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Social integration — the critical missing key to M&A success

BUILDING BUSINESS

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Companies are finding it more and more difficult to achieve expectations with merger and acquisition transactions.

Why are these combinations such a challenge? For the most part, delay in achieving effective integration can often be traced to the failure to adequately plan and execute the social integration that is so critical to success in any business combination.

The baseline decision to pursue an M&A transaction is typically driven by economics. Once the economics baseline is established, the parties do extensive due diligence. Rarely, however, are sufficient resources dedicated to conducting due diligence on the social environment of the target company and how integration will work.

By social environment we mean the respective mission/purpose of the two companies, the core values, the strategic characters, the communication environments, the compensation structures and the leadership cultures.

Purpose: Organizations are defined by their fundamental purpose. It is the source of commitment and the foundation for action.

Attempting to combine two organizations with inconsistent purposes can be deadly. Why? At the grassroots of any organization, people need more than economic reward. They need to feel valued and feel that they are working on something that is valuable. This is the starting point for achieving a combined organization. What to do? The integration team must enroll the management and employees of the acquired company in the acquiring company's purpose or develop a blended purpose. To simply dictate purpose will not facilitate a fast and effective integration.

Core values: Similar to purpose, core values are essential elements of any company's culture. Whether well articulated or not, every organization has core values. They define how people operate internally and externally and provide the social fabric of an organization.

In attempting to combine two organizations, there must be a consistency of core values. How people treat each other, clients, customers, colleagues, investors and other relevant constituents is fundamental. When pursuing a combination, too often the acquisition team fails to develop a blended articulation of core values that define the combined enterprise. Again, the integration team needs to enroll the management and employees of the target company in the core values of the acquiring company or, alternatively, develop a new statement of values that reflects a graceful blend of the core values of the two companies.

Strategic character: A third critical element for effective social integration is strategy formulation and execution, or strategic character. How do the two organizations develop and implement strategy? Is the process exclusive to senior management or inclusive of deeper levels of the organization? Is there a bias for action or is strategy formulation a passive activity? Are the approaches consistent? The integration team must develop a coherent approach to strategy formulation that embraces the most inclusive approach and results in a strategic character that fosters integration. Otherwise, there is risk of people being disenfranchised.

Communication environment: What is the environment for communication in the respective organizations? Are the companies committed to authentic, open and valuable communication, or are they beset with gossip, lying and wasteful communication. What communication is championed, what is discouraged, what is tolerated? By better understanding the communication cultures of the two organizations, the integration team can work on developing a communication environment in the combined enterprise where waste is eliminated and more value created.

Compensation structure: Of critical importance to the employees of both organizations and therefore to a successful integration is the ultimate system of compensation. Is the same or similar behavior rewarded by the compensation systems currently in place? Are there clear performance goals? Are there similar performance metrics? Are performance reviews consistent? What is the relevant percentage of compensation reflected in base salary, cash bonus and equity participation? How do the benefits compare? Nothing can interrupt a successful integration more than disturbing an effective compensation system that drives productive behavior. Proper analysis of the two systems and processes, and accurate communication to the affected employees can avoid problems in this area.

Leadership culture: The final social issue that can have a dramatic impact on the success of an integration is the culture of leadership in each organization. Leadership cultures can vary dramatically and are typically reflected in the approach of the senior executive officers of a company, and particularly the CEO. They range from open, transparent and inclusive to closed, secretive and exclusive. This is another area where the integration team must do a thorough job of due diligence. Since it emanates from senior management, the leadership culture is not an area where a blend or balance can likely be achieved. It either is or is not. Therefore, conflicting leadership cultures can undermine any business combination.

If the integration team pays attention to these crucial social issues, the odds of an integration being accomplished successfully and fast is greatly enhanced. Pay attention. These issues are about people, your most treasured resource, and the effect that the M&A transaction will have on their lives.

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