Stanton Marris

energising the organisation

issue 04: managing the energy in M&As

"During a merger, the organisation becomes jittery, off balance, destabilised. People are hyper-alert and primed for change", says a CEO. "This destabilisation powerfully increases the energy levels; but unless that energy is productively channelled it becomes a destructive force that sabotages the merger."

"A merger is an enormous catalyst of change. It creates an environment in which an organisation can change and redefine the way it does things"

Michael Bray, CEO of law firm Clifford Chance during its three-way merger with Roger & Wells and Pünder.

Energy in M&As and LBOs: the most valuable asset of all

All living creatures respond with a surge of energy to a threat or an opportunity. In the business world, a change of ownership, achieved through a merger, acquisition or leveraged buyout (LBO), represents both. Excitement and fear, dread and anticipation grip individuals as they begin to consider how the change will affect them.

We believe that the surge of energy triggered by an M&A or LBO is the new company's most valuable asset. The management team can take practical steps to ensure that this organisational energy helps unlock the potential of the new business, resulting in enhanced performance.

Unmanaged energy can become destructive, manifested in in-fighting, anxiety and resistance to change. Organisational energy is too important to ignore. As the case-study opposite shows, it must be used to mobilise the new business to achieve extraordinary changes in a short time.

Story 01: Potential energy - lost opportunity

A manufacturing company acquired a smaller, struggling business that had had several rapid changes of ownership. The new parent delayed the restructuring programme to give the business time to stabilise. It missed the signals that the acquisition was a coiled spring, waiting for something to happen.

Interviews with employees revealed that many were initially positive about belonging to an international manufacturing group, and that most accepted the need for redundancies.

But the long period of inactivity, with scant communication from the new owner, caused nerves to fray. The energy began to turn negative, into fear and anxiety: "We felt that we were being eyeballed, that they were peering at us and assessing us, but nobody said anything. Everyone assumed the worse would happen. We just wanted to get it over and done with," says a team supervisor.

In this state of high tension, the organisational energy became a destructive force. With hindsight, the parent company realised that swifter action, even involving painful redundancies, would have enabled the acquisition to re-direct its energy towards business performance.

"It was like catching a tiger by the tail. Our new employees were strong headed and resisted our attempts to implement checks and controls. A lot of the most talented people decided we were stodgy and unexciting and walked out the door without a second glance".

HR director of an international real estate firm

Understanding energy as an asset

A successful merger, acquisition or LBO is all about achieving a potent new combination of assets and capabilities. Some of these assets are physical (manufacturing facilities, products, market access), some emotional (corporate culture, brand and reputation) and some intellectual (specialist knowledge, managerial expertise). It is often the intangible assets that constitute a significant proportion of a company's value.

The key feature of emotional and intellectual assets is that they are mobilised only when individuals choose to do so. This mobilisation adds up to the business' organisational energy. If a M&A or LBO is to succeed, this resource must be understood, measured and mobilised.

The first step is to understand the starting point. The companies or institutions involved often have different levels of energy.

Typically, organisations fit into one of the following four profiles:

1 The acquired company has depleted energy reserves
If the work force appears demoralised and passive, particularly if it has been up for sale for some time, the acquirer must use the transition period to inject new energy and focus into the organisation. In the case of a LBO, there may some envy and resentment of the new management team.

2 The acquired company has high energy levels
This energy needs to be swiftly harnessed to a set of goals. The key issue for the acquiring company or, in the case of LBOs, the investment institution, is how to implement appropriate controls over a seemingly unruly, impetuous business without squeezing the life out of it. Productive energy can easily be stifled if too much control is exerted too early on before trust is built. Too little control and you face risk; too much and you destroy energy.

3 The new owner/partner has low energy levels
Organisations on the acquisitions trail often go through great changes themselves and may not have sufficient energy to integrate a new acquisition or merger partner. The issue of merger fatigue is a serious one and acquirers have to take a hard look at their own capacity before embarking on another major upheaval.

4 The acquiring company has high energy levels
The acquirer must avoid being over-keen to take control. This is especially true when the acquisition has been purchased for its entrepreneurial performance.

"The culture and climate of the new company will be created, not through corporate propoganda, but through people's participation in the integration effort"

Phil Radcliffe, former director of strategic change at Diageo

Plotting the energy curve

So let's assume we can form an initial understanding of the likely levels of energy in both the acquiring and acquired organisations. Now the challenge is how to manage it proactively as an asset, which is where Stanton Marris can help. In **issue 02: managing energy**, we described how it helps to think in terms of three waves that discover, focus and release latent energy. We described "tipping points" at the crest of each wave, where organisational energy can be boosted forward or spiral downwards.

Plotting the energy profiles of the potential partners in a M&A or LBO onto these three waves creates an "energy curve". The energy curve helps management teams understand how much energy exists within the organisations at the beginning of a M&A or LBO and how this energy rises or falls during the transition.

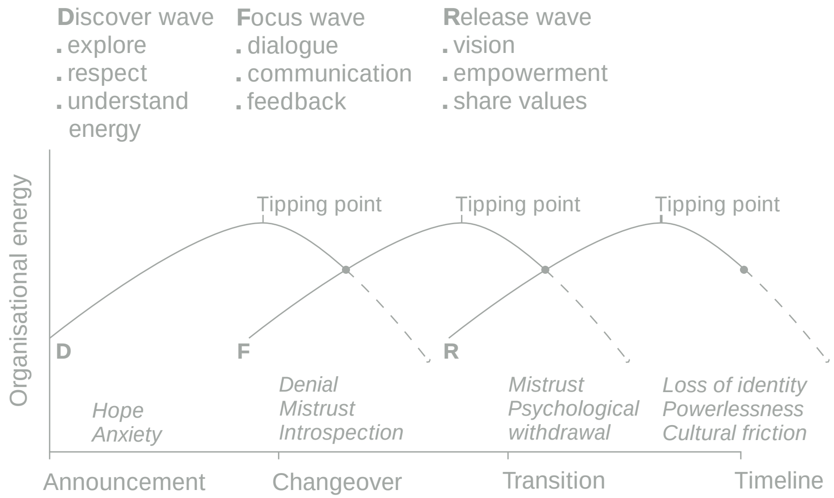
The energy curve can then be managed through the same three-wave approach:

– Discovering energy:
  exploring and measuring organisational energy.

– Focusing energy:
  shaping an agenda for action.

– Releasing energy:
  implementing processes, behaviours and actions that mobilise energy and keep it focused on the right things.

Organisational energy curve



"We took two seats on the board and worked closely with the engineering teams because we wanted the product fast and in Cisco mode. We tried to keep it too tight and the result was that it lacked the spark of a typical start-up"

Mike Volpi, Cisco's Vice President for business development commenting on an acquisition

Discovering energy

The first step in harnessing organisational energy during an M&A is to discover the sources of energy and what increases or diminishes them.

Gathering this data early yields benefits for both parties. It can be a key element of the due diligence process, as it provides a cultural audit of the company to be acquired. It helps the management team of the company being acquired to get a sense of the potential impact of the merger on performance. This in turn helps managers tune in to the current mood and expectations of employees and target communication appropriately. Good communication is an imperative and there is real evidence that it helps 'shallow out' the highs and lows of the energy curve.

We collect the data through a mix of interviews, energy groups and a confidential survey method, then collate it to form the Energy Index™,a hard baseline measure of organisational energy. This can be monitored at key points in the process in the form of a 'pulse check'. The announcement is often the best time to gather this initial data. Simply talking about the past can help people to adjust and start to focus on the future.

Bristol & West Building Society, for example, had already gone through a tough turnaround initiative that had helped staff and managers feel confident about their ability to survive and cope with change. Managers at the Bank of Ireland recognised this energy in their bid to acquire and were careful to emphasis B&W's expertise and achievements during the subsequent change of ownership.

Focusing energy

This wave helps shape an agenda for action. A recent survey showed that productivity drops by 50% in the first three months of a merger due to uncertainty and speculation. Management teams can build on information gathered through the discover phase to design a transition process that creates, rather than destroys, organisational energy.

Focusing energy means capturing attention and engaging the minds and emotions of employees. This is not easy if the goals and strategy of the new organisation are still unclear, integration planning goes on behind closed doors and rumours of redundancies are rife. Suspicion quickly turns to mistrust.

People become energised when they have a sense of control over their own destiny and can contribute to improving business performance. Opportunities for dialogue, debate, frequent communication and feedback all play an important role.

If organisational energy is high, this can be an ideal time to tackle some difficult issues. The partners in merging law firms Clifford Chance and US based Roger & Wells decided to thrash out a new remuneration plan for senior partners as quickly as possible. Delaying the decision, they believed, would cause political infighting, sapping the energy and momentum generated by the merger announcement. They reached a solution after intensive discussions, enabling Clifford Chance to remain focused on its goal to become a global law firm.

> "Everyone focuses on how to make what was 2+2=4 into 2+2=5, rather than on how to change the equation to 2+1=4. This is what positive energy is about"
>
> Garnet Twigg, Executive Chairman, Stathmen

Releasing energy

This wave propels the organisation forward. Energy is released through empowering people to change the way they work. Training and development to equip people to perform at a higher level is regarded as an investment for the future. Joint development activities for influential managers provide an ideal, safe environment to get to know each other better and shape the future together.

We coach new leaders to share their vision and visibly demonstrate behaviour which sets the tone of the new organisation. We design events and communication activities that give people a glimpse of the future; these are opportunities to evolve a new language, agree a shared set of values and establish new working practices.

There is considerable evidence that successful acquisitions revolve around growth propositions, rather than synergies. Positive energy is released if the new entity is seen as an opportunity to be more successful than either party could have achieved alone. But people are only ready to listen and commit to a new, stronger future after the past has been properly honoured and put behind them. Using a pulse check tool to plot the 'energy curve', we can anticipate the time when people are ready to move on.

In smaller or rapidly executed M&As or LBOs, particular effort is needed to build trust and lock in key people, as issues around the loss of freedom and independence are often magnified. In lengthier, larger or more complex transitions, the three waves may be used at different stages, in different parts of the organisation.

The real challenge of M&As or LBOs is the constantly shifting landscape of organisational energy. Knowing where it is gives the confidence to know what to do and when.

Story 02:

Diageo's successful creation of UDV, made by merging the drinks businesses of GrandMet and Guinness, demonstrates how an integration process can be designed to create organisational energy. The task of designing the new business was devolved to regional marketing teams. These teams were given a set of business goals, a timescale and a suggested integration framework. They were given practical training and guidance, delivered through a series of workshops. They reviewed their integration plan with top managers, who used these sessions as coaching opportunities.

"People felt they had learnt a lot, that they were trusted and given useful tools. Many people went the extra yard because they wanted the merger to succeed", says Phil Radcliffe, former director of strategic change.

"Some difficult decisions had to be made about resources, but our managers picked up the challenge and we addressed these issues as a whole company."

In summary:

– an M&A or LBO generates organisational energy, but this can quickly become destructive if not harnessed quickly

– this energy may be seen as the new company's most valuable asset; it can help transform business performance

– managers need to understand the energy levels of their business and how the tie-up is likely to enhance or deplete this resource

– the transition process can positively energise the new organisation, especially when the management team and key change agents receive appropriate training and coaching

– "tipping points" - actions that help generate and harness energy - can be built into each stage of the transition.

Note:

This issue has been written in close collaboration with Marion Devine, author of **'Successful Mergers: Getting the People Bit Right'** (The Economist Books, 2002). The book was based on extensive research with senior executives of companies that have lived through mergers and acquisitions. Learning from these experiences has shaped our shared thinking on the role of organisational energy as a helpful management tool in M&As and LBOs.

Stanton Marris would also like to thank Garnet Twigg, executive chairman of Statumen, the acquisition and integration management consultancy, who provided practical insights and comments to our first draft.

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Issue 02: managing energy
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Subsequent issues will cover:

Issue 05: Organisational energy and customers
Issue 06: Organisational energy and public services

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Stanton Marris is an organisational energy consultancy.
We help companies raise and use their energy
to increase performance. To find out more, visit our website
www.stantonmarris.com or call Kate Stott at +44 (0) 20 7637 0290.

Stanton Marris Ltd
9 Percy Street
London W1T 1DL
United Kingdom

Stanton Marris passion purpose performance