How Human Dynamics Create Winners and Losers

Using Inclusion as a HOW for Successful Mergers and Acquisitions

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Media reports often describe the latest corporate transaction as “a merger of equals.” True mergers of equals, however, happen rarely if at all. One party inevitably dominates in many aspects of the combined entity, from the composition of the new board to the people retained during rounds of restructuring.

This pattern of dominance may look fine on the balance sheet and the stockholder analysis. But the numbers often hide the true story of the human dynamics and impact. Executives are well aware of the issue: a KPMG study (Kelly, 2006) found that differences in organizational culture were the second biggest challenge following a merger or acquisition—and yet 80% of companies were not prepared to manage these cultural dimensions. In their haste to bolster their financial position (an effort that usually includes attempts to standardize and streamline two vastly different organizations), many acquiring companies do not take advantage of, or even retain, the very strengths that made the acquired company valuable in the first place.

Maximizing Synergies by Preserving All that is Good

How can an acquiring company maximize the financial synergies of the merger or acquisition by preserving all that is good—however different—about the acquired company? Organizations and researchers have studied the question of culture integration for at least thirty years. Some (Ashkenas, DeMonaco, & Francis, 1998) have detailed the work of specific organizations to create replicable integration models. Others have focused on strategic, psychological, international, or other dimensions of culture integration (Morosini, Shane, & Singh, 1998; Marks, Mirvis, & Brajkovitch, 2001). Despite all this investigation, however—as mentioned by Marks and Mirvis (2011), who have posed key questions for future research—the success rate of mergers and acquisitions has improved only modestly over the past three decades.

Our experience in this field, however, has consistently demonstrated the value of an inclusion framework for mergers and acquisitions among Fortune 100 companies. In this article we will discuss the application of inclusion to the cultural dimensions of mergers and acquisitions and provide a composite case example of its use in several client systems.

Anatomy of a Culture Clash

At the merger announcement, corporate leaders often speak of “the best of both companies rising to the top,” an integration

1. Throughout this article, we use the term inclusion to denote what we refer to in our client systems as Inclusion as the HOW®. In this usage, inclusion is not “just another program or deliverable,” but rather a foundational way of operating for the entire organization—an essential lever for achieving higher operational performance and accelerating bottom-line results. It is a way of life that underpins everything the organization does: how it develops strategy, sets goals, makes decisions, runs meetings, solves problems, and engages people, and how people interact.
Table 1: 12 Inclusive Behaviors

1. Greet people authentically—say “hello.”
2. Create a sense of “safety” for yourself and your team members.
3. Work for the common good and shared success.
4. Listen as an ally—listen, listen, listen, and engage.
5. Be BIG: Lean into discomfort—be willing to challenge self and others.
6. Put your stake in the ground and be willing, eager, and able to move it.
7. Link to others’ ideas, thoughts, and feelings—give energy back.
8. Create 360-degree vision: Ask others to share their thoughts and experiences, and accept their frame of reference as true for them.
9. Address misunderstandings and resolve disagreements.
10. Speak up when people are being made “small” or excluded.
11. Ask who else needs to be involved to understand the whole situation to ensure Right People, Right Work, Right Time.
12. Build trust: Do what you say you will do and honor confidentiality.

of the highest competencies of the two entities. This is generally a nod to the value of the assets—products, services, positioning, and intellectual property, among others—of the acquired company. Undoubtedly, senior leaders hope to leverage these assets to gain the most from the acquisition.

That hope is usually short-lived. In the drive to reduce cost and meet Wall Street expectations as soon after the deal as possible, acquirers underestimates what produced the assets they celebrated in the announcement: the people of the acquired company and their ways of interacting. It is an easy step from underestimating these assets to standardizing or eliminating them.

This is a critical issue, and the results can be disastrous. In downsizing key talent, acquirers often dispense with the soul and unique competencies of the acquired organization—and what they could contribute to the combined organization’s value. In the name of streamlining operations and the cost efficiencies it produces, people in the acquired company are required to join the dominant entity’s ways of doing business, losing not only their own organizational identity but also their ways of working. The people in the acquired company often feel betrayed and excluded and, as a result, are unable to bring their best work to the one combined organization. In a form of “us vs. them,” they feel taken over by an acquiring company that does not see the value they bring to the combined organization.

With many competencies gone and others withheld, the “new enterprise” is far less than the sum of its parts. Indeed, it looks much like the old enterprise with a few assets added. The merger or acquisition often performs well below expectations or takes much longer to achieve the projected benefits. The graveyard of business is full of acquisitions and mergers that have foundered, in whole or in part, on the shoals of culture and integration: AOL and Time Warner, Daimler-Benz and Chrysler, AT&T and NCR.

Inclusion as a How for Merger and Acquisition Success

In corporate mergers and acquisitions, as in all aspects of organizations, inclusion demonstrates its value as an approach particularly suited to our times. The profound changes of the past thirty years have necessitated an equally profound change in the way organizations approach the future. In this highly competitive knowledge era—where change happens continually, great ideas are required for success, and a single group of leaders cannot possibly keep up with the marketplace’s shifting unknowns—organizations need to unleash the ideas, thinking, and creativity of all people in order to thrive. Inclusion, therefore, has shifted from a “nice thing to do” to a “how” for gaining a 360-degree perspective on every issue, broadening the bandwidth for innovation, making better decisions, and achieving higher performance. When applied to mergers and acquisitions, inclusion can have a powerful influence on the success of the one combined enterprise, as we shall see later.

Components of Inclusion

Inclusion begins with a Joining Mindset. The core of this mindset is the question of whether individuals or groups across the one combined enterprise are judging or joining: Joining builds partnership and collaboration, while judging results in defensiveness and distance. When we decide to join, our first impulse in every situation is to include all the “right” (relevant) people in decisions and engage in behaviors that include rather than exclude.

The Joining Mindset calls for a major shift in all interactions, as embodied in the 12 Inclusive Behaviors (see Table 1). As the name suggests, these Inclusive Behaviors represent the concrete actions through which inclusion becomes a conscious way of operating. Even more than that, the common language they provide both describes and opens the door to greater clarity and enhanced ways of interacting. When people understand and use the common language of these Inclusive Behaviors, they add clarity to the way they are interacting at that
moment and reduce the guesswork associated with trying to figure out someone’s intent. They are, in essence, declaring their intent to join the other person or team. The message is “By using new language that we both understand, I am opening the door for you to join me in this conversation. I am inviting you to hear and accept my perspective and add your voice to make the idea better, and I am offering to do the same for you.”

When organizations open doors in this way at all levels, the 12 Inclusive Behaviors remove obstacles to participation, foster greater safety, and facilitate Right First Time human interactions that eliminate waste as surely as other initiatives eliminate waste in systems and technical processes. Individuals freely add their value to the organization and are more willing to give their thinking and their discretionary energy. This fosters trust, which in turn enables faster knowledge transfer, knowledge application, and problem solving—and impacts bottom-line results.

Joining the Best of Both Cultures

How does all this apply to mergers and acquisitions? When implemented as a foundational part of the one combined organization, inclusion fosters the very best conditions for bringing together the two cultures of both organizations, capturing the competencies (and thus the full value) of the acquired company—and, in turn, creating one shared culture and organization. Specifically:

- Inclusion ensures that people join together and are valued, heard, and seen—that their perspectives are taken seriously and can influence the course of the one combined organization. This motivates them to stay with the combined organization, speak up, and bring their best selves to work.
- The enhanced interactions in an inclusive organization not only streamline communications and workflow, but also build trust so that the new, integrated organization can move forward with greater speed and accelerate the results that Wall Street demands.
- Through inclusion, the organization learns not only to welcome, but to leverage individual and organizational differences—differences in company, function, experience, and geographic location, among others. This provides the 360-degree vision on any situation that is so essential to addressing the unknowns and constant changes in today’s marketplace.

Moving toward greater inclusion as the way of functioning transforms organizations at their very foundations. Such a transformational shift calls for a clear, tested path to implementation, with approaches and strategies designed specifically for the purpose. It is to this path, illustrated by the following case example, that we now turn.

Inclusion in Real Life

A Solid Position in Yesterday’s Market

The organization could hardly have occupied a better place in the market. A consumer products manufacturer in the southwestern United States, it had experienced steady growth in its product lines and scored consistently high in customer satisfaction. While the company had not penetrated every corner of the globe, it led the category in its established markets, which covered several continents. Shareholders, senior leaders, and directors saw the company as a solid investment. For many years they were happy with conditions as they were.

But conditions did not stay that way. Sparked by economic pressures and global trade imbalances, the company’s competitors adopted the strategy of growth through acquisition. This growth strategy of other competitors soon impinged on the company’s top-performing territories. To remain viable in this new marketplace, the Board of Directors voted to do what they adamantly did not want to do: acquire another company.

After assembling an acquisition team, hiring a consulting firm, and conducting a worldwide search, the company identified an advantageous target in a key northern European market. Like its potential acquirer, the target organization had no interest in coming together with another entity; the promise of greater reach and a deeper talent base, however, convinced it to approve the merger.

With two very successful companies and so many complementary elements, the merger looked ideal on the balance sheet and in the business plan. On the ground, however, the differences threatened to overwhelm the positives. The IT architectures were built on two different, and often incompatible, platforms. Similarly, many other systems and processes would not blend well or easily. Most important, differences in organizational culture were particularly acute: one company’s people were formal in their interactions and emphasized hierarchy, while the other company featured a more flexible structure and informal interactions. The use of language, humor, and body language differed and informal interactions. The use of language, humor, and body language differed and informal interactions. The use of language, humor, and body language differed and informal interactions. The use of language, humor, and body language differed and informal interactions. The use of language, humor, and body language differed and informal interactions. The use of language, humor, and body language differed.

Senior Leaders Respond

Sure enough, performance metrics declined six months into the one combined organization’s existence (as they typically do when two companies come together). Engagement scores dropped; safety issues rose, as did deviations in production. Customer service ratings began to slip.

That was enough for the newly reconstituted senior leadership team, which called on us to leverage the Joining Mindset and Inclusive Behaviors in the integration effort. During an accelerated discovery phase, we found several internal challenges that required immediate attention:

- Senior leaders needed to build relationships quickly with the rest of the workforce—particularly with individuals from the acquired company.

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2. This composite case study reflects our actual work in several Fortune 100 companies across diverse industries.
Leaders needed support and honest feedback on their performance in the change effort from a wide range of people, including individuals who could provide insight into the acquired company.

The one combined organization needed a New Story, new ways of interacting, and a new common language—a foundation for people from both legacy organizations to align with the one company’s mission, communicate clearly with one another, and work together for the common good and shared success.

We began by calling together the senior leaders (a combination of both leadership teams) to do some initial work around the New Story, particularly in envisioning the norms of the combined company. Then, as the next phase began—educating leaders on the Joining Mindset, the 12 Inclusive Behaviors, and how to make inclusion integral to the way they worked—we encouraged them to form their own Executive Feedback Groups (Katz, 2011) to quickly gain feedback from a small group of people on how they were showing up as leaders. Each feedback group, composed of six to eight people with a wide array of differences (i.e., individuals from both legacy companies with differences in title, level, function, and background, among others), met with the leader once a month to provide honest feedback on how she or he was living out the Joining Mindset and Inclusive Behaviors, as well as on the actual effectiveness of the integration.

The impact on the leaders—and on the effort—was significant. The careful selection of feedback group members, and the candid insights they provided, meant that leaders heard a broad cross-section of “street corners” or perspectives: including, critically, those of people from the acquired company. From these diverse street corners, the leaders moved quickly toward a Four Corners Breakthrough (Katz & Miller, 2011), developing a 360-degree vision of the change effort’s progress and impact. In addition, they were able to practice and refine their ability to live the Inclusive Behaviors and model them to the people in their areas.

At the same time, because leaders listened as allies in the Executive Feedback Groups, group members (many for the first time) had the experience of being heard by leadership. Those in the acquired company came to realize that the combined organization valued their thinking.

As time progressed, leaders and feedback group members became aligned around the common good and shared success, paving the way for faster, more effective integration. Moreover, the results had a profound effect on the participants’ own energy and motivation, securing their commitment to the one combined company.

Spreading the New Story
Educating and motivating senior leaders was only an initial step in the change effort, however. As in many organizations, people in both legacy companies had seen many change initiatives come and go, usually with little impact on the organization’s systems or the way they did their work. An exclusive focus on senior leadership, at the expense of direct work with other people in the organization, would lead to another top-down effort to be met with skepticism if not resistance. To avoid this, we leveraged two approaches that introduced the change at every level of the organization and accelerated the ability to create ONE company.

First, by creating internal advocates for the change—not just at senior levels, but throughout the one company—our peer-to-peer leadership model accelerated integration and achieved critical mass for the new mindsets and behaviors before the formation of too many counterproductive behaviors (for instance, the us vs. them mindset). The breakthrough of peer-to-peer is that people throughout the organization come to trust the change because they learn it from peers they trust. Between its transmission through established relationships and the sponsorship of senior leaders, the change can take hold much faster and more permanently than it ever could through a top-down model.

The peer-to-peer effort began with the selection of change advocates: people who had earned the trust of their peers, wielded influence within their teams, and were already leaning into change. The senior leaders identified a cohort of 50 people—25 from each legacy company, from all levels of the organization—to act as the seeds of change and help bring the two companies together as one.

These change advocates were then immersed in an intense, multi-day learning experience, in which they not only learned the fundamentals of inclusion and became fluent in the concepts but also practiced and modeled the behaviors with one another, receiving feedback from facilitators. The experience was divided into three 3-day sessions, giving change advocates time between sessions to practice and model the change where it mattered most: on the ground, with their peers and teams.

From there, each change advocate assembled a group of six people, to whom the advocate could teach, model, and promote the desired behaviors. As these allies became versed in the Joining Mindset and Inclusive Behaviors, they developed their own small groups, and so on. This model multiplied the effect and continually provided change advocates with new partners in the effort.

The benefits of peer-to-peer leadership in the one combined organization were striking. Because people were learning from people they trusted, they were more likely to adopt and even welcome the change. The effort quickly generated momentum, enabled immediate dissemination of the new ways of interacting, and began to create as well as spread the New Story in the organization. Like senior leaders, people who participated in the peer-to-peer effort responded with remarkable energy and commitment to creating the combined company and its ways of interacting.

From a systemic standpoint, including more people quickly in this way created a tipping point for success in spreading the change effort. By the time 15–20% of the organization was engaged, the resulting critical mass greatly enhanced the possibility of organization-wide success.

Second, Presence Consultants were installed (DaRos & Pfeffer, 2011) in areas...
where the change advocates worked and change was taking hold most readily. By working alongside change advocates and others in the workplace, the Presence Consultants provided feedback in real time on attempts to live the Inclusive Behaviors and integrate those behaviors into day-to-day operations. They were available to point out good examples of the 12 Inclusive Behaviors, identify instances for improvement as they occurred, and model the change. As such, the Presence Consultants served as an essential bridge between education sessions and day-to-day interactions in the workplace.

The unique position of Presence Consultants—living within our client’s workplace and yet formally outside of it—made them a safe resource for people striving to work through the change. The consultants’ ability to engage people face to face fostered trust quickly; their position as “outsiders” enabled people to say the unsaid and challenge the unchallengeable when with them.

Generating Results

The results became evident as the Joining Mindset and Inclusive Behaviors moved toward critical mass and became integral to the combined culture. People at every level became more intentional about including all the right people—including people from both legacy organizations—at the right time to gain a broader view of each issue or opportunity. The more they worked together, and the more interactions they had, the more trust they built among one another. That led to more knowledge transfer and idea flow across the combined organization, as well as higher speed in problem solving and decision making.

Leaders from the acquiring company discovered and adopted systems and processes from the acquired company that could move the combined organization forward. By doing so, they encouraged people in the acquired company and made them feel that they had value.

These changes showed up in the metrics. Safety improved as people merged systems and exchanged best practices. Deviations plummeted. People collaborated to streamline processes and accelerated the targeted cost savings far beyond initial projections. Decisions that once took weeks now were made in days if not hours. Within six months, market share, customer relationship ratings, and engagement scores had returned to their pre-transaction levels and were trending upward. The one combined organization was even drawing attention as a best place to work.

Conclusion

In the context of mergers and acquisitions, many organizations talk about “performing while transforming.” That phrase captures the extreme difficulty of quickly integrating organizations with very different systems, processes, and ways of interacting. It is a task that one legacy company or a few senior leaders simply cannot accomplish alone. Rather, they need to leverage all the people of the organization to make the change. The way to leverage people, by definition, is to include them. The inclusion model described above provides a model for making that happen—and turning two companies into one company that truly is the best of both worlds.

References


