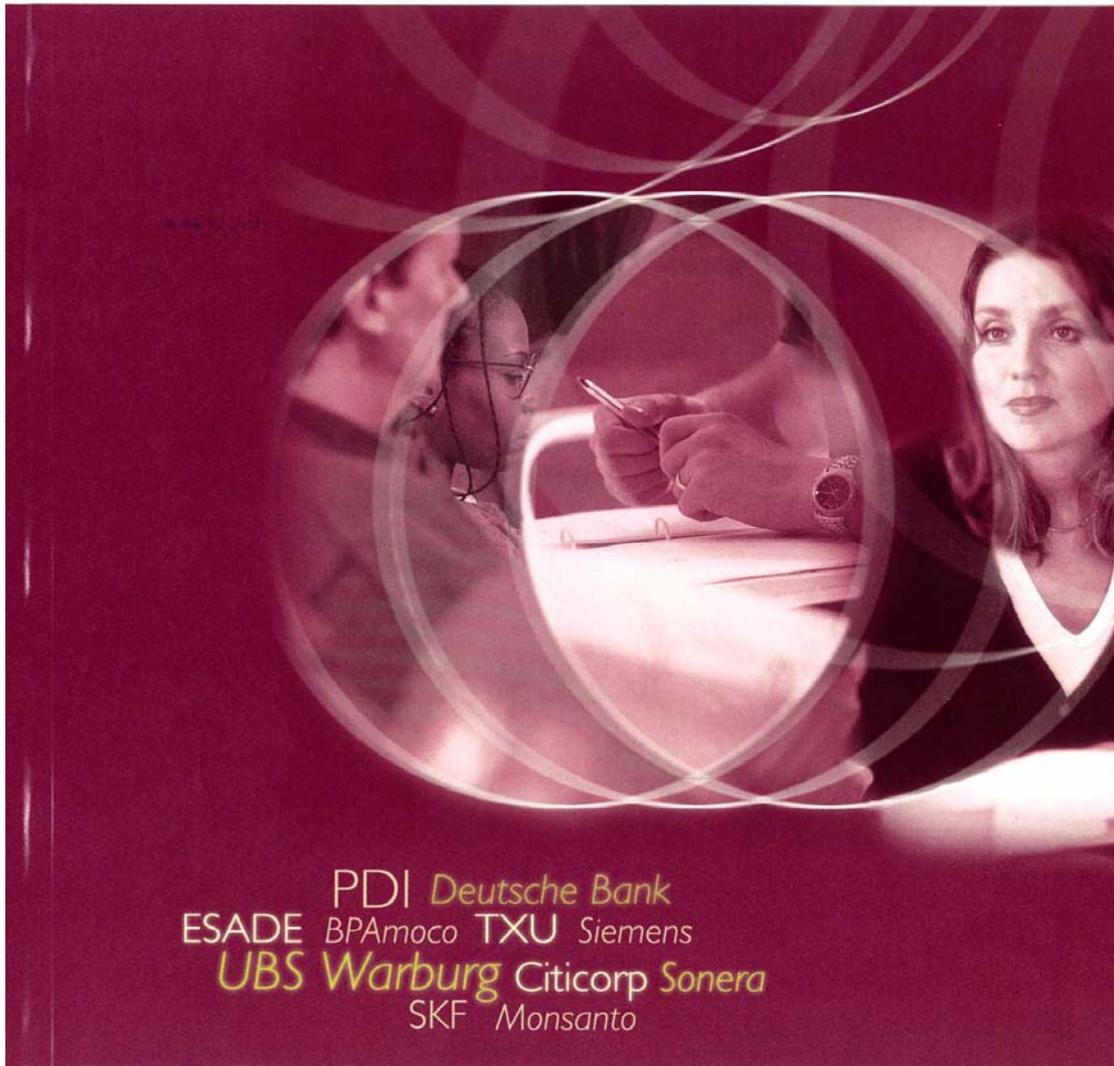


Effective Mergers and Acquisitions efmd Learning Group 2000

Report prepared by Valerie Garrow and Linda Holbeche
Roffey Park



developing people and organisations



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EFMD Effective Acquisitions Report

Introduction

Many research studies confirm that most mergers fail to realise their value. What is also commonly agreed is that the main reasons for failure are generally to be found in the people issues which often arise from mergers. These include 'job loss, restructured responsibilities, derailed careers, diminished power, and much else that is stressful'. Another common problem is the lack of commitment from top management to drive through the merger and little clear understanding of the cultural dimension of the merger.

While value often appears to be created in the transaction itself, successful implementation and integration is usually where the real and sustainable value lies. If consolidation through merger and acquisition is currently on the increase in various marketplaces, addressing the people aspects of M&As is likely to grow, rather than diminish in importance.

Members of the EFMD Learning Group on Mergers and Acquisitions have a special interest in exploring the people aspects of M&As, whether from a deal maker, general management or HR perspective. For most participants, acquisitions rather than true mergers were the main focus whether from the acquired, or the acquiring perspective. For this reason, 'mergers' and 'acquisitions' are used interchangeably throughout this text.

This report is based on the issues discussed in three meetings, and incorporates material supplied to the learning group by various group members. Each meeting focused on a different time phase of the merger process, namely the 'run-up', the transition and the longer-term integration period during which the success or otherwise of the merger is assessed. As such, the report does not claim to be an exhaustive study of the topic. Rather, it draws upon the organisational practices in use in group members' organisations and the earlier research into the human implications of M&As carried out by Roffey Park Institute to offer a range of perspectives on this complex field.

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Why merge?

Definitions

Acquisition and merger. Although in the literature, acquisitions and mergers are often treated synonymously, they are legally different transactions. When an organisation acquires sufficient numbers of shares to gain control of another organisation, acquisition is in question. Merger, on the other hand, is often agreed in co-operation with the merging partners. However, the degree of co-operation differs. Consequently, mergers are not always a combination of two equal partners. *Acquirer or acquiring organisation* is an organisation which acquires another organisation, and *acquired or target organisation* is the one which has been acquired by another organisation. *Integration* refers to the combining processes and activities of the acquiring and the acquired organisations and can take place at different levels. (Jokisalmi, 2000)

Drivers of M&As

M&A activity appears to be on the increase in most sectors, especially in mature sectors such as manufacturing and financial services. For group member companies, typical drivers include:

- Market share
- Economies of scale
- Government policy
- Deregulation
- Economies of scope
- Imitation
- Buying out competitors
- Potential business synergies e.g. expanding product lines
- Having a succession pool
- Acquiring specific competence
- Globalisation/market access
- Access to closed markets
- Access to distribution channels

Buono and Bowditch (1989) divide the strategic purpose of an acquisition or merger into five different categories:

1. *A horizontal merger* – when two organisations have the same or closely related products in the same geographical market
2. *A vertical merger* – when the organisations involved had, or could have had, a buyer-seller relationship prior to the combination
3. *A product extension* – where the variety of products increases but the products are not competing directly with one another
4. *Market extension* – where the firm is producing the same products or services but in different market areas
5. *Unrelated acquisition* – where the firms involved are unconnected.

The different types of M&A purpose will require varying levels of integration and will therefore have different effects on employees. Similarly, the level of co-operation between

organisations will affect how employees feel about the merger. In an organisational rescue, collaboration is likely and the aim is to get a good deal for both firms. Even so, employees may demonstrate passive resistance. In a more hostile or contested acquisition, or a perceived raid, there is likely to be a lot of resistance by the acquired firm. The more the acquired company's value depends on the quality and commitment of the people employed, the more carefully the integration has to be handled.

Reasons for merger failure

1. Lack of clear M&A strategy

While people-related issues are generally thought to be the major reasons why M&As fail, other common problems stem from the lack of a structured approach to M&As. This is often demonstrated in the failure to think through the strategic logic of any specific deal. Logic suggests that management teams would typically approach M&As in the following manner:



In reality, 'many management teams acquire or merge businesses without really having thought through the dynamics of their market. This alarming but all too common approach can always be identified when senior managers, three months into trying to implement rationalisation or other operational changes are reported as saying, "Just remind me why we actually bought this company!"' (Thomas,)

To avoid these dangers, SKF the Swedish international engineering company, has developed a clear acquisition process. This involves the following steps:



2. Incomplete strategies

All too often strategies are incomplete, focusing on the requirements of the purchaser, without integrating the different market demands on the acquisition. (Paul,).

Monsanto Workshop

To avoid these problems, Monsanto uses a three-day workshop with key Functional Leaders to align the company's acquisition strategy with the business strategy. This involves a marketplace comparison, discussing non-negotiables, comparing organisational culture, processes and practices, identifying and resolving gaps and major issues and developing project plans for integration. The output of the workshop is integration implementation plans. Plans are built around the '3Cs' of Integration i.e. Clarity, Conflict Resolution and Consensus Building.

Other reasons for merger failure, include a lack of clear process for handling the merger implementation and an over-emphasis on cost-cutting ($1 + 1 = 1$) as opposed to revenue enhancement opportunities ($1 + 1 = 3$). In other cases, business managers are unwilling or unable to adapt to integration strategies which vary according to the market of the business which has been acquired. Strategy and organisational culture need to be consistent if they are to succeed.

3. Type and level of integration

Mistakes are often made in judging the level or depth of integration required. The following is an extract from Masters Thesis of Sari Jokisalmi (2000)

Levels of Integration

'Integration of two organisations after an acquisition can take place at several levels. The continuum of the desired level of integration can spread from total autonomy to total absorption, with a number of points in between (Buono & Bowditch, 1989).

Napier (1989) distinguishes three types of mergers: 1) Extension 2) Collaborative 3) Redesign mergers. In extension mergers, the acquired is left untouched or only slightly changed with regard to its management or operation. Typically it is important to retain managers in this type of merger. Collaborative mergers occur when two organisations blend operations, assets, technology or cultures. This can take place in a synergistic way, when both organisations make compromises, or when exchanging or transferring knowledge or something else between the organisations. Redesign mergers mean that the other organisation widely adopts the other organisation's policies and practices.

The types of merger may strongly affect employee reactions. In extension mergers, employees remain generally unaffected, and, if they are informed about it, they are likely to maintain performance and satisfaction. The situation in redesign or collaborative mergers could be totally different. Changes in management, policies and direction are likely to occur. Decisions are made about which managers are to leave and which are to be retained. Human resource planning involves incorporating the remaining managers of the acquired organisation. Employees may suffer from anxiety about job security and adapting to the new situation.

Shrivastava (1986) distinguishes three levels of integration: 1) procedural 2) physical 3) managerial and sociocultural integration. Procedural integration is maybe the easiest level of integration, including integration of accounting systems and creating a single legal entity. Physical integration involves integrating physical assets such as technologies and product lines. In order to achieve synergies, resources have to be shared. This usually requires concerted efforts such as communicating a long-term strategy for exploiting synergies throughout the

organisation.

Managerial and sociocultural integration is considered the most difficult to achieve. It includes for instance selecting and transferring managers, changes in organisation structure, the development of a compatible organisation culture and a frame of reference to guide strategic decision-making. It also involves gaining commitment and motivation from personnel and the establishment of new leadership. Its purpose is to merge cultures and managerial viewpoints. However, sociocultural integration does not always take place, nor is even necessary.

Source: Jokisalmi (2000)

A key reason for failure in the M&A context is a mismatch between the level of integration required for the specific purpose of a merger or acquisition. An assimilation usually has tangible goals such as volume and growth, where culture is considered unimportant and acquired managers are required to adopt the ways of the purchaser or leave. An integration strategy has as its goal to create synergies or to establish a third company and managing organisational cultures is therefore seen as critical. Conflict resolution and team building have high priority. The tendency of managers is to drive an assimilation strategy, resulting in cultural in-fighting, when an integration strategy may be called for.

Companies which have amassed a good deal of cross-border merger management, have a clear understanding of merger success factors.

In the case of UBS Warburg which has grown rapidly by transformation and acquisition since the late 1980s, business strategy matches the desired level of integration.

Factors in matching strategy and integration at UBS

- 1) How integrated will the new organisation be?
 - Standalone unit
 - Partial integration
 - Complete integration
- 2) How much of the organisation will be impacted by the deal?
 - Technology/infrastructure
 - Single business unit
 - Single location
 - Entire company
- 3) Who will the controlling parties be in the new organisation?
 - Acquisition
 - Full merger
 - Joint venture

Source: Presentation at EFMD Group (November 2000)

The Run Up

The run-up period is relatively ambiguous to define. For some group members this was the period of deal-making up to the announcement of the merger. In this period, the people generally involved are the deal-makers – typically chief executives, financial and legal experts and a range of advisors. Activities focus around assessing the value of the deal and various kinds of ‘hard’ due diligence are carried out. Often HR and many general managers are excluded from this process. For other group members, the run-up phase included the closure of the deal and ‘day one’ of the new organisation. This phase usually involves a wider range of people in gathering data, carrying out a variety of forms of due diligence and developing business plans and integration plans, often referred to as ‘100 day’ plans. Management attention often focuses on one or other type of plan, while both need to be developed and implemented if the deal is to realise the predicted value.

The group felt that during the overall run-up phase, it was essential to identify the key ‘soft’ issues which would affect the merger and establish the relationship between the ‘hard’ and ‘soft’ factors of the deal. Measures should be established around these and activities to address the soft issues should be incorporated into the integration plan. Soft issues included:

- Top team dynamics
- The trans-national nature of the deal
- Levels of trust
- How people are motivated
- The range of stakeholders and their expectations
- Competencies of personnel
- Sources of synergy
- Levels of control (tight/loose)
- Brand value (people)
- Innovation
- Knowledge
- Management style

Measures included:

- Staff turnover
- Productivity
- Willingness/ability to change
- Customer satisfaction

Tools for assessing these included:

- ‘soft’ due diligence
- process mapping
- working climate analyses
- culture audits
- psychometrics
- focus groups
- desk research

SKF use a mergers and acquisitions checklist to assist non-HR managers in identifying actual or potential problems in the people domain. The audit looks at:

SKF M& A Checklist

The audit tool looks at:

- Vision and values – to determine the degree of synergy between the visions of SKF and the target company
- Political environment – to anticipate any actual or potential political dimensions which might affect the HR aspect of the operation
- Religious and ethnic environment
- Language competencies
- Legal base
- Company structure
- Management team
- Trades Unions
- Skills and availability
- Workforce profile
- Employee representation
- Company procedures
- Employment contracts
- Contract termination
- Redundancies
- Health and safety
- Security
- Learning and development
- Quality
- Pay
- Benefits
- Working hours and time off
- Retirement and pensions
- Performance management
- Equality
- Expatriation
- Main issues arising – immediate, medium term and long term.

Source: EFMD Group 2000

HR role in mergers and acquisitions

Being prepared

More often than not, HR is not included in deal negotiations and is in a 'catch-up' situation once the merger is announced. This may be made more complex when EU legislation prevents acquirers gaining access to the 'people' information before closure. However, members of the group felt that HR teams should effectively equip themselves for managing the people aspects of integration, especially if their organisation is on the acquisition trail. Partly this is about developing specific expertise within HR teams so that, when the moment comes, they can contribute effectively to integration teams. It also involves making sure that HR has its own house in order with regard to systems, information and organisation. Given the speed with which data is required during the run-up process, having to gather relevant information about your own organisation's human resource from a variety of sources simply slows down the whole process.

HR should be able to quickly provide answers to the following:

- Who are my company's high potential employees?
- Is my communication system working?
- What proportion of people in this company represent 25% of the salary bill?
- What part of our cost structure is variable?
- What proportion of staff are directly adding to the business?

In addition, HR can prepare the ground by:

- Creating a checklist for due diligence
- Carrying out a risk analysis on key jobs
- Finding out which central overhead people 'belong to' i.e. which HR/IT and other functional people would go with the business in case of divestment – reduce grey areas
- Preparing algorithms for all benefit costs in different countries
- Preparing due diligence database
- Enabling experienced transition managers to learn from each other
- Identifying key people in own organisation
- Targeting specific communications for different groups.

Focusing on key priorities

With so many possible human resource issues to deal with, it is very easy for HR teams to act in a passive, data providing way and fail to provide any strategic input to the process of creating the integrated organisation. To avoid this trap, the HR team needs to be very focused on the most imperative business/organisational priorities. The 60:40 rule should apply i.e. rather than attempting a 'perfect' solution to every issue, special attention should be paid to the most critical issues and others should be dealt with as part of a strategic framework over the coming months.

Leadership Selection at BP Amoco

In the BP Amoco merger, getting the selection of the leadership right was the key priority since this was seen as pivotal to the success of the merger. The

philosophy underpinning this was a belief that if you get the leadership right, the detail will fall out of that. The top 500 were agreed in the first hundred days post announcement and pre-sign off. Guidelines for the selection of other employees were developed during this period. Speed was of the essence. It was agreed that all the direct reports of the top 500 would know whether they had a post in the three months following.

On the other hand there was a conscious decision not to attempt to solve everything within a short time. Aligning compensation and benefits systems for instance was deferred until a year after the merger. This allowed time for a complete regrading of the organisation to take place, an activity which was exceedingly complex in a global company with many different grading levels and where unions were involved on a regional basis.

Source: EFMD Group (February 2000)

Due diligence

In a wider sense, when mergers take place amongst organisations where the business relies on people, Human Resource audits focus on what the acquirer is really buying i.e. the knowledge and competence of employees. Due diligence is carried out to validate the value of the deal, to identify potential risks and opportunities. With regard to people, due diligence is often limited to numbers and roles of staff, together with compensation details. In fact, retaining talent and building trust are key elements of ensuring that the value of the deal can be realised. Experienced acquirers, such as GE, recognise the need for a more extensive 'soft' due diligence. They carry out a systematic cultural due diligence of both companies with a high degree of detail to identify differences in attitude, and related risk.

'Soft' due diligence involves building a template for a health check on people issues. It probes the qualitative HR and people issues critical for success such as:

- Do employees expect to be in their role forever? (Measures such as turnover, especially whether this is random or whether there are clear patterns can be indicative)
- What competencies are currently necessary and what new competencies will be necessary when change is introduced? Who has these competencies? (The only critical competency is can people learn?)
- What are the sources of synergy?
- How do the organisational/cultural/managerial styles fit with the merged business strategy?

Key employees

Many acquirers, often through arrogance, fail to make contact with key people in the acquired company once they are able to do so. Cisco, on the other hand, recognises that employees are the key asset being acquired in any given deal. Members of the management team, including the CEO, talk with software developers in the acquired company. A risk/impact assessment should be carried out with regard to the key people in the acquired company. Many would argue that, in the case of complete integration, the same should apply to key employees of both organisations. The impact on the business of their departure (high/low) should be considered in the light of the employee's skills, knowledge, behaviours, reputation in the marketplace, client base and income generation. The risk of their leaving (high/low) should be considered in the light of marketability, 'golden handcuffs' and

willingness of prospective employers to buy them out, mobility and response to culture change.

Roffey Park's research (1998) suggests that early involvement of effective HR teams in preparing for integration during the run-up period is a major factor in merger success.

HR involvement in the Norweb Energy acquisition

HR began to be involved well after TXU had identified Norweb as an acquisition target but prior to commencement of the due diligence process. The first task was to produce (from very limited information) a high level view of the financial implications with regard to staff of merging the business and potentially relocating it. It was needed as a guide for deciding which potential location options might be worth considering if the purchase went ahead. This also provided a maximum severance cost to TXU of making all the staff redundant, which became part of the acquisition model.

A couple of days in the Norweb data room were spent with an employment lawyer engaged by TXU. A template was produced of key issues to check and subsequently the HR section of the data room report was produced. The next few weeks were spent working with other managers on an implementation plan assuming the deal went ahead.

Once TXU became the 'preferred bidder', HR worked with the negotiation team, fielding HR issues, estimating costs and risks of decisions with HR implications. Some of this activity was in support of the dealmakers; at other times it was face to face with Norweb's Personnel director. During this time HR staff spent a couple of days at Norweb's offices in meetings with their Board, clarifying some outstanding HR issues.

The HR elements of the Sale/Purchase Agreement were agreed and two letters of intent were written confirming how we would deal with staff and unions if our final bid was accepted. Overlaying this time period, HR helped build the communications plan for a successful deal, concentrating on internal communications. Work on this was intense in the last few days. This led to HR being one of the key communicators on the day of the announcement, presenting on behalf of TXU to one of the main staff groups in Norweb.

Since then, two or three days a week has been spent with the Norweb HR team facilitating the integration process and leading or supporting union consultation.

HR added value

The acquisition team were clear about their need for HR involvement at the earliest stage. Norweb employed some 300 people so they wanted specialist support in their discussions. The only way to do this was to become one of the team. By understanding the questions and issues which needed immediate resolution or risk assessment, it was possible to identify those areas on which to concentrate. The value came from speed of response and being able to provide answers in the context of knowing the deal structure.

Looking at the financials around staff was essential for the acquisition business case and later for ensuring the appropriate provisions were made against potential integration costs. By providing more detail and using assumptions from previous experience of large-scale change, it was possible to scale down initial provisions.

During the course of the negotiations, advice was provided on the operational implications of some clauses being drafted by our employment specialists. This allowed the risks to be assessed of agreeing to clauses preventing appropriate

consultation as required by TUPE. Initially a sticking point, a way was found that was acceptable to both sides. HR was also on hand to field, and eventually remove some last minute requirements safeguarding Norweb staff which, had they been agreed, would have left the operation very exposed.

Throughout the process, the role was seen as providing commercial HR support while reminding everyone of the people issues implicit in the acquisition i.e. the degree to which integration failure is attributed to poor people practices.

Source: Input by Alan Wyatt and Richard Stokes at the EFMD Group, November 2000

Culture audits

Cultural issues are frequently cited as the most common cause of merger failure. Best practice shows that explicit programmes to manage cultural integration reduce the risk of failure. Members of the group agreed that it is essential that merger managers have a good understanding of their own organisation's culture(s) and that they are able to assess the likely 'hot spots' between the two organisations' ways of doing things. This is part of a detailed risk assessment and involves looking at issues such as:

- Management styles – matrix, consensus, centralised?
- Hierarchy
- Acceptance of accountability
- How are people motivated ?(e.g. through reward, promotion, other)
- How do the meanings of e.g. 'teamwork' and 'direction' differ between the companies?
- Impact of redundancy in local cultures
- Decision-making styles
- Perceptions of time
- Perceptions about what can and can not change
- Willingness to change
- Legislation

This also means identifying aspects of organisational culture which are effective and should be kept.

Organisations use a variety of tools to carry out a cultural audit. Some use working climate analyses, employee opinion surveys and pre-deal inter-cultural workshops.

Cultural Assessment at Deutsche Bank

Deutsche Bank used a cultural assessment tool developed by OCI in its integration of Bankers Trust. The tool was used, along with standard interviews and focus groups, to measure existing cultures in both companies by line of business and geography. The information gained was then used to develop a programme for integration activity in the businesses, engaging staff and helping them focus on the new Deutsche Bank. While the audit found significant cultural differences between the two companies, there were sufficient similarities to make synergies possible. Surprisingly perhaps, Bankers Trust culture seemed closer to the new Deutsche Bank culture than the old Deutsche Bank. The integration philosophy underpinning the transformation to the new company was to take the best of both companies' cultures, incorporate external best practice and new company practices to create an integrated new company.

Source: Presentation to EFMD Group at Deutsche Bank, February 2000

Proactive and ongoing management of the cultural issues associated with the integration is a critical component in ensuring post-integration business results.

The Transition

The transition time is the period immediately following Day 1 of the merger. Research by Roffey Park (Roffey Park, 1998) identifies the characteristics of this period as:

- Widespread anxiety
- Heightened response to every nuance
- Suspicion – searching for signs
- Pre-occupation with new appointments.

Employees seek to interpret the signs of new appointments, allocation of offices, plans for closure and relocation. Worst-case scenarios are rife as re-structuring takes place and new networks and alliances are forged.

For many organisations, closing the deal has absorbed most of the company's energy and, where the emphasis has largely been legal and financial, the real work has to begin on the delivery of promises. HR teams often find themselves in the front line in meeting commitments they have not been party to making.

Transition periods vary in length and intensity but it is estimated that around 80% of all changes occur in the first 3 months of a merger. Perceived wisdom in many sectors, particularly among the financial organisations within the working group is that 'speed' is the most important factor in post-merger re-organisation. For example, UBS uphold 7 key success factors:

1. Board level structure must be defined at announcement
2. Publish an integration communications plan
3. Have very clear business and financial targets
4. Keep integration time as short as possible
5. Make decisions swiftly – speed is critical
6. Involve as many employees as possible
7. Make selection process transparent.

Speed, however, is only effective where adequate groundwork has been completed in the 'run up' phase. An excellent example provided from the EFMD Group is the creation of a 100 day plan illustrated below, provided by SKF.

SKF Foundation - Meet, Greet, and Plan

Target: Create and execute 100 days plan

SKF Business Executive, Integrator, management team of acquired company, and possible SKF counterparts to meet to:

- socialize
- exchange information
- share the acquired companies feelings, reactions, fears, and expectations
- present the acquired company's organization, products/services, market, people and plans
- present positive aspects, strengths, synergys, what the new company brings to SKF
- opportunities and improvements

- identify what has made the acquired company successful
- SKF Integrator and line management to describe what it means to be a member of SKF:
 - values
 - responsibilities
 - challenges
 - rewards
 - standards, policies and practices
- communicate relevant SKF strategies and markets served:
 - compare market place
 - communicate changes in strategy, structure, systems and philosophy
 - make the hard decisions within days:
 - management structure
 - reporting roles
 - layoffs
 - restructuring
- draft the 100 days plan and communicate non negotiables:
 - financial compliance
 - procedures & systems
 - compensation & benefits
 - managing customer relations
 - business plan review and adaptation
 - form cross-company teams for business plan implementation
 - set milestones for 100 days plan achievements
 - build in urgency
- communicate to SKF the “fingerprint” of the newly acquired company - who is who:
 - create a two-way communication forum
 - dialogue and interaction to overcome cultural differences and problems in implementing the 100 days plan
 - openness, trust and teamwork
- 100 days plan - implementation and progress:
 - address critical cultural differences and create bridges
 - safeguard values in the acquired company which are critical to business success
 - close 100 days plan with WCA. Implement actions wherever necessary to bridge cultural conflicts with SKF members in team

The above transition plan illustrates many of the key issues which need to be tackled from Day 1 of the merger with a strong emphasis on sharing, socializing and exchanging information. Hard issues are not side-stepped and ‘non negotiables’ are clarified and put on the table.

Key Elements of a Transition Plan

- ✓ Socialise
- ✓ Present the vision
- ✓ Deal with the 'non-negotiables'
- ✓ Create 2-way communication

Transition and Integration Management

The Integration Manager

The role of the manager during the transition and integration phase is critical. Many of the skills required are simply excellent change management skills. There are, however, other aspects of the role which focus more particularly on integration skills. The profile below provided by SKF outlines a role dedicated to promoting mutual understanding and integration.

The SKF Integration Manager Profile

Most effective, when the individual has served on the due diligence team - strong interpersonal skills and sensitive to cultural differences.

To be appointed before the start of due diligence and participate in the due diligence process.

Must be able to manage the three C's of Integration: Clarity, Conflict Resolution and Consensus Building

Tasks:

1. Facilitate and manage integration activities
 - working closely with the new company to make its practices consistent with SKF's requirements and standards
 - creating communication strategies to quickly communicate important information about the integration effort to employees
 - manage the 100-day plan, the 6 months plan and the assessment/adjustments after 6 months
2. Help the new company understand SKF
 - reporting and business planning
 - use of SKF Trademark
 - connect to SKF Intranet and GMS
 - understand SKF's vision, mission, values, strategy, culture, and organization
 - helping managers to understand changes in their jobs
 - introducing relevant SKF business concepts and training programs
 - make sure non-negotiables are understood and implemented
3. Help SKF to understand the acquired company
 - brief SKF executives and managers about the new newly acquired company to help them understand what it does and why it works the way it does
 - make sure managers of the new company are not swamped with requests for information from SKF
 - channel all information to SKF about progress in 100-plan and other integration activities

4. Accountability

- creation of the Integration Plan
- reaching the plan's milestones, including adjustments based on assessments

In order to support the integration aspect of the role, SKF also identified the need for the additional part-time role of mentor/facilitator.

SKF – Mentor/Facilitator

Profile

- Early appointment
- Must have wide company knowledge
- Location is critical
- ½ day per week (up to one year)
- Should be on board

Roles

- Mentor – close speaking partner
- Business plan involvement
 - Synergies
 - Integration
 - Non-negotiables
- Introduce SKF to a company (management must be visible)
- Regular visits
- Facilitate problems
- Identity – use of trademark
- Access to SKF communication system
- Keep the business focus
- Open SKF doors
- SKF new
 - Mail
 - Video
- Develop a launch manual
- Protect from SKF cultures
- Competence mapping
- Key legal visits – insurances, etc
- Share SKF purchasing benefits
- Follow monthly results

The mentor/facilitator role supports integration in ensuring integration activity is closely linked to business objectives.

Performance Management

Restoring the focus on performance is not an easy task against a background of uncertainty and Roffey Park research (1998) identified a management style described as a 'primus stove' approach. Essentially this refers to a flexible management style, able to provide and appraise short term goals and objectives against a rapidly changing backdrop of organisational restructuring and new appointments. Line managers must be able to respond to the developing needs of the business as well as the needs of employees.

Citicorp issued Guidelines and Principles to managers regarding the transition which they describe as a 'window of opportunity ... to demonstrate the new leadership and to achieve credibility with the acquired staff'.

Citicorp Transition Management Guidelines

1. *Clearly define and establish some goals and objectives.* Because both the acquisition team and the acquired managers are on unfamiliar terrain during the initial stages of the transition period, these goals and objectives will necessarily be short term.

This is okay because the credibility of long-term goals and objectives rests, to a certain extent, on short-term performance. Where possible, it is a good idea to make some visible physical improvements in the work environment. As one Citicorp manager put it, 'Get them a good work space'.

2. *Synchronise these goals carefully.* What we want to do is build a reputation for crisp planning and execution. We can do this best by not wasting people's time and goodwill on activities that are counterproductive or quickly aborted.

This unfortunate story was heard in more than one acquisition: 'We went through a long period when we worked our butts off on a project, under terrific pressure to deliver, only to be told to stop what we were doing and start something else. The Citicorp guys simply didn't know what they were doing'.

3. *Communicate and publicise these goals broadly.* Doing so positions us as managers who communicate openly on important issues and who believe in the importance of communications.

It also helps allay some of the stress of the acquisition by reducing the uncertainty that goes with it. It gets people focused on the future and moving ahead. And, it establishes the desired action-oriented image of the new Citicorp management.

4. *Give broad and frequent feedback about progress on established goals and objectives.* Feedback should give bad news as well as good news. The feedback itself reinforces the value of communications, and its candor builds additional credibility and reinforces the open communications norm.

5. *Avoid losing credibility.* This is best accomplished by managing expectations and not promising what you can't deliver.

Remember, the acquired staff may expect miracles! Let them know that change and improvement will take time and cost money. Be very clear about this.

Source: Organization Integration in Citicorp: some guidelines and principles

Communication

Communication is a common theme in Merger & Acquisition literature but the EFMD Group gained valuable insights into communication in high risk/low trust situations through a video lecture by Dr Vincent Cavella. There were inevitably many parallels between the principles of communication in scenarios where something valued was threatened and a merger situation. The key theme was on re-establishing trust and providing information so that people hear the message in spite of their emotional response.

The work highlighted 4 theories:

Trust determination: Trust is built up over a long period but can be destroyed very quickly. Employees are the people who decide when to trust. The essential message of this theory is that, "When people are upset they want to know that you care before they care what you know". Senior executives are often too eager to share their organisational vision and business plans before they have dealt with the 'me' issues of their employees.

Risk perception: Where trust is determined by the recipients of communication, facts and figures will have little impact unless there are perceived benefits and there are options and choices. Unfortunately first impressions can be lasting and this has implications for first contacts between merging organisations.

Mental noise: When people are upset there is a limit to the amount of information that can be processed. It is often said that one cannot over communicate in a merger but it is perhaps more important to focus on high quality communication which focuses on the most important messages. The theory suggests that 3 key messages are the most that people can process in high concern situations.

Negative dominance: When people are upset they think very negatively. It is therefore advisable to avoid negative words such as 'no, not, never, nothing, none' which eliminate options. In merger situations positive messages about the future may be overtaken by the possibility of redundancy, relocation or re-structuring.

A practical example of the application of some of these principles is supplied by Citicorp in their guidelines on Organisational Integration.

Communicating with the Acquired Staff

Effective managers use every opportunity to reinforce the changes they are trying to make. Some communications activities can be planned and programmed. Others simply have to become part of each manager's individual style. Here are a few suggestions:

1. *Communicate proactively* Insofar as possible, communicate decisions as soon as they are made. Get the message out ahead of the rumor mill.
2. *Communicate strategically* Decide what you want to say, but before you say it, find out what the audience's reaction to the message is likely to be. Your message should address these probable concerns as well.
3. *Communicate candidly* It is usually best to give as much information as possible. It is also best to transmit bad news as soon as it is practicable. Also, if an answer to a concern is not available, it is okay to say so.
4. *Communicate face to face as much as possible* Written communications are useful and necessary, but in emotionally charged situations, face-to-face communication is more effective, if for no other reason than you can gauge the

- immediate effect of your message on the other person.
5. *Communicate openly* Encourage questions and comments. Use all opportunities to ask questions as well as to deliver messages. Listen to both the content and the emotional tenor of questions and comments.
 6. *Communicate continuously* What people hear is distorted by the stress they are experiencing, so messages have to be repeated over and over again until it is certain they are understood.
 7. *Focus communications on what the audience cares most about* For example, staff members are generally much more interested in what is planned for the short term than what is planned for, say, 1990. They need communications that steady and reassure them and bring order to their work situation. Firm, consistent information that answers the question, "What next for me?" is best.
 8. *Refer to Citicorp as a worldwide corporation* To some people, 'New York' has negative connotations, so if possible, refrain from referring to Citicorp's New York headquarters.
 9. *Dress for the audience and the occasion* Reports one Citicorp manager. "We called one of our first meetings with the managers for a Saturday morning. They showed up in casual clothes and our guys showed in blue pinstripe suits". Remember that dress is also a form of communication.
 10. *Be aware that the medium of communication carries its own message* In one acquisition, the use of overhead transparencies was seen as very 'high-tec'.
 11. *Be aware that the communication site delivers a message, too* Going to the branch offices, for example, to give a presentation and to meet the staff is an effective way to say that we care about them as individuals.
 12. *Use off-site meetings to set a new management style and show who's important* This method is a powerful tool and sends a clear message to the select few invitees, but be aware that some business cultures view such meetings as an extravagance.
 13. *Don't promise what can't be delivered* Building credibility is absolutely essential to the integration process.
 14. *Don't promise that nothing will change or that jobs won't be affected* There are two good reasons for this statement: First, people in an acquisition expect changes. What they want to know are the extent and nature of those changes. Second, such statements generally aren't true. They fall in the same class as:
 - The check is in the mail
 - We are from the Government and we're here to help you
 - Your job will not be affected by the acquisition.
 15. *Communications are critical in setting the tone of the acquisition* Their content, style and candor are powerful precursors of change in the integration process. An appropriate communications program is a powerful tool for establishing the norms of participative management, open disclosure and concern for the individual. It also can help build the credibility of the new management team.

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The Integration

The period of integration is largely determined by how much integration is required and how much of the organisation is involved. According to research by Roffey Park (1998) this phase is characterised by:

- Pressure to deliver with performance under scrutiny
- New work processes and teams
- Cultural sensitivity
- Reassessment of values

Managers should be:

- Supporting teams
- Feeding upwards communication from employees
- Identifying gaps in training and development
- Demonstrating cultural understanding and facilitating integration

These elements are addressed in the SKF integration plan.

SKF - Six months Integration Plan

Target: To move from the few to many, cascade the integration. Focus on Business plan implementation and business integration. Identify and solve conflicts. Ensure clear and consistent direction.

- create a shared image of the future
- identify the gap between where the new company is today and how it is intended to be
- identify the gap between the new company and SKF today and how it is intended to be
- implement the new joint business plan
- communicate actions and milestones in joint acquired and SKF teams
- communicate results achieved
- implement further actions to bridge cultural gaps/transfer good behavior and practices to SKF and vice versa
- identify and solve conflicts - base on business sense

Course assessment and adjustment

Target: make sure that action results are in line with goals set in the business plan
- identify hidden obstacles – audit:

- systems
- processes
- teams
- culture
- business understanding
- implement actions to rectify and adjust business plan

Competence Development and Transfer

Target: to accelerate business growth through shared competence and transfer of competence

- short and long-term assignments in sister companies
- formalized projects for new business and competence transfer

Citicorp guidelines demonstrate how integration goals of Knowledge Building, Credibility Building and Behaviour Building are translated into strategy and action:

Citicorp Integration Strategies

The strategies fall within three goals:

In Knowledge building, the two strategies are:

- *Understanding the acquired company* – Learning about its organizational structure, its systems and processes, its personnel, its culture.
- *Clarifying the new direction* – Charting the acquired company's new course, making short-and longer-term plans.

In Credibility building, the two strategies are:

- *Communicating information* – Establishing and using two-way communication systems to share new directions, plans and accomplishments with staff.
- *Building consensus and two-way trust* – Creating a sense of motivation and teamwork in doing the job better.

In Behaviour building, the two strategies are:

- *Staffing and training* – Assessing human resources, making changes and providing needed skills.
- *Installing systems and processes* – Implementing organizational changes and establishing follow-up procedures.

The types of activities carried out in the acquisition/integration process correlate closely with the six strategies. Here are some examples:

Strategy	Example of Activity
Understanding acquired company	Gathering information
Clarifying the new direction	Planning/making decisions
Communicating information	Setting up communication systems
Building consensus/2 way trust	Developing teamwork
Staff training	Developing human resources
Installing systems/processes	Implementing MBO plan

Source: *Organization Integration in Citicorp: some guidelines and principles*

Staff Retention

Many mergers involve heavy redundancies through rationalisation and cost cutting measures to achieve targets. This is not always the case, however, particularly in organisations where the value of the company lies in its employees' knowledge. The Roffey Park research suggested that a second wave of resignations often follows the initial loss of staff and occurs between 6 –12 months of the merger at a time when employees reassess their position in the organisation. Unfortunately it is inevitably the key talent who are poached during merger uncertainty and a real challenge for the new organisation is how to retain those who are still assessing their new roles.

PDI (Personnel Decisions International) describe below how they have retained talent post acquisition where one of the main drivers had been to expand PDI's capability in Europe.

The PDI – WBB Acquisition

Report contributions from PDI
Joy F. Hazucha and Klaus Schuler

Background

The players:

- Personnel Decisions International (PDI), founded in 1967, headquartered in Minneapolis, Minnesota, USA. First European office opened in Brussels in 1993. Also had offices in London, Royal Leamington Spa (UK), Paris, Geneva, total about 65 people. "Define, measure and develop individuals, teams and organisations", with simulation-based assessment and 360-degree feedback as the largest global practice areas.
- WBB, GmbH, founded in 1984, headquartered in Tuebingen, Germany, with subsidiaries in Czech, Slovakia, Hungary, and Romania, total about 25 people. Personnel and organisational development, with moderation, moderation training, [TTT](#), [teambuilding](#) and [a unique 1 year program for HR-Specialists](#) as the largest specialities.
- Timeline:
- PDI "scout" met one of the principals of WBB (KS) at a conference in Hungary – Summer 1997
- 1st meeting in Paris between KS and the MD of Europe (JFH) – Dec 1997
- meeting in London between the two principals, the MD of Europe, plus the COO and the CEO of PDI - Feb 1998
- negotiations began – June 1998
- alliance agreement begun – Jan 1999
- strategic alliance agreement signed – May 1999
- acquisition – 15 July 1999

Strategic Drivers

For PDI, the initial strategic driver of this acquisition was to serve our global clients in Germany. A key ingredient in this was to find an organisation with high-quality, customer-focused consultants. Motivation for selling was key: PDI wanted an organisation which was successful, and whose owners wanted to stay involved in the new organisation, rather than people who wanted to "sell out and get out." This combination is not easy to find, as most successful, engaged people have no reason to want to sell.

For WBB, the strategic driver was complementary: continuing to become more international and global. They saw their choices as (a) doing it alone, or (b) joining forces with us.

Run Up

Due diligence

The focus of the due diligence was to test “personal and professional compatibility.” People issues are key in most mergers. But in a consulting firm, people and ideas are the *only* assets, so this is critical.

Because both companies are privately held, we had the luxury of being able to take a progressive approach, without worrying about news “leaking” and affecting the share prices. First, looking for projects on which we could work together, and taking them on a case by case basis. Next, formalising a strategic alliance agreement, which involved being more proactive about (a) conducting training for WBB people in PDI’s core areas, and (b) looking for more opportunities to connect more people across the two organisations. How we worked together and how people reacted to each other at all levels, and how we resolved problems would be key to whether this seemed like a good match. The CEO took advantage of the opportunity to stop in Tuebingen on one of his trips and had a very pleasant and fun dinner with the team.

There were tense moments about several client projects. We had worked through several of these issues with constructive resolution before the acquisition, which helped to build confidence for the future.

Setting up integration plan/ process

As we got to know our partner more, a second driver became to expand PDI’s range of capabilities; in addition to having an organisation who could learn to deliver “PDI stuff,” there are things from WBB that would be great additions to our offerings to clients beyond Germany. In addition, WBB has a number of interesting practices that lead to high team spirit and high retention of people.

Our CFO suggested an integration plan and an integration manager. This was developed the day of the acquisition by the two principals of WBB and the MD of Europe, with input from the finance and legal people who were present. We built the integration plan around PDI’s goals (which were shared by WBB, although not formalised in the same way)

- Clients
- Teammembers (people)
- Professionalism
- Business

We identified point people on each side for each key area, e.g. finance, marketing, practice areas.

We framed this as a “coming together” rather than the technical term, “acquisition”, since the objective was to have two-way communication and exchange, vs. one-way imposition.

Unlike the typical merger for “synergies”, since there was no overlap in geographies, the objective was to keep everyone. The focus of the integration was (1) in our client offerings, and (2) in our systems and processes, to (3) achieve 30% growth and 15% profitability.

A key value of creating the integration plan was to help us to be more realistic about our goals. For example, we decided (a) to start with Germany and worry about Eastern Europe later, and (b) to postpone creating a new practice area together until after the first year.

Transition

(First 100 days: don't change what doesn't need to be changed)

A condition of the acquisition was that everyone in WBB be informed before closing. This was done within a day or two of closing. The annual week-long team meeting was already scheduled for soon after the closing. This was an opportunity for people to work through their

reactions and feelings and questions, in an environment that was familiar to them: their managers were the same, their communication processes had not changed.

This is a high risk time: WBB had had very little turnover in employees, but being “bought,” especially by a big American company, raises fears and concerns. People do need to understand what will change and what will not.

At the 3-month mark, we held the European Leadership Team meeting in Tuebingen. This provided opportunities for the WBB team to introduce “their stuff” to the rest of the ELT. It also provided an opportunity for informal interaction over drinks and dinner. The MD of Europe and the COO joined the team meeting in the morning the next day.

Around the 6 month mark, WBB joined the annual PDI Team Europe event for the first time. The meeting was organised with some of their tools and methods, and the atmosphere was very positive.

At the one year mark, we organized our first larger-scale two-way exchange event: WBB led a session on Moderation Training, primarily for PDI people to attend; PDI led a session on TeamWise, primarily for WBB people to attend. It was a great cross-section of people, from a dozen or more offices, in a wonderful setting on Lake Balaton in Hungary.

communication: what will stay the same, change (see integration plan)

Does not change	Does change
Contracts and compensation structure stay the same for 3 years (revisit in 2 years to see if want to change after 3 years)	
WBB continues to offer current services	WBB also offers PDI stuff, and PDI learns WBB stuff
WBB/ PDI Germany team still reports to Klaus and Martin, who make German staffing decisions	Added complexity due to need to follow practice area leaders, project managers, client managers
Still have own team meetings	Will also join annual PDI Team Europe meeting
Keep WBB name and logo on business cards, letterhead; timing TBD	Will add “a PDI company” and the PDI logo where feasible
German still an important business language	More English for internal communication and client work
Continue to report invoiceable time	Will start to use project numbers and timesheets in October
Retain German clients, including small ones	More larger and international clients

We began by tackling financial and communication systems. We decided to not change the compensation system or logo for the first three years. This helps to keep an external focus, using joint client projects to help build commonality and momentum, vs. diverting too much attention to the inside.

New Organisation

Success criteria

According to the integration plan, we define success as:

- retaining all WBB team members and clients, and having them grow and prosper

- delivering consistently high quality solutions
- sustained profitable growth of WBB – A PDI Company/PDI Germany, and PDI Europe

Through the first half of 2000 (the one year mark, with 6 months of financials):

Positives:

- only one WBB consultant left the organisation – to go to a client
- more clients were added, none were lost
- consistency and quality have become better and easier
- growth and profitability are exactly on (aggressive) target

Disappointments:

- IT integration and financial integration behind schedule

Other positives:

- PDI and WBB people don't hesitate to call each other; PDIers don't check with the PDI integration manager about whether they are "OK".
- We are capturing lessons to apply to future partnerships so they can go more smoothly. KS is a great contributor to discussions with other potential partners, because of his view from first the "acquiree" side and now "PDI

Other disappointments:

- People (within PDI and clients) are still a bit confused about the double branding: are they part of us or not? If so, don't they want our name? Etc.
- There has not been much exchange in the other direction – from WBB to PDI - yet

Over the next several years:

- Can we successfully deploy some WBB stuff within PDI?
- Can we create some things together?
- Will the principals stay in the organisation and keep finding interesting things to do?
- Will WBB people have and take advantage of opportunities in other parts of the organisation?
- Will Germany and Eastern Europe continue to grow and thrive?

Lessons Learned

1. It takes a lot of TIME to work each of these issues. Each issue needs point people on each side.
2. Key success factors: high quality relationships and communication at multiple levels
3. Start integration right away (especially the hard stuff) but pace it to ensure there is no loss of external focus on external.
4. Do more proactive work on quality assurance issues up front.
5. When you learn something new, you feel incompetent again. Two-way exchange is key, but takes time.
6. Key processes PDI can learn from WBB:
 - Variable compensation models (and flexible working time)
 - Team spirit, team meeting process
 - Consultant retention
 - Consultant time planning and management of "holding" time with clients
7. The difference in size (800 vs. 25) tends to:
 - tip the scale toward the smaller one adopting the larger one's processes, vs. identifying best practices and having them go both ways
 - Create more demands from the larger one than the smaller one has capacity to absorb; this also makes it difficult to make time to transfer learnings back the other way
 - also create the illusion that the larger one has "deeper pockets" and more resources, even though the larger one is a collection of units that are similar in size to WBB

What we would do differently:

- 1) The integration managers were one of the two WBB partners and the MD of PDI Europe. This worked well because of the high quality communication, but both the rest of the

ongoing business and the integration could have benefited from more time and attention. Therefore,

- a) assign another 0.5-1 person on each side to help integration to avoid having each the rest of the business or the integration suffer.
 - b) hold monthly calls and quarterly progress reviews for the three years planned for the integration to finish
 - c) revise the integration plan for years 2 and 3
- 2) Put safeguards in place to avoid prematurely selling something we are not yet prepared to deliver because we now have the language but are not yet ready on the capability side:
 - a) learn from past lessons and find a way to communicate this to everyone so they have less to learn from direct experience
 - b) clearly identify and communicate the steps to qualification to deliver something
 - c) require going through a quality assurance point person before promising something new to a client
 - 3) Align the IT infrastructure (LAN and WAN and Enterprise systems) as one of the first steps
 - 4) Ask more people (e.g. PDI execs, PDIs at large, clients?) about success criteria at the beginning and over time; identify metrics for these. Have a communication plan for multiple audiences (e.g. including PDI at large) and over time

The acquiree's view:

Run Up

- 1) Owners: Can I give my "baby" to someone else? Will they look after it as well as I would?

Transition

- 2) "We have been bought" by Americans AND "We have been sold" by our leaders. (The stereotype of Americans in Europe is that they are "hire and fire" and profit-hungry)

New Organisation

- 3) Not finding processes where we expected them; running into them without knowing they were there
- 4) July 00: We don't like "integration" anymore, because it sounds like integrating two different things together and (a) we are already together, and (b) PDI is changing too. We thought we were "integrating" into a large, stable, structured organisation; we found that this is about PDI developing together – all of its offices and headquarters, not just WBB into PDI. We can only be global together, and we all need to be open to change.
- 5) Perception of the relative importance of profits vs. excellence: contributing high quality and benefit together with a client, and contributing to a better life for the individuals they work with vs. making profits. It seems to WBB people that profits receive more emphasis than quality at PDI. *(Note that PDI's values put Clients first and Business last, so PDI would not agree that profits come first, but this is what WBB tends to hear – this is important to explore)*
- 6) Even after 16 months, there is still a lot of hard work ahead

Cultural Integration

It is often reported that mergers fail due to unresolved cultural issues. These may be either organisational or National or a complex combination of both. The EFMD group had a variety of cross-cultural experiences to share and the benefit of a research project conducted by Sari Jokisalmi of Sonera. The literature review on culture helped the group to understand in more depth some of the issues faced during international mergers.

Cultural issues

Sari Jokisalmi – Sonera

“Mergers are primarily the coming together of two organisations on a human and cultural level.” (Nahavandi and Malekzadeh 1994,)

As two organisations are integrating at some level, also the people with different cultural background are obliged to co-operate. According to Bastien (1987), “coping with cultural differences is an essential part of accommodating to an acquisition.” In this chapter, the cultural issues are discussed both at the organisational and national level to show what kind of differences there may be between the integrating organisations. Moreover, the cultural integration, acculturation, and issues that affect its taken mode are discussed. Finally, some discussion is held about how to deal with cultural issues after acquisition.

Organisational culture

“Operating in a corporate culture is a lot like breathing. You don’t notice your breathing, you just do it. If someone were to approach you from behind, cup their hands firmly over your mouth and nostrils, threatening your ability to breathe, then you would certainly pay attention to breathing.” (Marks and Mirvis 1998,)

There are many concepts that relate to culture, such as norms, values, behaviour patterns, rituals, and traditions. A culture of a group is “a pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems.” Culture, therefore, brings structural stability in the group. Culture covers behavioural, emotional, and cognitive elements of the group members’ total psychological functioning and, therefore, is the accumulated shared learning of a group. (Schein 1992) Hofstede (1991) defines culture as “the collective programming of the mind which distinguishes the members of one group or category of people from the other.”

Schein (1992) suggest that there are *different levels in which cultural phenomena manifest themselves*. These are *artefacts, values and basic assumptions*. At the most visible level of culture are artefacts which include everything that one sees, hears and feels of an unfamiliar culture. Artefacts can be culture's physical environment, its language, its technology and products, myths and stories told about the group as well as the visible behaviour of the group. At the next level there are values. “All group learning ultimately reflects someone’s original values, someone’s sense of what ought to be as distinct from what is.” At the conscious level, values predict much of the behaviour seen at the level of artefacts. But in order to understand the behaviour of the group members correctly, it is important to understand the basic assumptions underlying that behaviour. These basic assumptions form the third level of culture. Basic assumptions are taken for granted and they hardly ever confront a debate and are, therefore, very difficult to change. However, the essence of culture is in the basic underlying assumptions.

According to Schein (1992), “culture and leadership are two sides of the same coin in that leaders first create cultures when they create groups and organisations. Once culture exists, they determine the criteria for leadership and, thus, determine who will or will not be a leader.”

Consequently, it can be assumed that the leadership style reflects strongly the culture of an organisation.

According to Nahavandi and Malekzadeh (1988), in addition to a dominant culture in organisations, *many subcultures* may coexist and interact. In order to understand the culture of an organisation, various subcultures should be identified and assessed according to how they interplay to influence organisational behaviour and decision-making.

National culture

David and Singh (1994) suggest that the wider culture cannot be ignored when assessing the impact of culture on post-merger integration, because individuals have first been socialised in their national cultures already in their childhood and possibly later as well, in professional cultures before socialising in the organisational culture. *National cultures have a strong impact on an individual's perception and understanding, affecting him throughout his lifetime.*

David and Singh (1993) have introduced the concept *cultural distance* referring to potential misunderstandings between the acquiring and target company. There always exists a cultural distance between the target and acquiring firms, because of differences in organisational and maybe in professional and national cultures, too. In figure 1, a triple socialisation and cultural distance is presented.

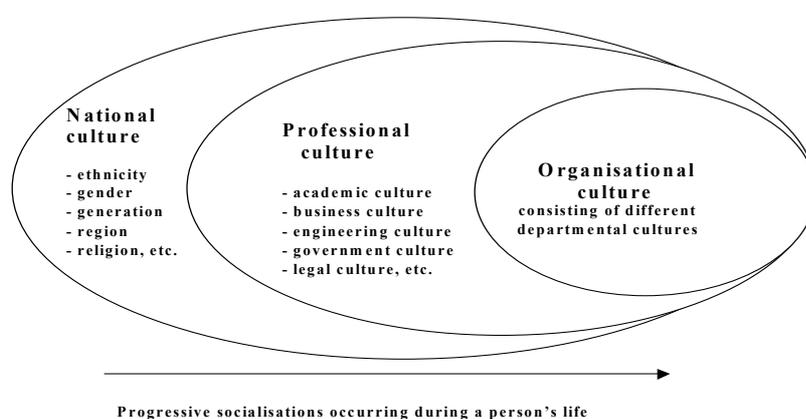


Figure 1. Triple Socialisation and Cultural Distance (A revised version of the model of David and Singh 1994).

The findings in the field of social anthropology in the first half of the 20th century have convinced that all societies face the same basic problems. Margaret Mead (1901-1978) and Ruth Benedict (1887-1948) have played a remarkable role in spreading this message. Social scientists have also identified these common problems. Sociologist Alex Inkeles and psychologist Daniel Levinson suggested in 1954 that there are three basic problems involved in all societies: relation to authority, conception of self (including the relationship between individual and society, individual's concept of masculinity and femininity), and ways of dealing with conflicts, including the control of aggression and the expression of feelings. (Inkeles and Levinson 1969, 447ff; ref. Hofstede 1991)

Twenty years later Hofstede (1991) conducted a study of values of people working for the same multinational organisation, IBM, in over 50 countries worldwide. The study revealed that the values of people from different countries represent almost perfectly matched samples, being similar in all respects except nationality. He distinguished between four main dimensions: (Hofstede 1991)

- Power distance index
- Individualism – collectivism index
- Uncertainty avoidance index
- Masculinity – femininity index

This study's case describes a cross-border acquisition of a Finnish company acquiring a small Dutch company. The acquired organisation was later fully integrated into the existing subsidiary of the acquiring organisation in the same country, but in different location. Although both organisations consisted of mainly Dutch people, there were Finnish people involved in the integration project and also working as expatriates in Organisation A's subsidiary in the Netherlands. Therefore, at this point it is appropriate to examine these four dimensions of culture comparing Finnish and Dutch cultures in the organisational contexts.

Power distance is defined as “*the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally.*” In other words, it is about dealing with social inequality and relationship with authority. In both the Netherlands and Finland, the power distance index (PDI) is low. It is a little bit higher in the Netherlands than in Finland. The social inequality is, however, almost the same. In small power distance countries there is considered to be existential equality, interdependence and preference for consultation between boss and subordinate. In large power distance countries, e.g. Malaysia and France, on the other hand, the subordinates are dependent on their bosses, and they consider themselves as unequal. Subordinates are expected to obey the superiors. (Hofstede 1991)

The dimensions of individualism and collectivism refer to *the relationships between the individual and group or society*. Typical for individualistic societies is that the task prevails over any personal relationship, and the relationship between subordinate and superior is based on mutual advantage. Management is management of individuals. On the contrary, in the collectivist societies, personal relationships should be established before the task is conducted, and the relationship between the boss and subordinate is perceived in moral terms, as a family link. Management is directed to groups. Both the Netherlands and Finland belong to individualistic countries, the Netherlands being somewhat more individualistic. (Ibid.)

In *masculine societies the gender roles are clearly distinct*, so that men are expected to be assertive, tough and focused on material success, while women are supposed to be more modest, tender and concerned about the quality of life. In feminine societies, both the men and women share the latter qualities. In *feminine cultures, equality, solidarity and quality of work life are important values*; managers strive for consensus, and conflicts are resolved by negotiating. Work is the way to earn a living. In masculine societies, on the contrary, equity, competition among colleagues, and performance are important issues. Decisiveness and assertiveness is expected from the managers, and the conflicts are solved by fighting. “Live in order to work” describes the mentality at the workplaces accurately. Both the Netherlands and Finland are feminine countries. For example, the UK and the USA are both masculine countries. (Hofstede 1991)

Finally, the fourth dimension in Hofstede's theory is the *uncertainty avoidance*. It is defined as “*the extent to which the members of a culture feel threatened by uncertain or unknown situations.*” Nervous stress and the need for predictability, e.g. in the form of rules, are symptoms of this feeling. In weak uncertainty avoidance countries, uncertainty is a normal feature of life. People work hard only when necessary and they are tolerant to innovative ideas and behaviour. Motivation comes from achievement and esteem of belonging. In strong uncertainty avoidance countries, on the other hand, uncertainty is a continuous threat. There is an emotional need to be busy and work hard, since time is money. People are more likely to resist innovation, and motivation stems from security and esteem of belonging. Also in this dimension, the Netherlands and Finland scored almost the same points. Both countries were positioned approximately in the middle of the uncertainty avoidance continuum, but the Netherlands was counted as belonging to weak uncertainty avoidance countries, while Finland to strong uncertainty avoidance countries. (Hofstede 1991) The dimensions of power distance and uncertainty avoidance are the most important dimensions in the organisational environment (Ibid.).

According to Hofstede (1991), setting up a foreign subsidiary is much less risky than acquiring a foreign firm where the cultural risk is enormous. Then, *differences in both organisational and national cultures establish together a big cultural distance between the two organisations.*

Olie (1990) argues that national cultures are found to have big effect on organisations and organisational behaviour. The closer the integration required between the organisations, the bigger the potential cultural clashes will be.

Acculturation

“Acculturation is a function of the interaction of inter-group dynamics that encourage groups to maintain separate and unique cultural identities, with organisational requirements for interaction and organisational integration.” (Elsass and Veiga 1994,)

Acquisition is followed by interaction of people of two separate organisations, which have different cultural frameworks. This leads to a fusion of cultures, which in the context of acquisitions and mergers has been called acculturation (e.g. Nahavandi and Malekzadeh 1988, 1994, and Elsass and Veiga 1994). The concept of acculturation is derived from anthropology and cross-cultural psychology, where Berry (1980,; ref. Nahavandi and Malekzadeh 1994) defined acculturation as “changes induced in [two cultural] systems as a result of the diffusion of cultural elements in both directions.” Acculturation is not considered to be a process that is forced, although the mode of acculturation depends on the desires and attitudes of the people of the culture that has been “invaded.” Therefore, the focus is on how the people of the invaded culture adapt to the culture of “invader.” (Nahavandi and Malekzadeh 1994)

Even though the concept of acculturation was introduced to describe societal groups, it can be applied to organisations as well, as they have many same characteristics, such as shared symbols and cognition to deal with the outside world. On the other hand, they differ in the way that members in the societal groups cannot choose not to acculturate as the members of the organisations can by resigning. (Nahavandi and Malekzadeh 1988)

Elsass and Veiga (1994) also approach organisational acculturation from an anthropological perspective following Berry (1980) and Nahavandi and Malekzadeh (1988). Adopting the behavioural approach, they suggest that “acculturation is a function of the interaction of inter-group dynamics that encourage groups to maintain separate and unique cultural identities, with organisational requirements for interaction and organisational integration.” They apply the conceptual framework of social psychologist Kurt Lewin’s (1951) theory of quasi-stationary equilibrium to the acculturative processes of cultural differentiation and organisational integration. Lewin (1951; ref. Elsass and Veiga 1994) suggest that dynamic interaction of opposing behavioural forces causes behaviour. Forces may have a driving or restraining effect, and they influence behaviour at a different degree of strength.

Elsass and Veiga (1994) see the acculturation process as an interaction of two opposing forces of *cultural differentiation*; that is, the group’s desire to keep their separate cultural identity, and *organisational integration*, which refers to the organisational need for cultural groups to work together. Applied to Lewin’s theory, these opposing forces affect the behaviour of the organisation’s members, so that cultural “differentiation forces” are restraining the cultural blending of two groups, and “driving forces” of organisational integration are aiming to blend two cultures. Interaction between the forces will lead to quasi-stationary equilibrium, defined here as initial form of adaptation.

According to Berry (1983, 1984, ref. Nahavandi and Malekzadeh 1988), acculturation can occur in four modes, which define the ways in which two groups adapt to each other and resolve emergent conflicts. Following Berry, Nahavandi and Malekzadeh (1988, 1994) and Elsass and Veiga (1994) have defined the different modes of acculturation, which are deculturation, assimilation, separation and integration/acculturative tension.

According to Elsass and Veiga (1994), *deculturation* takes place when both the driving forces of organisational integration and the restraining forces of cultural differentiation are weak, resulting in a low-tension system. The acquiring organisation is not interested in imposing its culture on the acquired organisation, and the people in the acquired organisation are not interested in maintaining their separate cultural identity. Nahavandi and Malekzadeh (1988) argue that in deculturation either of the cultures of the acquired or acquiring organisations are seen attractive by the members of the acquired organisation, and the acquiring organisation is

multicultural tolerating and encouraging cultural diversity. Deculturation involves a lot of confusion, feelings of alienation, loss of identity and acculturative stress experienced at the individual and organisational levels (Berry 1983). Deculturation is the most potent of the different modes to result in the highest level of conflict and is the most difficult to manage. It is often the result of disagreement between the two organisations. (Nahavandi and Malekzadeh 1994)

Assimilation results from the interaction of strong driving forces of integration and weak restraining forces of cultural differentiation. It means that the organisations integrate with a low level of conflict. Consequently, the people of the acquired organisation give up their own cultural identity and assimilate into the other culture. (Elsass and Veiga 1994) Nahavandi and Malekzadeh (1994) point out that assimilation can take place at structural, cultural and behavioural levels. The acquired organisation has often been thought to disappear as a cultural entity as well, and the people are expected to become part of the parent company. However, assimilation can not take place if the members of the acquired organisation resist it. In case of weak driving forces of integration and strong restraining forces of cultural differentiation, the result is *separation* of the two cultures; both retain their own cultural identities. (Elsass and Veiga 1994) Separation can happen, e.g. as the members of the acquired organisation refuse to become assimilated and want to preserve their own culture. (Nahavandi and Malekzadeh 1988)

Nahavandi and Malekzadeh (1988) follow Berry's model by calling the last mode of acculturation *integration*. They argue that integration takes place when the members of the acquired organisation wish to keep their own culture and remain autonomous, but are willing to be integrated into the acquirer's structure. In integration, the *structures of the two cultures are assimilated, but little cultural or behavioural assimilation will take place* (Berry 1983; ref. Nahavandi and Malekzadeh 1988). However, some degree of change in the cultures of both organisations will take place as the flow of cultural elements is balanced. Nevertheless, the acquiring organisation has to allow the integration to happen. Nahavandi and Malekzadeh (1994) argue that integration is likely to lead to some conflict, and it is less easy to implement than assimilation.

Elsass and Veiga (1994) also agree that this phase leads to conflict but they do not include the integration mode in their model at all. They argue that it would prevent the attempt to change. Instead, they call the fourth form of adaptation *acculturative tension*. It occurs when *both the restraining and driving forces are strong*. They do not consider it as an acculturation mode or final outcome, but a process leading to the final acculturation mode. During acculturative tension, people are likely to experience high levels of stress, tension and/or anger. Applying Lewin's theory (1951), this is a state of high-tension system; strong resistance is likely to occur if cultural change is tried to be introduced. Neither of the modes of acculturation is considered static, but as dynamic balances between the opposing forces of cultural differentiation and organisational integration. (Elsass and Veiga 1994) The different modes of acculturation with the forces of cultural differentiation and organisational integration can be seen in figure 2.

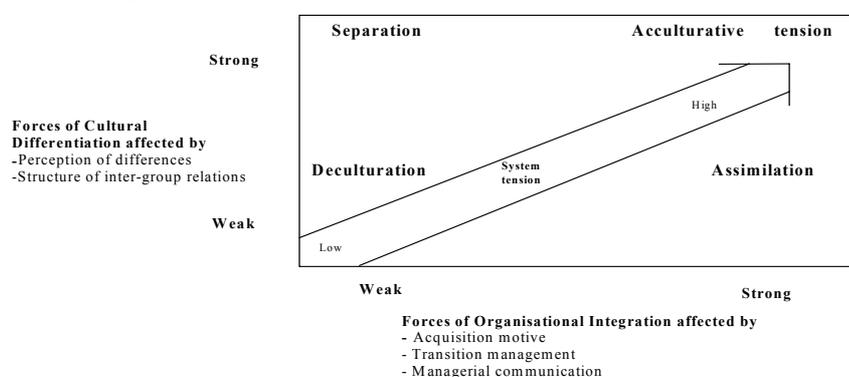


Figure 2 The four archetypal modes of acculturation (A revised figure of the model of Elsass and Veiga 1994)

Elsass and Veiga (1994) emphasise the *role of inter-group dynamics on restrictive forces of cultural differentiation*. They suggest that the social identity theory provides a framework for understanding inter-group attitudes and behaviour. The social identity theory is based on theories of social categorisation and social comparison. According to Tajfel (1981), "social categorisation is a process of bringing together social objects or events in groups which are equivalent with regard to an individual's actions, intentions and systems of beliefs." Social categorisation is an important process for all the categorisations between an individual's own group and other groups for the purpose of comparing or contrasting.

People of, at least, our kinds of societies want to achieve a satisfactory concept or image of themselves. An individual is a member of various social groups, and these memberships contribute to the image he has of himself. Tajfel (1981) defines social identity as "that part of an individual's self-concept which derives from his knowledge of his membership of a social group (or groups) together with the value and emotional significance attached to that membership." Social categorisation can contribute in helping an individual define his place in the world. If the group an individual belongs to cannot contribute in preserving a person's positive social identity, he may leave the group psychologically, objectively or both. Positive social identity can only be attained if the group have positively valued distinctiveness compared with the other group. (Tajfel 1981)

Acquisitions bring two groups of people together at some level. These groups may have quite distinct cultural backgrounds. Applying social identification theory to the context of acquisitions, *only the existence of different subcultures may lead to feelings of in-group out-group bias, discrimination and conflict*. Social identification theory suggests that salience on social categories directly influences the perceptions of differentiation. Differences between the two groups and the structure of inter-group relations are likely to affect cultural differentiation. Moscovici (1985; ref. Elsass and Veiga 1994) suggests that the more dissimilar the out-group is perceived, the stronger negative feelings are likely to arise among the in-group members. The differentiation is enhanced when perception of low status in relation to the reference group is increasing. The loss of status may be experienced, e.g. when managers in an acquired organisation work with employees at lower hierarchical level with less authority or status. The structure of inter-group relations reflects differing perceptions of status and inter-group conflict or competition. (Elsass and Veiga 1994) If the inter-group hostility prevails, win-lose competition becomes the shared expectation and each group strives only for its own interests. These continuing win-lose situations may hinder the future co-ordination and co-operation between the groups and create more distrust, tension and hostility. (Blake and Mouton 1985)

A strong driving force of organisational integration is the acquisition motive, which influences the required level of integration. *Management actions in acquisition and integration processes* may also have important influence on reducing the potential for negative consequences of cultural differentiation. Furthermore, uncertainty has been shown to influence inter-group feelings of cultural differentiation. Managerial actions, e.g. effective managerial communication and well-managed transition process, would be useful in reducing culture-based distinctions and, consequently, in reducing the amount of cultural differentiation. (Elsass and Veiga 1994)

According to Nahavandi and Malekzadeh (1988), one decisive factor affecting which mode of acculturation takes place is the *degree of multiculturalism*, which is "the degree to which an organisation values cultural diversity and is willing to tolerate and encourage it." Unicultural organisations are more likely to impose their own culture on the acquired organisation than multicultural organisations. Likewise, *the type of leadership and organisational structure* are likely to affect the desired mode of acculturation. (Nahavandi and Malekzadeh 1994)

Nahavandi and Malekzadeh (1988) suggest that *when the organisations share the opinion about the mode of acculturation, there is likely to be less acculturative stress, organisational resistance and problems for individual and group functioning*, and also other problems associated with merger. Even though the cultures and practices of two organisations differ

considerably, congruence can happen. Incongruity will take place as a result of disagreement on the mode of acculturation between the organisations.

Dealing with cultural differences

In addition to strategic and organisational fit or compatibility of the acquiring and acquired organisation, cultural compatibility has frequently been considered to be critical to the success of acquisition in practice. (David and Singh 1994) Schein (1992) suggests that a cultural analysis is as important for the acquisition decision as financial, market or product analysis. Many researchers (e.g. Nahavandi & Malekzadeh 1994; Ivanchevich et. al, 1987; Håkansson 1993) have argued that differences in organisational cultures create obstacles to integration. A survey of 500 American senior managers who have gone through a merger or acquisition clearly shows culture's being the primary reason for failure to achieve the financial goals. Another survey conducted by Watson Wyatt Worldwide of 125 major U.S. employers and 45 Asian companies found out that 73% of the respondents shared the opinion that most important limitation to merger integration or the biggest reason for failure was cultural incompatibility. (Grossman 1999)

Also Olie (1990) argues that "cultural differences often seem to lie at the root of merger failures." Integration, in particular, when the need for cultural assimilation is great, may be troublesome to achieve, because culture is central to a group's identity and view of reality and is not easily given up. The resistance to cultural change is likely to be the bigger the more radical the changes. Buono and Bowditch (1989) argue that in mergers and acquisitions, the culture change is even more demanding when there are additional uncertainties, ambiguities and stress involved in the process as well. "*The greater the degree of operational integration desired, the greater the likelihood of cultural tensions as a result of the increase in day-to day interactions between the different employee groups*".

Although many researchers, as noticed above, have pointed out the importance of cultural compatibility for the success of integration, Larsson (1991), based on his studies, suggests that culture is a questionable rationale for selecting targets for the acquisition. Cultures of the combined organisations need not to be similar. It is reasonable that only directly conflictive cultures be avoided. *More important than cultural similarity is how the integration process is managed for the achievement of acculturation.* In the supportive approach, the ground for co-operation is established by showing the benefits from working together. The supportive approach was found to be superior to the hard approach, where the acquirer's culture is imposed on the acquired organisation or the soft approach, where the acquiring organisation interferes as little as possible. Elsass and Veiga (1994) argue that acculturation is a process where the members of both organisations make many adjustments. Furthermore, they suggest that using *effective integrative mechanisms* to minimise the forces of cultural differentiation is the best way to approach cultural issues.

Buono and Bowditch (1989) argue that "the task of co-ordinating and integrating different organisational cultures is one of the most demanding, complex and problematic aspects of mergers and acquisitions." Most organisations do not consider the cultural matters thoroughly enough. It would be useful to first identify their own culture and then the culture of the company, which it has planned to acquire. This makes it easier to plan the appropriate cultural integration strategy. "Cultural change is among the most difficult types of changes of human beings, since culture provides the foundations of one's life."

Summing up

When two organisations come together, also people with different cultural backgrounds will have to co-operate. *The cultural differences can manifest themselves in organisational culture, professional culture, or even in national culture.* Differences in cultures can become a problem or even an obstacle to the integration of two organisations.

The culture of organisations consists of different issues. In this study, the organisational culture is defined as consisting of values, leadership style, organisational environment and codes of conduct. *National culture* has a strong impact on an individual's perception and

understanding. Hofstede's theory provides a useful framework for considering how to approach people of different nationalities after acquisition. Awareness of the differences can be assumed to be a prerequisite for understanding their reactions and expectations. He distinguishes between four main dimensions of culture: power distance, individualism-collectivism, uncertainty avoidance, and masculinity-femininity. Measured in Hofstede's dimensions, the cultures of the Netherlands and Finland are quite similar and, therefore, big cultural clashes in national cultures are not very likely to occur.

The fusion of the cultures of two organisations begins when the people of the two organisations start to interact. In merger and acquisition literature this is called *acculturation*. This study focuses on a theory introduced by Elsass and Veiga (1994), who apply Lewin's (1951) quasi-stationary equilibrium to the theory of acculturation. They suggest it to be a function of the interaction restraining forces for cultural differentiation that encourage groups to maintain separate and unique cultural identities with driving forces of organisational integration.

The perception of cultural differences and inter-group dynamics build the restraining forces of cultural differentiation. The more different the other group is perceived to be the more restraining forces of cultural differentiation there is likely to occur. According to the social identity theory, people want to join groups whose membership can contribute a positive image of themselves. In this study, the cultural differences are examined at both national and organisational level, and inter-group dynamics are assessed by the perceived relationship and feeling of togetherness between the people of the two offices. In addition, the attractiveness of the acquiring organisation is assessed at some level.

Acquisition motive is a strong driving force of integration as it influences on the level of integration. Also, *management actions in acquisition and during integration processes* have important influence on reducing the potential for negative consequences of cultural differentiation. In order to prevent cultural differentiation, effective managerial communication and well-managed transition processes are useful. In this study, the management actions are assessed quite extensively, focusing on communication, fairness, and human resource issues but also on how cultural differences were managed.

Depending on the forces of cultural differentiation and organisational integration, the mode of acculturation is determined. There are four different modes of acculturation: deculturation, assimilation, separation, and acculturative tension. *Deculturation* takes place when both driving forces of organisational integration and restricting forces of cultural differentiation are weak, leading the people of the acquired organisation to alienate themselves from both cultures. *In assimilation*, the driving forces of integration are strong and restraining forces of cultural differentiation are weak. This results in the integration of the organisations with a low level of conflict. When the driving forces of integration are weak and restricting forces of cultural integration strong, *separation* occurs. This means that both organisations retain their own cultural identities. Finally, *acculturative tension* occurs when both the driving forces of integration and restricting forces of cultural differentiation are strong. This will probably result in high levels of stress, tension or anger experienced by the people.

Co-ordinating and integrating organisational cultures is very important but also very demanding. Many researchers support the idea that cultures should be compatible in order for the acquisition to succeed, whereas others point out the importance of managing the integration process to achieve acculturation and avoid cultural clashes. When the people of the integrating organisations share the opinion about the mode of acculturation, there is likely to be less acculturative stress, organisational resistance and problems for individual and group functioning, as well as other problems associated with merger.

The theory on culture helps to shed some light on processes occurring during a merger or acquisition. Deutsche Bank demonstrated cultural understanding during the merger with

Bankers Trust where they acknowledge the need for explicit programmes to manage cultural integration.

Deutsche Bank/Bankers Trust Cultural Integration Programme

Objectives

- To measure the existing cultures in both DB and BT by line of business and geography – a cultural assessment
- To develop a programme for integration activity in the businesses
- To use the feedback of the cultural assessment to engage staff and help focus them on the new Deutsche Bank
- To identify any other key issues that emerge.

The Cultural Assessment survey

- Based on 68 one-on-one executive interviews and 172 separate BT and DB employee focus groups conducted between April-May 1999
- Standard interview and focus group guides were used. In addition, all focus group participants completed an organisational cultural inventory tool
- Specific questions asked about alignment to DB values
- Consultants appointed to carry out the cultural assessment and assist in developing integration plans

Key messages

- Clear message that staff who stay post closure needed to become excited about the new Deutsche Bank
- Employees in both companies had a poor and inaccurate perception of employees in the other company
- Employees in both companies perceived big gaps between what was said and what was being done – strongest in Bankers Trust
- Many employees were confused about the logic of the deal and did not see a compelling platform or offering in the market for the newly integrated company
- Significantly different cultures existed both between and within Bankers Trust and Deutsche Bank – also significant similarities
- Employee communication needs were not being met. There was a lack of engagement with employees, and messages were reported as bland
- Employees everywhere felt that clear, united and visible leadership from the top of DB was lacking
- Most DB clients did not feel strongly impacted by the acquisition, BT clients had mixed feelings
- BT showed a higher alignment to emerging DB values.

The New Organisation

At a certain point the organisation must close the merger process and look to the future as a new organisation. Integration activity may continue for many years but the budget will close and, in some cases, further merger may involve a new cycle of change. Many organisations find they need to undertake another period of re-structuring to achieve a better organisation design which meets the market needs.

Evaluation and Learning

Few organisations are able to evaluate their merger beyond simple share price measures. In most cases, this is because no criteria have been set beyond short term budgetary savings. The EFMD Group, however, did have a sense of acquiring and building skills in merger activity. UBS are able to track the development of their organisation over 2 decades of merger activity by addition of new capability, market penetration and acquisition of scale and new business, to illustrate how they achieved a position of strength in the US and became a leading player in the banking sector.

Learning and evaluation is commonly carried out by post-acquisition research and attitude surveys. Nevertheless there are no examples of sound measures of 'soft' issues being put in place pre-acquisition which can be used to 'measure' success in this area. This is due, for the most part, to time pressure. Once the announcement has been made, time is of the essence to achieve difficult deadlines and learning tends to be a case of deciding in retrospect what could have been done better.

Where HR departments have good pre-merger data on their workforce some evaluation may be possible on staff retention levels, absenteeism, health and job satisfaction.

Some of this learning is reproduced in documents that the authors have been able to pull together in this report. The various checklists and guidelines are tribute to individuals who have seen the need to capture the knowledge before the same mistakes are repeated.

Appendix

Checklist for people management during an acquisition

This checklist, devised by Sari Jokisalmi, is based on M&A literature and a study conducted on one of Sonera's acquisitions in the Netherlands.

Before the acquisition

Testing organisational fit

Evaluate the organisational fit to find out the compatibility of the organisations.

- Organisation structure (current management structure, responsibility and authority within organisation, organisational chart (e.g. flat vs. hierarchical organisation))
- Job structure (roles and responsibilities, competencies, accountabilities)
- Human resource management - HR due diligence
- Cultural due diligence (company history, values, decision-making processes, communication patterns/barriers, beliefs, norms), leadership (vision, commitment, style and behaviours, teamwork, mentoring/coaching) (e.g. style of negotiation reflects managerial style and company culture.)
- Know your own culture fully.
- Already the negotiation style reflects the company's managerial style and culture, i.e. the degree of formality, the relationship between co-negotiators etc.

Preplanning

- Outline the terms of possible acquisition/merger.
- Establish the likelihood of its acceptance and so ascertain a realistic time scale for integration
- When the acquisition decision has been made, plan ahead as much as possible, e.g. level of HR-integration, estimated changes for the personnel according to the human resource transition plan, how to address cultural differences, how to combine the cultures.
- Information-gathering

Acquisition announcement

- Inform the whole personnel at the same time and, concurrently or in advance of public announcement.
- Make the announcement preferably at on site facilities because people may feel more comfortable in familiar surroundings.
- Approach the announcement as an invitation to acquired employees to join the new organisation, and prepare people for change, and also demonstrate sensitivity and awareness of their concerns.
- Inform people as much as possible about buyer's organisation, its strategic aims and expected changes at organisational and personal levels. The information should be realistic.
- The messenger should possess strong, charismatic leadership qualities and be already fully socialised to the culture of the acquiring organisation.
- Effectively present one's own culture, so that people can form a clear, consistent and realistic understanding of the culture of the acquiring organisation.
- Provide people the opportunity to ask questions verbally or on paper.

- Do not use ambiguous language or jargon specific to your organisation.
- Tell the employees if issues raised concerning aspects of combination have not yet been considered.
- Use the opportunity to get to know the personnel.
- Send each employee a personal letter so that the most important information is on paper. The letter should be addressed by his/her name (not Dear Employee!)
- Provide all managers and supervisors with some form of briefing document, so that they can pass consistent information to their subordinates
- Assign a contact person representing the acquiring organisation to act as an intermediate for the personnel of the acquired and the acquiring organisation.
- Assign a Human Resources representative from the acquired/acquiring organisation, to address emerging employee issues and remain involved through integration process.
- Provide employees with “who’s who”- list of key contacts, including HR-representative.
- Giving good first impression is important!
- It’s important to make the people feel that they are warmly welcomed to the new organisation.

After the Acquisition - Integration

Different merger and acquisition types with their strategic focus, degree of friendliness and desired synergies demand different resources, levels of expertise, and pre- and post-combinations efforts to be successful. Different strategies affect how different pre- and post-merger and acquisition techniques are used:

- the level and amount of member participation in combination decisions
- the speed with which the integration process is handled
- the extent to which the process is unilaterally as opposed to mutually directed
- how communication is handled
- the level of turnover planned and expected
- the amount of change that will be fostered on the acquired firm
- the level of integration preplanning
- the level of overall concern for the people involved in the merger or acquisition

Prepare people

- Gain understanding of employee attitudes and expectations, and recognise and address concerns fears and hopes of employees of both organisations. This can take place by attitude surveys or personal discussions.
- Frank people-to-people discussions help employees to contend with the natural and expected concerns that arise early on and increase once integration starts.
- Increase people’s knowledge about typical reactions and concerns and help them to deal with them, or train their supervisors to support the personnel.
- Sponsor programs for employees to address resistance to change, grief processes, team building and consensus, stress management training programmes, seminars about merger syndrome.
- Prepare people to meet and work with their counterparts.

Communication

“Talk to your employees. Let them express themselves. I think that it’s important to let them feel that we take them seriously. If you don’t have good communication you will not come anywhere.” (An employee from an acquired company)

- Establish an effective and clear communication structure.
- Reinforce all the communication also by written statements to avoid confusion.

- Effective communication between integrating facilities so that the information required for the integration is obtained in a timely manner.
- Inform people on a regular basis of how the integration is proceeding. Communicate regularly even if the content of the message is only to affirm that, at the current time there is little or no information to communicate.
- Communicate a clear vision and strategies, so that everyone has a clear picture of where to head to and how.
- Communicate changes in HR- and other issues and what's the plan to proceed
- Communicate also directly to all the employees, e.g. news-letters, e-mails, presentations.
- Facilitation of team building and developing an ongoing-timely and continual process of two-way communication.
- Provide people with a possibility to ask questions e.g. personally, through intranet or help-line.
- Have a contact person from the acquired organisation at place all the time to act as an intermediate for people of the acquired organisation and managers in charge of the integration.

Handling people

“Just keep the people informed and involved, give them the idea that you do care.” (An employee of acquired company)

- Clear leadership, clear lines of responsibilities.
- Maintain high visibility and momentum for change.
- Decision-making procedures are fair and known by all.
- Identify and reward valuable personnel both from the acquiring and acquired organisations.
- Treat people of the acquired and acquiring organisations equally and give them equal opportunities for participation and advancement according to their skills. - “Equal opportunities for all”.
- Treat people with dignity and respect and be honest.
- Provide on-going support at each facility to address emerging issues related to the integration. Pay somehow attention to people at all levels of the organisation. If it is not possible to deal with all of them, guide the supervisors to deal with people, e.g. by providing them training. “All the people are important”
- Time management is considered, so that those that should participate in the decision-making and planning can actually do that.
- Let people to maintain a sense of control and to increase their motivation by giving them opportunity to participate in work-groups and various co-operative occasions.
- Remain in touch with employees, and reassess and monitor the success of the integration process.

Cultural issues

- Carry out a study of the acquirer's culture. Find out what are the main values and drivers to do business. Then consider which aspects of the acquirer's culture is desirable and necessary to 'export' to foreign subsidiaries.
- Cultural audit/due diligence of the acquired organisation: get to know the acquired organisation and the way it operates.
- Awareness of the cultural differences and definition of potential synergies and incompatibilities and decisions on how the cultural distance is resolved.
- Decide the level of cultural integration required.
- Plan how to achieve the desired level of cultural integration, acculturation.
- The culture change should consist of the following elements:
 - 1) An understanding of both cultures

- 2) Unfreezing the existing culture(s)
 - 3) The presentation of a positive and realistic view of the future.
 - 4) The wide-scale co-operation of organisational members.
 - 5) A realistic time scale for change or integration
 - 6) A process for monitoring the progress of any culture change or integration, to identify problems before they escalate.
- Orientation of managers and employees at each organisation about the history, mission and culture of the other organisation.
 - Positive but realistic Sonera culture should be created: Human organisation, international, young, innovative, importance of personal and professional development, values, so that people are willing to join and stay with the acquiring company. Sonera culture should be attractive in order to people to abandon or change in part of their existing culture.
 - The cultural differences should be outlined but not comparatively criticised.
 - Best practice sharing
 - According to a study creating a brand new culture from scratch is easier than changing or integrating two established cultures.
 - Formation of informal contact networks based on mutual trust.
 - Joint seminars and conferences should be designed in a way that they promote informal socialisation and the formation of personal ties.
 - Management actions: communication, transition management,
 - Show people that working together is advantageous.
 - Provide opportunities for participation at all levels of the organisation.
 - Different national cultures pose a prerequisite for how it would be appropriate to approach people of different national cultures (See e.g. Hofstede: power distance/level of uncertainty avoidance/ individualism-collectivism /masculinity-femininity)

Employment relationship issues

- transferring the employment relationship, salary payment...
- employment contracts
- employment conditions
- insurances
- corporate security
- employee information
- regulatory/legal issues management

Personnel policies

First decisions on:

- Acquirer's HR-policy- how applicable it is in foreign subsidiaries and alliances?
- Car policy
- Mobile phone policy
- ISDN policy
- Insurance policy
- Travelling policy
- Occupational health services policy
- Occupational safety
- International assignment policy
- Country policies
- Trainee policy?

In what level should HR-processes be in common with foreign subsidiaries?

Personnel handbooks- personnel Intranet sites – access as soon as possible.

Tasks and responsibilities

- What are the skill requirements for the jobs existing in the new entity?
- Assessing the skills of all the people, and possibly reselect people to the jobs. This way the future training needs can also be assessed.
- Job evaluation - provide realistic job reviews
- Discussion (performance and appraisal discussion) between supervisor and employee to clarify the task and responsibilities and set targets for the future aligned with the goals of the organisation.
- Job titles aligned.
- Clear job descriptions defining the objectives of their roles as well as the skills and competencies required for success in the new environment.
- Twofold communication about HR-issues. Give the people the possibility to discuss about the issues that are bothering them. Possibly provide separate orientation sessions for employees.

Compensation and benefits

- Examine the compensation and benefits systems of both organisations
- Salary frames/grades and levels/competency profiles
- Working hours, practice of the overtime work.
- Vacation/holidays, other leaves (parenthood leave, rotation leave)
- What benefits (e.g. car, mobile phone, stable phone, ISDN, rented flat, health care etc.) and for whom?
- Financial support for sports and leisure
- Examine the performance management systems
- Pension system and conditions
- Performance management system
- Bonuses
- Recruitment reward
- Long-term remuneration, stock options
- Plan how to align the compensation and benefits of two organisations or design a new system
- Financial bonuses/rewards for the integration work

Development issues

Current practices:

- Performance and appraisal process
- Training policy
- Career path
- Succession planning
- Induction practices

Integration:

- Induction programme as soon as possible in order to socialise employees of the acquired organisation to the acquiring organisation. Company presentation right after the announcement of the acquisition would help in creating positive, but realistic image of the acquiring company.
- Training for managers on what people are experiencing in acquisitions and suggestions on how to handle and support people.
- Separate orientation sessions for managers and supervisors at the acquired organisation to explain Human Resource policies and practices.

- Find out the training requirements
- Training and development design
- Executive team building
- Provide information about career possibilities.
- Provide training possibilities at least to key employees.
- Provide ambassador training for members of transition team and their designees who will be spending time at the new facility.

Recruitment

- Recruitment and selection policies
- Employee assessment
- Employee selection (offer the new jobs first to the existing personnel)
- Are relocation or reduction of personnel necessary?
- Improving incentives and compensation schemes (Plan the appropriate form and timing of the financial rewards for the former management team members and other key employees)

Retention: How to re-recruit personnel of the acquired organisation?

- Give employees of the acquired organisation an opportunity to participate in the integration work according to their skills and desires.
- Provide interesting and challenging work tasks and interesting career paths
- Provide possibilities for personal and professional development
- Promote image as a desirable employer. “Sell” the company to the employees, but give them a realistic picture- do not “oversell”.
- See the other issues in this list.

Management of Key employees

- Identify key employees
- Determine of ways to keep them, e.g. building dialogue and exchange between the key executives or by holding individual meetings with the key personnel.
- Offer integration roles and new responsibilities to key employees
- Design flexible compensation plans.
- Define integration compensation agreements

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