

Build a First Quartile Integration Capability

Three ways to improve outcomes by focusing on engagement



Before we started Acquisition Solutions in 2014 to focus exclusively on merger integration, I wrote an article on building an internal acquisition integration capability. It came to mind recently as a number of people have called to discuss establishing just this kind of capability in conjunction with an acquisition that was on the horizon.

“Perhaps Acquisitions is not your forte.”

results. It may be a “branded” solution such as TQM or Lean Six Sigma. More likely, it is a blend of approaches and tools that have delivered results for individuals in the past, and are adapted to the present need.

In our experience, the choice of appropriate improvement tools or techniques has a lot to do with

Most large companies have adopted some standard tools and techniques for the big projects that are essential to managing change and achieving superior

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What executives say...

Who We Are

What executives say...

On the integration organization:

“We clarified and standardized the role of the IMO. First, we redefined its role as one of coordination, managing the complexity until the deal is complete. Then we developed standard tools and methodologies that any consultant would recognize. Finally, we defined the roles of all stakeholders in the process.” *Information publishing company*

“We have consciously built a cadre of people experienced in integrating acquisitions.”
Medical technology company

“...a dedicated PMO office manages M&A as a core competency, managing 40-50 acquisitions in 7 years. The PMO has 2-3 people full time who manage the process and refine the integration model. They manage integrations with process leads and functional sub teams doing the detailed work.” *Construction materials company*

“Our corporate role is to coordinate the various stakeholders during an acquisition, to work with leaders and manage interdependencies. We work with SME’s in divisions and functions, ensure that they develop a roadmap, and define the end state. We have people throughout the company we call on to join the integration team – our National Guard.”
Pharmaceutical company

On strategic alignment:

“We did too many deals that didn’t move the needle on growth. We’re more disciplined now about deals. We make sure it makes sense strategically, and we make sure the integration plan makes sense.” *Information publishing company*

On cultural accommodation:

“We were surprised at the attrition we experienced when we bought a small organization, where half the people had left Big Pharma. We should have been more realistic.”
Pharmaceutical company

“We put a big effort into helping new employees to be satisfied. We survey, we assign many people, especially leaders, a person at (our organization) to help integration – a buddy system to help connect them.” *Information publishing company*

On leading the integration:

“I like for our Integration Leader to have an emotional intelligence, to connect with employees of the acquired company and raise the issues we need to be hearing.” *Medical technology company*

the type of operation one is trying to improve. Six Sigma may be great for improving quality and throughput of a well-defined process; experiments and pilots are probably better at identifying new products or client solutions. I'm not sure that six sigma is the right performance improvement tool for an R&D organization, for example, whereas it might be just the ticket in a customer service center or manufacturing plant where simplifying, streamlining and standardizing usually delivers the desired improvement.

In a similar vein, the dynamic of combining two or more companies calls for capabilities that are not usually found in any of the usual process improvement or change management approaches. What is missing from these frameworks, and what is essential to successfully integrating an acquisition, are elements that engage employees with an emotional connection to the organization and its purpose.

The 2013 article identified five steps to developing integration competence, and following these guidelines would be a great start for any organization. In retrospect, I believe the advice was correct, if a little mechanistic. After all, most companies have adopted standard frameworks, disciplines and tools for managing large projects, and these are a great foundation for establishing an integration competency in the company. However, several years and a number of acquisitions later, I would change the emphasis. In our view, the best acquirers take the commitment farther, building on the foundation of tools and mechanisms by creating emotional connections between employees and leaders, between employees and the business strategy, between employees and each other.

So, in creating a first-quartile integration capability, to complement the five dimensions referred to earlier¹, we need to add three more that will transform a competent internal integration organization into an outstanding one.

1. Align a large number of people with a new strategic direction

In a typical corporate improvement project, the strategic goal is understood already by most of the people who need to be part of the change. In an acquisition, the acquired employees are usually expected to understand and support a broader strategic direction, as well as an unfamiliar mission and vision. (In transformational acquisitions, this will be true for employees of both companies.) People need

to be more than informed about these governing statements. They need to see how, as individuals and employees, they relate to the words in these statements. They need to have an opportunity to internalize the values and expected behaviors of the new organization.

The challenge for leaders is to engage large numbers of people in the common purpose and the acceptable ways to achieve that purpose. Handing out a laminated card is no substitute for engaging people from top to bottom in substantive and personal discussions. Building a commitment to the deal strategy and the combined company's mission and vision is essential work. Give it the time it deserves.

2. Develop an objective understanding of your own culture and that of potential target companies

Most leaders are uncomfortable with the idea of evaluating or changing their organization's culture. There are a number of reasons: lack of a common vocabulary to discuss culture; assuming that their own current culture is fairly common; not understanding the link between their company's unique culture and its performance; fear that changing the culture may hurt performance; or the complexity associated with having numerous sub-cultures at work in large enterprises.

Cultural missteps, however, have long been a destroyer of acquisition value. Culture is an important ingredient in the workplace that attracts or repels employees. Over a number of years in a stable business, those attracted to the culture remain, while those repelled often depart. Eventually, people stop seeing the operative culture objectively and assume it just "is." Consequently leaders are not attuned often enough to the importance of cultural accommodation in making an acquisition. They do not grasp how important it is to carefully curate the early impressions of their culture for newly-acquired employees, and to explicitly honor the culture that created the company they valued so highly that they acquired it.

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A second key element in creating a first quartile integration capability, then, is to institute ways to develop a shared, objective view of the company's culture and the direct linkage between that culture and the company's performance. From this place of understanding, the differences in cultures and cultural expectations of acquired company employees can be better appreciated and sensitively addressed.

3. Integration requires leadership, not just management

Executives naturally rely on seasoned managers to bring critical improvement projects to a successful completion. The scope, objectives, timeline and costs of these projects are usually defined at the outset, and implementation issues are resolved through a clear organizational governance process that engages known stakeholders.

Mergers and acquisitions are missing many of these elements that managers normally rely on to bring projects home. Scope is broad – often covering all of the operations of both companies - and objectives are significant. The timeline and costs of integration are not well known, while the feeling of urgency is pervasive. Decision-making bodies and processes are being established on the run, uncovering, and being asked to resolve, issues that were not contemplated at closing.

Successful integration requires more leadership, not more management. Senior executives must be involved in the key Integration Leader role and in the frequent progress reviews. What does first quartile integration leadership look like? Leaders are open to opportunities and possibilities that were not clear

during due diligence. They re-prioritize resources and human capital in real time as issues and opportunities are revealed. They make decisions when conflicts arise, quickly shifting the focus of effort when compelling arguments are put forth. Most important, they guide employees through the rough water of transformational change. When leaders communicate empathetically, strategically, consistently, the organization listens and learns.

Conclusion

Establish a high-performing integration organization and you will capture more of the value in any acquisition. *Executive leadership, cultural awareness and strategic alignment*: these are the characteristics of integrations that lead to top quartile results. Focus on developing these competencies, and you will raise the performance of your internal integration team and capture that value.

John Pancoast

¹ The five basic elements of an integration capability from the 2013 article are:

1. Agree on the principles of post-merger integration
2. Create a disciplined process that is aligned with the principles
3. Develop a standard set of tools and methodologies to enable the process
4. Consciously develop a cadre of experienced PMI leaders
5. Pilot the approach, learn from the experience and refine the process as needed

You can read it at <http://tinyurl.com/own-imo>

Who We Are

Acquisition Solutions is a partnership of professionals who are skilled at the art and science of post-merger integration. Building on many years of corporate transformation consulting, we focus on establishing acquisition integration excellence for strategic buyers of middle market companies. Please visit our web site for more information.

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