and Services	Minimal overlap	Substantial overlap
Benefits Structure	Similar benefits	Disparity in benefits
Management Style	Similar styles	Differing styles
Culture and Values	Similar	Vastly different
Overall Staff Impact	Limited	High

Early-stage companies typically have minimal corporate infrastructure in place and gain substantial benefits from being acquired by established companies. That scenario often results in

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a smoother integration.

For example, the telecommunications industry has expanded through the innovation of startup companies, many of which have been acquired by top industry players. In these cases, many of the complexities of integration are simplified as product lines are synergistic, rather than overlapping, and essentially all of the staff is retained. Moreover, the acquiring company often brings to its partner needed corporate infrastructure and an established position in the capital markets that can create an excellent environment for rapid corporate growth and enriched personal growth for the acquired company's people.

Established companies, on the other hand, experience a more substantial impact when acquired. These companies have established ways of doing business and significant redundancies in staffing with their suitors. In addition, there can be inherent conflicts in the companies' compensation and benefits packages, management styles, and products and services. Consequently,

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the change can have substantial effects on the staff at all levels of the organization.

Companies of any size may establish strong values and cultural elements that become ingrained in the organization and serve as an integral part of the company's success. When these companies are acquired by others with vastly different values and cultures, integration becomes a major challenge.

It is paramount to the ultimate success of the combined organization to

- **understand** and resolve early the differences in the cultures and values,
- **evaluate** the impact of adopting the acquiring company's culture,
- **determine** the common values and cultural elements that will move forward, and
- **understand** the willingness of people in the acquired organization to change.

Consequently, an important integration priority must be to establish a common basis for the combined company's corporate culture and to reinforce the culture in numerous ways through both communication and actions. Undoubtedly, culture clashes and the resulting changes may result in attrition that must be accounted for in the corporation's planning.

Step 2. Understand the impact on the staff and instill this knowledge in the management team.

Understanding in advance the level of change that will result from the acquisition will better prepare the executive team for handling integration challenges. Special attention should be placed on establishing "support systems" for the management team. These support systems ensure rapid and accurate communication with the management team and staff, and provide for timely resolution of issues.

Some of the support systems that companies rely on during integration include: a) regular management meetings with the combined team to answer questions and address issues as they arise, b) human resources hot lines and online frequently asked questions to address benefits questions, and c) an employee newsletter to facilitate ongoing communication with the staff.

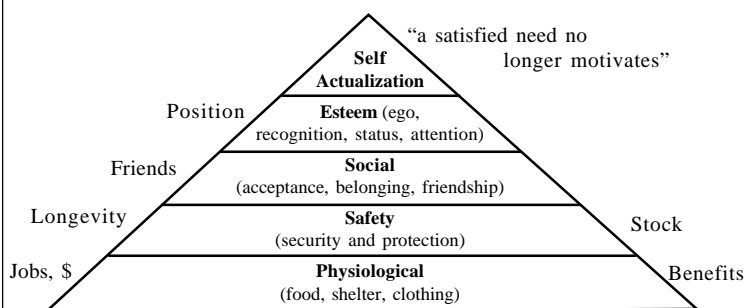
Step 3. Create a plan of action that addresses fundamental staff concerns.

Once the merger or acquisition is announced, the management team and key staff members instantly become the spokespeople to the combined team, customers and prospects, partners, and the industry. Essentially, everyone in the company becomes a spokesperson for the new company. As a result, special attention must be paid to addressing their underlying needs and then equipping them with information to confidently respond to inquiries.

Dr. Abraham Maslow, a world-renowned expert in human behavior and motivation, developed a framework called the "hierarchy of human needs" that depicts the building blocks of individual progress toward the ultimate need for self-actualization. Maslow observed that a person progresses towards self-actualization only if his or her fundamental needs are adequately addressed. This framework has rich applications in business, and can be applied directly to human needs following mergers and acquisitions.

Figure 2 ties Maslow's hierarchy of human needs to some of the staff's underlying needs that must be addressed early in the integration process.

FIGURE 2. MASLOW'S HIERARCHY OF NEEDS



The figure highlights the need to answer questions such as:

- Will the combined company employ me?
- Will I continue to earn a paycheck of the same amount?
- How will my benefits change and how does that affect my family?
- Will I retain my stock options and will they be worth anything?
- What job will I be doing for the company – am I interested in it?
- What are the long-term career prospects with the company?
- What is happening to my friends?
- What position will I have in the company, and what level of respect will I achieve?

The staff's underlying needs must be addressed quickly.

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The way that the staff's basic needs are addressed sets the stage for the culture of the combined companies. The staff wants uncertainty to be removed and expects fast, accurate answers to its questions. This requires the combined effort of the executive team, human resources team, and operational managers to adapt existing policies and procedures to the new environment and to effectively communicate changes to the staff. A decisive, communicative management team comes out on top during times of great change.

It is important to keep in mind that a satisfied need no longer motivates. As the basic needs of the staff are addressed, implement additional motivational techniques such as recognition programs, awards ceremonies, and career-building and skill

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development opportunities to address the staff's ongoing and changing needs, and to keep them engaged in building an effective organization. These efforts support a corporate culture that promotes achieving the highest levels of human needs.

Step 4. Define and communicate the leadership of the combined company.

Early in the acquisition process, it is important to define changes in leadership and the management team of the combined company. Each person in the company should know soon after the announcement where and to whom they report in the resulting company. This establishes a chain of command, facilitates uninterrupted decision-making throughout the company, encourages risk taking, and supports building positive momentum.

Step 5. Engross the staff in the combined company's objectives.

During periods of substantial corporate change, it is important to clearly set and communicate both short-term and long-term corporate goals and objectives. Importantly, these must be translated into specific objectives for the staff within the operating units and functional areas. Maintaining focus and establishing momentum quickly after an acquisition helps the staff to look forward and understand how they fit into the new organization. Moreover, it provides the opportunity for the staff to experience immediate success and validation of the power of the combined organization.

The transition period creates an influx of additional activities required to weave together the fabric of the new organization. These integration activities must be given priority in the company. A commitment to integration must begin at the top of the organization. A sponsoring executive and central coordinator for integration activities (which often resides in corporate development or the key operational or functional area affected by the acquisition) lends specific focus to the activities. Establishing task forces made up of staff members from both companies melds the organization together more quickly and establishes a sense of joint accomplishment.

For example, when two companies come together that have vastly different employee benefits packages, establishing a task force made up of human resources staff, key executives, and operational managers can broaden the understanding of the change process. This core group communicates with the staff to accelerate the buy-in process before and after the combined benefits program is announced.

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Step 6. Identify "unbiased" points of contact to handle unresolved control issues and to develop techniques for evaluating input for complex decisions.

In most acquisitions, there will be unresolved issues that need to be addressed quickly to ensure that the company maintains a path to profitability. Many of these issues may be contentious because of the pride of ownership felt by people from each of the two organizations. As a result, maintaining unbiased participants in the decision process accelerates the process of making the tough choices and ensures that the contribution of each participant is considered.

For example, when two companies come together with overlapping product lines, of which only one will move forward as the product of choice, the product management and key members of the product development and support teams should participate in the decision. Often, their objectivity will be compromised by pride of ownership in the products they developed, marketed, or supported. To enhance the clarity of and buy-in to the final joint decision, an unbiased participant can understand and balance the contributions of the various groups, and establish a process that guides the team to objectively evaluate the many aspects of the decision.

There is a lot to learn from each acquisition integration process.

Step 7. Evaluate integration success.

There is a lot to learn from each acquisition integration process that establishes a stronger foundation for future success. Seeking input from involved in the acquisition through surveys and other feedback loops identifies how well the integration is progressing, evaluates staff satisfaction following the inevitable changes, and uncovers issues that need to be addressed.

Conclusion

These steps set the stage for meeting the expectations of successful mergers and acquisitions. To maximize the opportunity to be successful, integration must be completed rapidly. Shareholders and the financial markets demand it, and the company's competition is ready to take action if the company falters. ❁

Susan C. Felix is President and CEO of Felix Consulting Group, Inc. in Saratoga, CA. She collaborates with executives around the world to address their biggest challenges in the areas of business strategy, operations improvements, and merger and acquisition integration. For more information, visit www.FelixConsulting.com.

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