Dealmakers Planning for a Successful Integration:
Carrying Out the Integration by Aligning the Executive Group

Last month In MidMarket Talk, *Dealmakers Planning for a Successful Integration: First Steps in Carrying Out the Integration and Highlighting the IM's Role* described the critical role and responsibilities of the Integration Manager in the beginning phases of cultural integration. This month the focus will be on the criticality of *Aligning the Executive Group*. In upcoming months, the focus shifts to aligning the management group and then the whole organization. Next month we take a step back to more fully probe the challenge of retaining key talent for the new organization.

Again, as a quick review, the *Roadmap* identifies nine phases:

- Phase I -Target Identification
- Phase II -Target Evaluation
- Phase III -Pre-Go/No Go Decision Meeting
- Phase IV -Due Diligence
- Phase V -Integration Planning
- Phase VI –Go/No Go Decision Meeting
- Phase VII -Share / Asset Purchase Agreement
- Phase VIII -Integration (First two weeks)
- Phase IX -Integration (First year)

Once the deal gets approved and the merger or acquisition moves ahead (Phases VI/VII), many activities must begin. The recurring caveat is that "no two (or more) organizations even in the same industry segment, are alike in their organizational functioning and internal culture. Therefore, there is no standard textbook integration plan complete with all the necessary elements and details for every possibility." (Carleton & Lineberry, 2004, pp. 89-90)

Whatever the findings are from the Cultural Due Diligence (CDD) activities, those must form the foundation for the cultural integration plan. Identified patterns and potential misalignments between the two organizations that can lead to conflicts must be prioritized within the overall integration plan. Once the data is consolidated and analyzed, creation of a high-level draft of the Cultural Integration Plan for the CEO and the Executive Committee is a critical piece. This leads to drafting of the initial Cultural Alignment and Integration plan.

Highlights of the *Cultural Alignment and Integration Plan* for discussion with top management and the IM to build the integration plan include:

- A summary of CDD activities and data sources;
- A summary of the results of the CDD activities including the employee survey, executive interviews, focus groups, documentation review and workplace observations;
- Summary profiles of the cultures and subcultures of each company together with geographical or cultural differences (including national or ethnic cultures);
- The key cultural synergies between the companies;
- Areas of *probable* culture clash between the organizations;
- Opinions about whether the two can be merged to create a new organizational structure; and

- The estimated difficulty of cultural integration and the scope of the time and resources required to accomplish that integration. (Carleton & Lineberry, 2004)

Briefing the CEO on Results and Recommendations for Moving Forward

Besides sharing those highlights of the plan with top management and the Integration Manager (IM), the CEO will need some additional information on the plans for moving forward. Whoever is involved on the Integration team (which should probably would include HR), they must lead aspects of the integration process centered on the people issues (organizational culture) that so oftentimes cause failure. The IM will continue to work closely with the Executive and Management Groups.

Specifically, the CEO can and should be briefed on the *Nine-Step Alignment and Integration Model* (©Vector Group 2004, 2008) as a possible way forward:

Nine-Step Alignment and Integration Model (Note: Items *in italics* are variable in length and content depending on the current organizational situation.)

1. Review business plan and overall organizational intent.
2. Discuss with CEO to achieve ringing clarity on the organizational intent and the business plan.
3. *Review the completed CDD and assessment of both the acquiring and target companies.*
4. Review results with the CEO and plan work sessions with the executive group.
5. *Conduct Issues-Based Team Building® sessions with the executive group of the new organization. Minimum results are clarity and agreement on strategy / business plan and development of a vision and of a set of organizational values to support the business plan.*
6. *Conduct all-managers sessions with all managers in the new organization. Minimum output is clarity on strategy, business plan, vision, and values of the new organization (an example of these will follow)—and an articulation of necessary leadership and management practices to define the values in performance terms.*
    - *If necessary, creation of "tiger teams" (action learning teams) to investigate and resolve infrastructure issues.*
7. *Conduct feedback-based planning sessions for executives and managers to review past and present performance of self and unit in relation to the vision, mission, strategy, values, and practices and to develop individual action plans for change, improvement and development.*
    - *Hold follow-up sessions as necessary.*
8. *Conduct all-staff sessions. Minimum output is clarity of strategy, intent, understanding of management activity around infrastructure and feedback and solicitation of their ideas/suggestions.*
9. *Conduct work process re-engineering sessions as needed* (Carleton & Lineberry, 2004, p. 92)

During this review, although somewhat obvious, specific focus should be on Steps 5 – 9 with more detailed planning on the Issues-Based Team Building® (IBTB).

IBTB is generally a two- to three-day process during which there are at minimum three objectives that must be completed in this stage:

1. Each executive needs to be able to deliver a clear, articulate, and aligned message regarding the business strategy and intent, as well as the behavioral values that will underpin the execution of the plan.

2. Each executive needs to know their personal and functional objectives and related timeframes. They need to be able to articulate, at appropriate levels of detail, the changes and consequences for his or her own area. This includes explaining how the new situation differs from the previous.
3. The Executive team, considering one and two above, articulate and formalize the executive team "function," including its own strategy, values, and operating norms, plus methods of tracking its collective impact.

Focusing on the 5th step and the IBTB process, a sample vision, mission, strategy and values might help.

- **Vision** To be the best provider of personal financial advice, services and solutions—tailored to the individual needs of our customers and their families throughout their lives.
- **Mission** To improve our cost to revenue ratio from the current .73 /100 to .55/1 by January 1, 2005
- **Strategy** Differentiation in the financial services marketplaces based on the new and innovative customer proposition provision of no fee, value-added personal financial advice to our customers and potential customers.
- **Values**
    - *Customer Focus*—listening to the customer and responding with actions that will make the customer choose us.
    - *Dependability*—meeting our commitments to the customer and to each other by doing what we say we will do
    - *Working together*—striving to achieve success through effective collaboration and cooperation across the company.
    - *Spirit*—recognizing and valuing individuals for their innovation, energy, passion and pride.
    - *Commercial Awareness*—basing our business decision on the commercial dynamics of our business and industry. (Carleton & Lineberry, 2004, p. 95)

It is critical that executives and the management group model behavior supportive of the mission, vision, strategy and values. A strong recommendation is to develop behavioral practices that support the values. These behavioral practices need to be observable and therefore, measurable. A 360° feedback process is highly desirable during the integration.

Management is as much a performing art as it is a science with an associated technology. How the management group is perceived, particularly beginning with the executive team, is a critical aspect of achieving maximum organizational performance. Much of what is involved in achieving high levels of commitment and loyalty from the workforce rests with the workforce perception of the executive team. IBTB is a process to focus upon and maximize the organizational impact of how the organizational members perceive the executive team.

Once those three outcomes are accomplished the second half of the IBTB session is devoted to the management group contrasting the current behavioral practices with the strategy and values, and from this contrast they articulate the manager/supervisor practices that are the most critical to have exhibited (and measured) if the strategy is to be achieved while adhering to the values.

> There is uniqueness about senior management. It is very different at the top. For executives, individual behavior has a ripple effect throughout the organization that goes far beyond themselves. Simple requests, casual inquiries, or even routine day-to-day behavior of senior management can have significant and often unintended impact on other parts of the organization without the senior manager ever being aware.
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> Management at the top is a collective enterprise. The fact that a senior team or group exists at all is proof that it takes many people working together to deliver the results for large organizations. All too often, these teams are teams in name only. Senior executives are often unwilling to become team players. They fight for and defend their own turf and work their own political agendas, often forgetting that executives at this level have two hats to wear. The first, which almost all understand, is the functional hat—dealing with and championing their department or division. The second is that of being a business advisor to the CEO for the whole organization. They must have the ability to rise above their singular function they may be responsible for and advise the CEO about the overall well-being of the total organization. The functional role often overshadows the successful fulfillment of the business advisor role and the organization suffers.
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> Additionally, the rank and file of an organization observes how the top people behave. Individual and group behaviors exhibited by members of the senior or executive team are subject to interpretation, and a variety of perceptions are made and conclusions drawn. One senior manager's behavior can call into question the judgment and effectiveness of the whole senior team.
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> Questions arise around how much commitment there can be in a senior management team that allows one of its members to behave inappropriately, or manage ineffectively, or ignore the impact of their part of the organization on others. If the senior executives don't seem to care about the company, why should anyone else? Top managers who are not consistent in word and deed about the leadership and management of the entire organization contribute to the inability of the organization to achieve required business results. (Craig & Lineberry, 2001, p. 243)

When people are in a spotlight as executives are, they are the focus of attention and other people formulate impressions often at extreme distances. Ralph Waldo Emerson said it best. "Your actions speak so loudly, I cannot hear what you are saying." We always tell our clients regarding management behavior the following truths about how people lower in the organization interpret things about executives and management in general. To managers:

- It is what you say and what you do not say.
- It is what you do and what you do not do.
- It is what you prioritize or do not prioritize.
- It is in what activities you engage or not engage.
- It is the time you spend at work or the time you do not spend at work.
- It is with whom you spend time and with whom you do not.
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In short, organizational members derive messages are from anything and everything the executive does or does not do. Executives cannot turn leadership (in one sense) off and on. This is particularly true during a merger or acquisition when organizational members may be fearful, resentful, angry, frustrated, disappointed, or just hyper-sensitive to most anything and especially if formal communication is not forthcoming. People will assume the worst.

Please remember that the *leading* cause of deal failure is culture clash defined as disagreements between people in the merged organizations concerning how to go about engaging in and managing the business. These types of clashes consume increasing amounts of energy and time to get things done and turn the focus of significant parts of the organization from "doing" the business to arguing about how it should or should not be done. Internal issues/arguments consume ever more resource leaving less and less focused upon the customer and performing the work. (Vector Group, 2017)

The executive team for the new organization needs to make some additional critical decisions on moving forward. In *Organizational Culture and Leadership, 5th Edition* (2017), Edgar H. Schein, a pioneer and leader in organization development and leadership, states:

> When one organization acquires another organization or when two organizations are merged for financial or marketing reason, or in various kinds of joint ventures, there is inevitable culture clash because it is unlikely that two organizations will have the same cultures. The leadership role is then to figure out how best to manage this clash. The two cultures can be left alone to continue to evolve in their own way. A more likely scenario is that one culture will dominate and gradually either convert or excommunicate members of the other culture. A third alternative is to blend the two cultures by selecting elements of both cultures for the new organization, either my letting new learning processes occur or by deliberately selecting elements of each culture for each of the major organizational processes (Salk, 1997, Schein, 2009b).

Schein went on to describe the Hewlett-Packard merger with Compaq back in 2001-02. He said that "many felt that it was rally an acquisition that would lead to domination by HP, in fact the merger-implementation teams examined each business process in both organizations, chose the one that looked better and imposed it immediately on everyone. Elements of both cultures were imported by this means. We, at Vector Group, Inc., led the CDD process and helped hp/Compaq plan for the cultural integration.

We gathered extremely sensitive information concerning company cultures from 144 focus groups in 23 countries on 5 continents completing them in three weeks. We analyzed and reported results to top management ultimately rolling out results to combined management across both companies.

The data feed from the focus groups provided a critical foundation for integration strategies and the creation of the new company vision. We achieved critical deliverables by beginning the employee engagement process, developing a leadership coalition and building a qualitative understanding of key issues. As part of the overall communications plan, we facilitated cultural due diligence virtual meetings with focus group participants to roll out information gathered in the cultural investigation of both companies.

It should be clearly noted that despite initial skepticism, hp/Compaq hit *all* quarterly financial targets for three+ years following the merger and our CDD process. The CDD may not explain all the success but needs to be considered a major factor in the outcome.

Our constant refrain is that in our 30+ years of dealing with M&A's globally, we have yet to see two organizational cultures that cannot be successfully integrated. M&A failure due to "culture clash" is just a way of describing management negligence, arrogance, ignorance or some mix of the three.

As noted, we will discuss the sequence or deployment of actions needed for a successful integration of two or more organizations coming together in a merger or acquisition from the point the deal closes through the first year of integration. We will include topics related to aligning and integrating the executive group, management group and staff along with strategies for retention of key personnel, communications planning and success measures for cultural integration. Next month we will step back just a bit and look at retention of key talent.

Next month: *Dealmakers Planning for a Successful Merger or Acquisition: The Challenge of Identifying and Retaining Key Talent Once the Deal is Final*

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