

Speeding to Synergy

Communication Process Improvement for Rapid Merger Integration



Lawrence Research Associates
www.LawrenceResearchAssociates.com | 303.499.8288 | Boulder, CO

Mergers and acquisitions are becoming more prevalent in the growth of global organizations. Effective communication is a critical factor in the success of M & A activities, and there are a number of useful approaches for improving communication effectiveness. At a time when organizations are increasingly looking for opportunities to gain post recession advantages, what can be learned about conducting a merger with deliberate attention to speed, clarity, and cultural integration? The following is an examination of merger integration issues, and how three organizations have employed communication process improvement methods, including the Management By Strengths (MBS) program, to achieve remarkable results during challenging times.

During the financial crisis, merger and acquisition activity has plummeted, but there is some indication that an increase in deal-making may be on the way. “I don’t think the floodgates are opening up,” said Boon Sim, Credit Suisse’s head of mergers and acquisitions for the Americas, “but C.E.O.’s are now beginning to say, ‘If I don’t buy it now, it’s only going to get more expensive in the next 12 or 18 months.’” This potential increase in mergers may also reflect a more strategic approach to takeovers. Recent mergers have reflected a greater emphasis on buying another firm and making it an integral part of the business, rather than basing the purchase on financial structuring with the intent to resell quickly for fast profit, as was more commonly seen five years ago. “We expect a window of opportunity offering attractive takeover prospects to open soon,” said Alexander Roos, a partner at the Boston Consulting Group. “We have already seen some of our smarter clients making preparations in recent months.”¹

Time Is Not on Your Side

When several organizations in an industry merge, there is new urgency among other firms to merge to stay competitive with the larger entities. In the past, organizations have had more time to handle the complexities of mergers, but recently the window for achieving positive results has shortened. As gaining access to capital has become more difficult and investors are more nervous, an organization may only have six to twelve months to show positive results from the merger, such as exploiting economies of scale, eliminating duplicated functions, and capturing cross-selling opportunities. If the merger integration lacks sufficient speed and does not yield substantial post merger gains quickly, analysts may make negative assessments. This situation can then become a self-fulfilling prophecy that drives employee and shareholder exits, leaving the organization more vulnerable to competition. Success is often elusive, with research placing M & A failure rates between 50% and 80%.²

The Human Factor

Although there are many different reasons cited for merger failure, most analysts appear to agree that the “human factor” is a major cause of difficulty. A recent Gallup Management Study writes: “Signaling cooperative intentions is crucial to understanding the other side’s perceptions, avoiding hostile assumptions, and making the early agreements that become the foundation for



trust. In nearly every study of failed mergers or alliances, miscommunication or lack of communication is one of the primary culprits.”³

A merger or acquisition often means a period of high stress for both entities. Personnel challenges recur over the entire M & A process: lay-offs of excess staff, retention and deployment of key talent, collaboration problems, confusing communication, and integration of corporate culture. People may be working harder and longer, and newly acquired personnel may need more time than anticipated to adjust. Employees concentrate on matters of the here and now. Job security, reporting structures, salary, benefits, internal technical matters, policies, and procedures become the focus of daily performance, often to the detriment of customers and business. Speed is essential in successfully managing merger workforce issues. Information is the vital commodity, and quickly acquiring it to share, process, and motivate to action can make the difference between the success and failure of a merger.

Culture Clash

Organizational culture is critically important to the success of a merger, and has long been recognized as a competitive advantage. Culture is the “way we do things,” the most visible of which include the way leaders inspire employees, the way colleagues treat each other, and the way customers are treated. Underlying these observable behaviors is the foundation of the organization’s vision, mission, values, and history. When organizations undertake a strategic merger, they strive to capture synergies and build a more profitable entity, but at the same time must work through an inevitable “culture clash.” Fundamental differences between the organizations’ cultures may exist, resulting in a stressed, unhappy, and uncooperative workforce accompanied by a drop in productivity.

There are several different models for cultural adoption: the acquiring organization’s culture may prevail; firms may pick desirable attributes from each organization; the organizations may exist side by side; or a new culture may emerge. Whichever model is chosen, it is vital that it is selected intentionally and is well articulated. It must align with the organization’s model for strategic differentiation, whether it is operational excellence (best total cost), product leadership (best products, newest products), or best total solution (customer intimacy). Failure to choose one model for differentiation leads to loss of focus and poor performance. If culture is not deliberately managed, a new culture may emerge that is a liability that does not support the organizational strategy.

Communication Is Key

A key to integrating cultural identity is communication. While many companies use top-down cultural assessments to support vision and values integration, face-to-face, interactive communication is much more powerful for trust building and effective organizational change management. A recent study looked at the effectiveness of different types of communication to deal with change-related uncertainty. The findings indicated that employees prefer to hear from their immediate supervisors for implementation-related and job-relevant information.⁴ People need a chance to ask questions, discuss, and arrive at a personal level of understanding.

Communication should also aim to enhance employee engagement and reduce turnover. Open and honest communication is critical for retaining the trust of employees. Trust is not built between organizations; it is built between individuals and is the product of experience and attention to delivering on promises. Effective interpersonal communication acknowledges that people have different perceptions of their environment based on internal emotions and assumptions. People who employ effective communication skills are deliberate about accommodating others' views and are therefore less likely to have misunderstandings with co-workers.

While it is often said that “It’s about the people,” and that “There cannot be too much communication during M & A activities,” too many organizations are unprepared for dealing with the complexities of communication issues during a merger. Best-in-class processes are not built overnight – they are learned and cultivated over time.

There is, however, evidence that organizations are beginning to recognize that excellence in communication is critical to successfully managing change, as well as a key financial performance driver. Watson Wyatt, a leading global consulting firm focusing on human capital and financial management, performed a four year study of 264 companies employing more than six million employees to identify best practices and trends.⁵ Among the 2007/2008 Watson Wyatt Communication ROI study™ findings:

- Companies with the most effective communication programs had a 47 percent higher total return to shareholders compared with companies that communicate least effectively.
- Firms that communicate effectively are four times as likely to report high levels of employee engagement as firms that communicate least effectively.
- A significant improvement in communication effectiveness was associated with a 15.7 percent increase in market value.
- The percentage of companies measuring employee behavioral change has increased almost 25 percentage points since a similar 2003/2004 study.

Communication Process Improvement

Using a behavioral style assessment program can help organizations increase productivity, improve customer satisfaction, and elevate employee morale through an improved understanding of temperament, motivation, and communication style. The three leading organizations discussed below have deliberately used communication process improvement methods to support M & A activities and cultural integration. For them, communicating change is not a top-down, single direction process; instead they have created a two-way system for feedback and discussion. These institutions have gone beyond “explaining” that effective communication is vitally important. They provide process improvement tools to attain communication goals. Because they have established, reliable processes, they are better equipped to maximize collaboration, achieve excellence in customer care, and improve product/service quality. Each of these organizations uses the Management By Strengths (MBS) system as a platform for effective communication because of its efficacy, usability, and emphasis on the *proactive application* of productive behaviors. Using the MBS system, employees first identify their own preferred communication



style, and then systematically apply their enhanced communication skills to facilitate teamwork throughout the organization.⁶

Delta Airlines Technical Operations Division

Since its merger with Northwest Airlines, Delta Air Lines now offers service to more destinations than any other global airline. Delta's Technical Operations Division is the largest airline MRO (Maintenance, Repair, and Overhaul) organization in North America. Delta TechOps serves more than 100 aviation and airline customers from around the world, specializing in high-skill work such as engine, component, hangar, and line maintenance. Delta TechOps employs more than 6,500 maintenance professionals and is one of the most experienced airline MRO providers in the world.⁷

Delta Airlines and its TechOps Division use the Management By Strengths (MBS) system to support continuous improvement initiatives. Brett Haupt, TechOps Leadership and Development Facilitator said: "We started using MBS in a ground swell effort to work better, faster, cheaper, than our competitors out there. We learned not only how to work with others better, but also to have greater self-awareness – to be more effective in the future...It's all about doing the right things for the right reasons...We are now using MBS as part of our management leadership development training corporate-wide. All our divisions, from airport customer service, reservations, technical operations, in-flight operations, to operations control are being introduced to methods for communicating better with others." With respect to the merger integration efforts, he observed, "Regardless of 'religion' or politics, or even location within the country or worldwide, temperaments are still easy to read and understand. People are people. It is really helping us understand, regardless of the challenges still ahead of us, that working with others and understanding how they like to be communicated with is the invaluable X factor to get anything accomplished."

Delta TechOps has accomplished a lot during the past couple of years, winning the prestigious "Race to Excel" Robert E. Fox Award for Large Private Organization at the 2008 Continuous Process Improvement Symposium in recognition of their remarkable improvement in performance. Delta's application of the Theory of Constraints (TOC), Six Sigma and LEAN improvement techniques, took the TechOps Division from being a cost center and, with no additional resources, dramatically improved it to the point that it became a money making branch of the company by contracting work for other airlines.⁸

The TechOps Division grew operating revenues to \$547 million in 2008, and TechOps President Tony Charaf forecasted strong growth towards his aim of building it into a \$1 billion business. Interviewed at the MRO Americas convention in Dallas, Charaf said: "While the economy is down we are working this time to really focus on what is core to us – IT, continuous improvement, and absolutely delighting our customers. For example, we have always been very committed and focused on continuous improvement – Six Sigma and then lean – and now we are setting about absolutely dramatic change – reducing time in shops, and I am not talking small numbers but about something like 50%...Starting in engine maintenance and going onto everything. Our people are so connected to the strategy it is unbelievable. People ask more and

more about customers and who is coming in. We have been so transparent in our leadership process and we share everything, and our communications are second to none, and [our people] have access to us at any time.”⁹

Hendrick Automotive Group

The second-largest privately owned dealership group in the U.S., Hendrick Automotive sells new and used cars and light trucks manufactured by more than 20 automakers. Hendrick has a network of over 60 dealerships in 9 states from the Carolinas to California. The company also offers financing, as well as automobile parts, accessories, service, and body repair. One of the company’s core values is “Passion for Winning,” a reflection of another Hendrick enterprise, NASCAR champion Hendrick Motorsports. At the heart of this winning recipe are a very organized process for building relationships with customers, and a step-by-step plan for integrating new dealerships and employees, which includes the Management By Strengths program in its employee training and coaching. “We use Management By Strengths because of its simplicity,” said John Lamkin, Director of Training. “We make sure that all our new employees understand and align with the Hendrick culture; it is a benevolent and gracious culture.”

The company’s focus on “customer enthusiasm” stresses the importance of stability, visibility, accountability, and empowerment. At company headquarters and at dealerships, employees wear name badges that include a Management By Strengths grid indicating their preferred communication style. When customers ask about the grids, sales associates tell them that the badges help them remember to purposefully engage each other in order to better serve customers.

During acquisition activities, MBS communication skills help managers work through integration processes. Since people are stressed, managers need to over-communicate, observed Lamkin. “As we went through the two acquisitions this past spring, it’s my belief that their understanding of MBS was just as important as the understanding of those of us who work within the company. From the standpoint of a new employee, the consistency of message, both in style and content, was critical in completing a smooth changeover.”

The attention to effective communication and best-in-class processes extends beyond the company’s internal teams. Due to Hendrick Automotive Group’s reputation, manufacturers seek out opportunities to do business with the company. Lamkin added, “When we enter into a partnership with a vendor we have them go through the MBS and Hendrick Culture classes so they will be better equipped to deal with our employees. Sometimes the process of them learning how to communicate appropriately with our employees takes quite some time. It’s not just in the spoken word but the written word, as well.” Hendrick Automotive Group is committed to this process, as it supports another core value – continuous improvement. “Every day we take the initiative to find ways to do our work better, smarter, and faster. Seeking opportunities for personal growth and development will only lead to increased vitality for our business and greater satisfaction to you (the customer).”¹⁰

Mercy Health Partners

Mercy Health Partners is a large health system in West Michigan with more than 4,300 associates, some 21,000 inpatient discharges, and 137,000 emergency/urgent care visits annually. The system has four hospitals and 375 physicians, and offers a number of exclusive specialty physician care services for the region. Mercy Health Partner's parent company, Novi-based Trinity Health, is the nation's 10th largest health care provider.¹¹

When Mercy General and Hackley Health merged last year, the community reflected deep seated, generational biases about the two competing hospital systems. “You were either a Hackley family, or you were a Mercy family,” said Roger Spoelman, C.E.O. at Mercy Health Partners. “So we really did have to create a new culture in the organization. And I have to say that MBS was part of the foundation of that new culture. It helped us focus on getting to know one another, and gave us a common nomenclature when we talked about our communication styles... When there is difficulty, you can refer to the person's communication style and their profile, rather than saying, ‘You never listen. You always jump to conclusions. You aren't patient.’ Instead it's, ‘Let's talk about the style. Let's talk about the perspective.’ So it allows you to resolve conflicts by taking a third person approach... It was very helpful in bringing together these two disparate cultures... I would call it an accelerant to the culture transformation that we needed. A merger is a legal transaction, but anybody who has gone through one knows that it's a cultural transformation. The legal transaction can take place fairly quickly. The cultural transformation takes place every day, one day at a time. It's not something where you say, ‘There, done. Cross that off the list.’ Using a transparent and sustainable communication platform provides a consistent framework for the ongoing integration process. This system gives you something tangible.”

This deliberate attention to effective communication processes is part of the strategy to build an attractive culture in the merged organization. Spoelman noted that using Management By Strengths tools helps people take a step back to understand how to communicate more effectively with new colleagues, rather than focusing only on the mechanics of merger related functional changes. In addition, the MBS program provides free profiles for employees' families. Spoelman remarked, “We ask people to leave their personal problems in the parking lot. As helpful as MBS is in the workplace, if we can give employees this powerful tool that enhances their abilities to understand their families, and recognize why they may act the way they do, that is a tremendous benefit.”

For Mercy Health Partners, the hoped-for synergies have clearly yielded results, not only in reducing costly duplicate services, but also in elevating the organization's level of patient care. Within eight months of the merger, Mercy Health Partners was named one of the nation's Top 100 Hospitals and Top 100 Hospitals for cardiovascular care by the Healthcare business of Thomson Reuters. It is now also the only hospital in Michigan, and one of 13 nationwide, selected as Leapfrog's top hospitals for quality by combining quality and resource utilization in the areas of coronary artery bypass, coronary interventions, and treatment of acute myocardial infarction. Said Spoelman in a press release, “This is exactly the kind of platform of quality and



cost management our business community has challenged us on, and it is the kind of outcome we promised with our merger.”¹²

The Benefits of Enhanced Communication Effectiveness

These three organizations have created cultures of attraction: attracting customers, employees, and business partners. They signal clearly that a transparent, user-friendly, and sustainable communication process improvement system is in place to accelerate collaboration. During M & A activities they have been better equipped to:

- Maintain mindful attention to customers – Good acquisitions keep customers in mind at all times. Visible reminders support accountability and help keep customer focus at the forefront.
- Improve sharing and retention of the organizational strategy – New information is more easily understood when the message is crafted to match individual communication style preferences. Answers to these questions can be customized: What is the organization’s differentiation strategy, how does the culture support that strategy, and most important, “What’s in this for me?”
- Establish trust more quickly – Employees are more likely to believe that communication is honest and transparent if they know that their own communication style is valued.
- Speed up integration – Attention to communication process improvement means the organization can move more quickly past integration issues and shift the focus to innovation.
- Reduce the usual drop in productivity – Making an obvious investment in employees reduces anxiety. Acknowledging stress and prioritizing problems makes the situation more manageable. People need encouragement to voice feelings and provide feedback. Once out in the open, emotions can be dealt with more easily, and people maintain better productivity.
- Quickly identify key personnel – Find the people, processes, informal networks, tacit knowledge, and specific skill sets needed to keep the organization operating.
- Level the playing field for everyone – Providing a sustainable neutral communication platform gives employees a sense of control as they continue to adjust to new people and new issues.
- Reward effectively for integration efforts – Providing praise and recognition that accommodates individuals’ communication styles better reinforces desired behaviors.
- Capitalize on the cultural differences as well as the synergies – When people understand and value different communication styles, they are more likely to understand that organizations have different “personalities.” With that understanding, employees can search beyond existing frameworks, explore best practices of competitors, and create new, out-of-the-box ideas.
- Reduce employee turnover – If employee turnover is reduced by even a few percentage points, it easily justifies the resources and time needed to implement an effective communication program.

An organization’s ability to communicate and integrate cultural identity is as important to the success of a merger as any of the financial measures. During M & A activities the power of process improvement methodology can be applied to communication skills to yield leverage and synergy, the very outcomes for which a merger is undertaken.

-
- ¹ Andrew Ross Sorkin, “Big Merger Deals Signal Restored Confidence,” *New York Times*, Sept. 29, 2009.
- ² Caxton Growth Partners, *Why Business Marriages Fail*,
http://www.caxtongrowth.com/images/resource/why_fail.pdf (2005).
- ³ Rodd Wagner, and Gale Muller, “Making Mergers Work,” *The Gallup Management Journal*, May 5, 2009.
- ⁴ I. Allen, N. L. Jimmieson, P. Bordia, & B. E. Irmer, “Uncertainty during Organizational Change: Managing Perceptions through Communication,” *Journal Change Management*, 7:3 (June 2007), 187-210.
- ⁵ Watson Wyatt, *2007/2008 Communication ROI Study Secrets of Top Performers: How Companies With Highly Effective Employee Communication Differentiate Themselves*,
<http://www.watsonwyatt.com/research/resrender.asp?id=2007-us-0214&page=1>
- ⁶ <http://www.strengths.com>
- ⁷ http://www.delta.com/business_programs_services/technical_operations/about_delta_techops/index.jsp
- ⁸ Continuous Process Improvement Symposium 2008,
<http://www.fox-awards.org/winners.html>.
- ⁹ Kieran Daly, “Delta TechOps Focuses on Northwest and International Partners,” *Air Transport Intelligence News*, <http://www.flightglobal.com/articles/2009/04/29/325840/delta-techops-focuses-on-northwest-and-international.html>, (4/29/09).
- ¹⁰ http://www.hendrickauto.com/hendrick/hendrick_advantage.asp
- ¹¹ <http://www.mghp.com>
- ¹² <http://www.mghp.com/news/>

Cate Lawrence



As founder and senior consultant at Lawrence Research Associates, Cate Lawrence delivers proven team building tools to optimize workforce performance and accelerate innovation and product development. She brings 20 years in business operations combined with graduate degrees in applied psychology and business administration to provide proactive training for immediate results. Her background in operations in heavy industry as well as Fortune 500 information technology companies includes new product development from drawing-board to mass production. Cate can be reached at Cate@LawrenceResearchAssociates.com.

Lawrence Research Associates
www.LawrenceResearchAssociates.com | 303.499.8288 | Boulder, CO