



Mergers and Acquisitions: Best Practices for Successful Integration

To play a leading role in transforming organizations, HR must move beyond its transactional role to help create a performance-centric culture.

By Gerri Knilans

The primary reason many mergers and acquisitions do not deliver longer-term value is because they lack a strong cultural-integration plan. Like people, acquired organizations go through a change curve immediately after a deal is made, and the systems, processes, and programs that underpin the acquired company's culture are heavily scrutinized. All too often, these are quickly replaced. That's because the acquiring company spends little time planning and leading through this critical change curve. Leaders fail to realize integrating cultures is not a short-term task and does not happen immediately. Rather, it takes time to understand what the newly formed entity will look like and then put a management team in place that is both persistent and aligned as it guides the organizations, practices, and people toward the established vision.

Integration Defined

Integration can be defined in general terms as the process of combining two companies into one entity at every level. Specifically, integration involves the synthesis of people into one corporate culture. The new culture may simply be the culture of the acquiring company that is superimposed on the acquired company or some new entity that is a combination of the best aspects of both corporate cultures. Integration is also the combining of the two companies' systems into one set. These may range from information systems like company e-mail and intranets to, human systems like HR and purchasing departments and their accompanying policies and procedures. Last, integration is the merger of the two companies' production processes into a uniform system. For example, a large plastics manufacturer that uses an outdated manufacturing process may acquire a smaller start-up that has a newer, more cost-efficient production method. Rather than trying to create a newer production method from scratch, the new entity might adopt the smaller company's process.

Getting the Stories Right

Clearly, the stakes in any merger or acquisition are high. "Two cultures must be brought together and blended to create a collaborative, high-performance new company," said Mark Brenner, PhD, chairman of the Global Consulting Partnership, a company that provides executive coaching and organizational performance solutions for corporations,



professional service firms, nonprofits, and closely held businesses. “The strengths of both must be captured and capitalized on. Synergies have to be discovered, stimulated, and institutionalized. Further, the performance of the new enterprise has to be supercharged by optimizing the resources of both legacy entities.”¹

Ron Rael, a leadership coach based in the Pacific Northwest, frames culture in terms of a story that every organization tells. “Employees become very comfortable with that story,” said Rael. “In an acquisition or merger, the story will change. Employees will start judging that new story to see if it’s something that they’re comfortable with. If they’re not comfortable with it, they’ll start rebelling and do things that go against the new story.”² Of course, that’s an outcome no one wants.

Brad Finn was a division president at Maxwell Shoe when Jones Apparel acquired the company and knows firsthand what happens to employees when the acquiring company doesn’t consider the “story” of the company it’s acquiring. “In our case, there was a complete lack of respect for how we operated. Our culture was individualistic and goal-oriented, but the head of Jones’ shoe business told us right off, ‘We don’t need any mavericks around here,’ he said. “That was a pretty strong clue that this wasn’t the right place for me to be working.”³

“People, culture, and leadership will be the game makers or breakers,” added Brenner. “The basic math here is that profitability is about performance, but performance is about people—one person at a time and collectively. HR had better be treated as a strategic partner by the C-suite.”

Rael agrees about the importance of the HR department in making a merger work: “Mergers are done by financial people—in other words, we’re going to add to the bottomline, we’re going to increase profitably. Consequently, they often overlook the ‘soft’ side, which is where the story lies. The team that does the due diligence before the merger needs to look at the two or three stories, and find out how much they’ll clash and how much they’ll sync with one another.”⁴

Vision and Communication

Steve Church, head of HR for Avnet, a Fortune 500 computer services company that has done more than 50 acquisitions, agrees that people are the key to success on the financial ledger: “Avnet is a services company in a services industry. So we’re really acquiring employees. If they don’t feel right, they leave, and we made a bad deal for our shareholders.”⁵

Before a successful integration can begin, proper planning for that success needs to take place. Unfortunately, many integration initiatives fail from the start because the integration begins before any thought is given to the course that the integration will take. Planning for integration revolves around *vision* and *communication*. *Vision* refers to the ultimate look and makeup of the company after integration takes place. It involves identifying the best features of both companies that will help to make up the culture of the new company. It also means ensuring that these features remain intact and in focus throughout the integration process.



Part of this process entails setting overall goals and objectives for the integration, which will be handed to managers to refine and carry out. Brenner recommends that the management team conduct a strategy *advance* to nail down this vision. “We prefer ‘advance’ to ‘retreat’ for obvious reasons,” said Brenner.⁶

Communication refers to the messages that are shared with all of the stakeholders in the integration process. These stakeholders include internal stakeholders like the top management team, the board, and associates. External stakeholders include the two companies’ shareholders and customers too. If the messages and themes that are expressed to all parties are not consistent, then confusion, fear, and a lack of faith in the integration process is likely to occur.

“Be assured that whenever there is an information vacuum or partial information vacuum, the human species can be counted on to fill that vacuum with its own fantasies about what is ‘probably’ going on,” said Brenner. “Most employees are constantly talking about all the ‘worst-case scenarios,’ in terms of who will be retained, who will be released, and how the everyday rules of the game will change, once the dominant culture shifts into ascendancy.”

For all of these reasons, a clear vision and consistent communication are vital. “The new leadership team must move forward together, fully aligned, and ‘owning’ the strategic blueprint,” said Brenner.

Key Integration Levers and Components

There are *seven key levers* that can influence the success or failure of a cultural integration initiative. They are:

1. *Integration teams*, which can build the necessary relationships between the two companies;
2. *Speed*, which refers to the sense of urgency (not haste) that must accompany the integration;
3. *Leadership*, or buy-in to the process from key members of the management team;
4. *Communication*, which must be consistent both internally (associates, board) and externally (shareholders, customers);
5. *Retention* of valuable employees who can help smooth the transition;
6. *Culture*, second in importance only to results; and
7. *Results*, which are the ultimate goals of the merger, and which should guide the process.

Going hand-in-hand with the key integration levers are the *three components* to a successful integration: integration processes, integration tools, and integration measurement.



- 1. Integration processes* are those steps that the acquiring company takes to plan and carry out the integration. The company forms integration teams that are composed of a corporate-level sponsor, a member of the HR department, and a representative from each area of the company's operations. Members are also selected from the company being acquired. These teams will guide the integration process, ensure that consistent communication takes place, receive employee feedback, handle problems as they arise, ensure employees are connected to the process, and adjust course as needed. The teams may be stacked in a hierarchical fashion according to levels or areas of responsibility. For example, a senior-level team may have under it several teams broken down by company unit, which in turn leads teams broken down by responsibility within the unit.
- Measurement is not something done at the end of the entire process, accompanied by a declaration of success or failure; rather, it is an ongoing process designed to provide members of the various integration teams with real-time feedback.**
- 2. Integration tools* can be utilized to effectively transition key leaders and associates into the new organization. Ideally, these are the same tools as the acquiring company plans to use with associates already working there. These may include mentoring programs that match up new leaders and employees with counterparts or supervisors in the acquiring company; regular meetings or workshops that help explain and drive home the acquiring company's culture, business practices, or policies and procedures; and networking opportunities such as may be provided by company socials, community service projects, or access to the company's online social-networking portal.
 - 3. Measuring integration success* can be determined only by implementing a set of robust measurement tools. Measurement is not something done at the end of the entire integration process, accompanied by a declaration of success or failure; rather, it is an ongoing process designed to provide members of the various integration teams with real-time feedback. This feedback can then be used to strengthen and enhance strategies that have proven to be successful in creating a shared corporate culture. They can also be used to tweak or replace wholesale those strategies that are not gaining traction.

One measurement tool is regularly scheduled monitoring meetings. These may take place weekly or a few times a month and can involve members of the integration teams as well as nonmember managers and associates. The goal is to provide a forum to track progress and discuss problems as well as successes.

Regularly ticking off the key goals and objectives that were developed during the preintegration visioning and strategy process is another way to monitor progress. A dashboard that is prepared for each monitoring meeting can assist with this. By providing a convenient visual layout of key goals and objectives, leaders can quickly see how certain areas are progressing and then target efforts that are in need of extra attention.



Regular surveys of leaders and associates also provide valuable information on the relative success of a company's integration process. Although, goals, objectives, and dashboards can provide more quantitative results, employee surveys can provide insight not just into *what* is being done, but *how*. For example, while the dashboard may indicate that the e-mail systems of the two combining companies were successfully merged on June 10. An employee survey may reveal that the systems merger was complicated and full of starts and stops that reduced productivity and resulted in several lost sales, or that the process went swimmingly, with employees enjoying their new remote access to their e-mail from home.⁷

Integration Steps

When broken down, the integration process is often composed of multiple steps that can vary from company to company according to the specifics of each merger. These steps can include:

1. *Develop workforce integration project plan.* The senior integration team assigns tasks and due dates to staff to carry out the plan.
2. *Conduct HR due diligence review.* This involves a comprehensive human resources profile of the acquired company—everything from employee-incentives plans to union grievances to violations under the Occupational Safety and Health Act (OSHA). “The study yields vital information about the strengths and vulnerabilities of the two entities and allows the leadership teams to move forward with their eyes wide open,” says Brenner.
3. *Compare benefits and analyze differences in value.* This is simply a side-by-side comparison of the benefits packages for the two companies.
4. *Compare compensation and analyze differences in value.* This is a similar comparison of employee compensation formulas and methods.
5. *Develop compensation and benefits strategy for workforce integration.* Once the appropriate integration team has analyzed benefits and compensation, it develops a strategy for integrating the two systems.
6. *Determine leadership assignments.* This begins with a review of the vision for the integration process. Depending on the goals of the integration, the appropriate integration team determines leadership needs, evaluates candidates, and assigns them to leadership roles in the new company.
7. *Address duplicate functions.* It is likely that in any merger, some employees will perform roles being duplicated by an employee in the other company. Managers and the appropriate integration team need to make tough choices about releasing employees who cannot be placed elsewhere in the new company.

8. *Prepare employee communications strategy.* Based on the communication themes described in the vision for the integration, key communications are rolled out to employees via a variety of sources, including meetings, letters, e-mails, and other methods.
9. *Define transition data requirements.* These are the metrics that the integration teams will use to measure the overall success of the integration and to guide progress along the way.
10. *Develop employee-retention strategies.* These are the procedures and actions that will help ensure that employees stay connected, aware of the process, and motivated.

Although not every company will perform each of these steps, every process should have a preintegration phase that involves planning a strategy, an action phase that takes place while the merger deal is struck, and an integration phase that occurs in the near to long term after the companies join.⁸

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Change Management

Managing change is of utmost importance when completing an integration. Companies need a detailed plan for change so that it's an active process that they control, and not a passive process that simply occurs to the organization without a goal in mind. The change curve contains three periods of change: first, awareness, then *acceptance*, and, finally, *adoption*.

During the *awareness* period, it's important for managers to raise company consciousness about the coming change. It will not be uncommon for employees to feel denial, anxious thoughts, and emotions over the change, or outright shock that the change is taking place. Employees' morale and their productivity are likely to drop off. Managers will need to make

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sure employees understand the company's new direction and what it will mean to them as they navigate the change. This can lower the impact of the negative emotions.

Employees can make their own decisions regarding the changes during the *acceptance* phase. They may make decisions about their work schedules or whether or not

they will telecommute, for example. These decisions can create stress, as they will affect the employees' future with the company down the road. Approach-avoidance behavior is common at this stage; employees may understand and want to implement the new changes,

but they may be afraid of the downside of making a change from what they're used to. At this point, morale and productivity may reach their lows, but will soon trend back upward.

During the *adoption* period, positive outlooks and renewed energy replace skepticism and doubt. As employees explore their new work habits, leaders should make certain that they have the resources and training they need. The company's mission, leadership alignment, and goals supporting the desired changes should help to formalize and make permanent the new ways of doing work.

Incorporating New Leaders

It's important for the acquiring company to conduct a *skills assessment* with the leadership of the company being acquired. In this way, the acquiring company can determine what the leadership potential is and how best to incorporate it into the new company. These skill assessments can take several forms, including feedback from their supervisors, annual performance reviews, and interviews with the employees.

New leaders are important to the acquiring company for several reasons. First, leaders represent some of the most valuable human capital in the new company. As such, they would be very expensive to replace. "Approximately a third of all VP-level positions (at Cisco Systems) are held by executives who came into the company through an acquisition," Cisco senior director Rob Salvagno said. Salvagno further stated, "They're more willing to embrace ideas and welcome personnel that come into the company in the same way." Adds Cisco Senior Director of Corporate Business Development Ammar Maraqa, "We're not only interested in the current products or technology of a company—we want to make sure we build the next generation, which involves making sure that the folks we bring over are satisfied, happy, and are contributing members of the Cisco family."¹⁰

Second, it is likely not only that key leaders understand their company very well, but also that they're trusted opinion leaders. If associates in the company being acquired see that their managers have bought into the integration process, the associates are more likely to buy in as well. "Trust is the 'super glue' that bonds people to the organization and to one another, but it is the first to go and the most difficult to rekindle," said Brenner. These key leaders can be invaluable in helping new associates from the acquired company adopt and adapt to the new corporate culture. Otherwise, "the feared 'talent drain' ensues—people bail, and it's often the A-players who are out the door first," Brenner adds.¹¹

Third, acquired employees can bring great benefit to the acquiring company by virtue of their fresh perspective on the organization. "It's a process I call 'inculturization,'" says Rael. "For the first six months, new employees notice the culture. They notice what they like, what they don't like, and they model what will make them successful. After about six months, it's impossible to be objective about the culture. The only way to tell what the culture is like is to come from the outside with a fresh set of eyes."¹² This fresh insight on the acquiring company's culture can be invaluable to managers, especially when they're struggling to overcome problems and "bad habits" that have become institutionalized within the company.

The Cisco Example

Mergers and acquisitions veteran Cisco Systems, which has acquired more than 125 firms in the past 15 years, takes culture into consideration with acquiring smaller firms. “When we think about evaluating a potential target or an acquisition, one of the key factors we look at, besides the usual suspects, is culture,” said Maraqa. “We evaluate the culture of the target, making sure there is some chemistry between Cisco and the target.”¹³

A prime example of Cisco’s philosophy in action is their acquisition of networking star Linksys in 2004. While Cisco engineers and manufactures configurable products directly to enterprise, Linksys outsourced many of those functions and sold its products through retail channels to consumers.¹⁴ Said Salvagno, “As a consumer-focused firm, they naturally had a somewhat different culture than the parts of Cisco that are business-focused. We therefore allowed them more latitude and independence than if they were a simple technology buy.”¹⁵

Cisco staff worked with Linksys employees to determine those areas in which Cisco would more fully integrate with Linksys, as well as those areas that would remain distinct and separate, a process called “selective integration.” Ultimately, they found little commonality in application needs but were able to integrate fully in many other areas, such as sharing data-center space, productivity software, and HR functions. The two companies also realized that some issues required special attention, such as managing the two companies’ existing vendor relationships.¹⁶ Maraqa explained

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the Linksys situation and Cisco’s stance in more detail: “Sometimes we acquire companies with a different business model than what Cisco’s business model is. And typically we enter these markets to really learn in an area where we don’t have a history of operating. In these cases, we go through a very deliberate process to make sure we don’t immediately integrate these companies. We try to preserve their uniqueness and really learn the business model.”

Added Maraqa, “The last thing we want to do is jam the two companies together and destroy their uniqueness and what makes them successful in a market that we haven’t historically operated in. It’s a balancing process, where we want to preserve what’s unique, what’s made them successful, and at the same time we want to make sure that we’re leveraging Cisco as much as possible, because we want to accelerate the ramp of these companies, and we want to make sure that we take full advantage of Cisco as a parent company.”¹⁷

Prepare For Change

As Ron Rael summed up, “It takes about two or three years for the new story to completely be ingrained in the culture, but it has to be managed proactively. A culture never ever gets better on its own. It only gets worse over time.”¹⁸ Otherwise, there’s no doubt that employee morale and productivity will suffer in the ranks of the company being assimilated.

Companies that are committed to complete a successful merger will enhance, not detract from, employee welfare. One way to ensure that employee welfare is enhanced is to emphasize proper preacquisition planning, thoughtful and consistent communication and training, and, above all, listening. Equally important is to acknowledge the role of flexibility in the process. Although integration models can guide the overall process, management needs to remember that employees are humans and prone to irrational thought and action. The best companies will continually evaluate their efforts and be prepared to change tactics to achieve the best results.

Notes

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7. Corporate Leadership Council. (2003). Fact brief: Integrating employees and managers after acquisition. Washington, DC: Corporate Executive Board.
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9. See note 3.
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12. See note 2.
13. See note 10.
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15. See note 3.
16. See note 14.
17. See note 10.
18. See note 2.

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