'Co-Evolutionary Integration:
A Complexity Perspective on Mergers & Acquisitions'

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Abstract

Despite an apparently thorough 'due diligence' process, many mergers and acquisitions (M&A) still fail to meet pre-merger objectives. One of the main contributing factors is insufficient emphasis on post-merger relationships, and the development of an emergent culture to support the new organisational form.

Two examples of M&A will be used to illustrate a successful and a dysfunctional application of post-merger integration, seen from a complexity theory perspective. An ideal post-merger integration, according to complexity, would resemble the creation of a child. It has some characteristics inherited from both parents but it has its own unique personality and identity. Yet in most cases the more dominant partner tries to impose its own culture, ways of working and procedures. It expects the dependent partner to adapt to these conditions, instead of facilitating reciprocal learning and co-evolution between the partners.

The paper will explore the differences in attitude of the two companies and identify some of the key contributing factors to successful *co-evolutionary integration* from a complexity theory perspective. It will do so by outlining the relevant characteristics to M&A, of organisations as complex evolving systems. It will finally propose that co-evolutionary integration may be facilitated by using the logic of complexity and the *co-creation of an enabling infrastructure.*

Key words: complexity, co-evolution, mergers & acquisitions, enabling infrastructure, leadership, organisational culture.

Critical Path of M&A (History)

In the last decade M&A activity throughout the world, accounted for approximately 70% of the total value of inward investment in developed countries, making mergers

& acquisitions a more important component than greenfield investments in foreign direct investment (UN, 1995, Zadmach *et al* 2003). In 1999, according to J P Morgan, companies worldwide spent 3.3 trillion dollars on M&A, 32% more than was spent in 1998 (Francis *et al* 2000). Also in 1999 over £300 billion was exchanged via M&A in the UK. Mergerstat (2003) reports that the value of transactions between US companies and those outside the US peaked at almost $436bn in 2000, up 19fold from $23.3bn in 1992. Yet the growing literature underlying practices and systems for successful mergers and acquisitions shows a relatively low rate of success. For example, McKinsey consultants suggest that approximately 60% of acquisitions fail to deliver returns exceeding the cost of annual capital (Nguyen & Kleiner, 2003). In response, the market has recently seen a slowdown in M&A activity since 2000 due mainly to the high percentage failure rate.

In the early 1980s, M&A deals were primarily financial transactions aimed at gaining control of assets, sometimes undervalued, which were often broken down into smaller parts and sold individually to increase financial gain. Today according to Coffey *et al* (2003) M&A have become strategic and operational in nature. It would also appear that the market perceives certain types of transaction as more lucrative than others. Acquisitions, for example, create the most market value overall while if a deal is structured as a merger or a sale it has little clear effect on stock prices.

Some Key M&A Statistics

- On the announcement of an M&A deal, company stocks rose in only 30% of cases (Coffey *et al* 2003)
- Synergies projected for M&A are not achieved in 70-80 % of cases (Coffey *et al* 2003)
- Routinely cited as problems are people and cultural issues in failing or failed integration (Coffey *et al* 2003)
- Almost 95% of all new products fail as a result of poor M&A management.
- 65% of strategic acquisitions and mergers result in negative shareholder value (Marcum 2003)
- Serial acquisitions are made in some instances to hide previous failed mergers and underlying financial problems (HRM Manager 2003, Vol 12)
- A Board making serial acquisitions will usually be more intent on focusing on the next deal than on integrating the business in hand. The Board enters into a vicious circle in order to keep shareholders sweet. (Deloitte & Touche 2001)
- New initiatives are launched with decisions stacking up but no one to make them (Webb 2002)
- Customers and staff are forgotten (Deloitte & Touche 2001)

Many of the above studies have identified lack of integration as the common theme, while other studies (Krishnan et al 2004; Hutchings et al 2003; Faulkner 2002; Demers et al 2001; Bijlsma-Franema 2001) suggest that M&As fail primarily because they have underestimated the people factor and organizational fit (Faulkner 2002).

A Deloitte & Touche study (2001) found that only 1/3 of their total sample of 540 companies surveyed about mergers and acquisitions, could say that they thought that their merger was successful. Some of the reasons highlighted for failure of M&As:

1. People and cultures being ignored
2. Slow integration

3. Lack of communication
4. Failure to address retention issues across all platforms: employees, customers and suppliers
5. Failure to clearly define roles, responsibilities and incentives and a clear structure

Almost all the above issues are related to people and cultural issues. Slow integration does encompass technical integration but it is the integration of the different cultures and ways of working that are often the critical factor. This cultural integration takes time and the effort involved is often seriously underestimated. Critchlow (2003) states three converging trends, which can help explain why cultural issues have become so important:

- First, service companies increasingly dominate the largest global economies. That means the chief assets are not factories and equipment, but people - executives who develop client relationships and leverage a certain expertise. Consequently, mergers involve assets that can leave when things become uncomfortable. This was supported by Coffey *et al* (2003) who found that 47% of executives leave the company within the first year, and 75% leave within the first three years.
- Second, the sharp increase in cross border deals between global firms with operations in many different countries means that different national cultures become an additional challenge.
- Finally, deal rationales have become more complex. Many companies engage in mergers and acquisitions not just to squeeze out value or increase their size, but also to transform their business or industry. Whereas only one of the top ten global deals (by purchase price) in 1988 aimed to change the basis of competition, eight of the top ten deals announced in 2000 did so.

Mergers and acquisitions often fail to meet pre-merger objectives, despite an efficient due diligence process at the outset, because not enough time and energy is devoted to post-merger relationships and the development of an emergent culture to support the new organisational form. The erroneous assumption is that once the financial issues are dealt with everything else will fall into place. The two case studies will show that this is not the case.

THE TWO CASE STUDIES

The two cases are an international engineering company (EnFirm - EnF) and a company in the Service Sector (SSFirm - SSF). The latter went through a very thorough due diligence process and the market considered the merger process a great success. Two years after the merger, however, SSF was suffering from severe dysfunctional relationships. Part of the problem was that individuals were uncertain of the boundaries of their authority and autonomy, which had been clear in the pre-merger firms. SSF knew they were good at the pre-merger process and expected that a successful post-merger process would follow automatically. The LSE Complexity Group started work with SSF two years after the merger. The analysis in this paper is based on 22 semi-structured interviews conducted with a wide cross-section of interviewees in SSF, on many meetings with individuals and groups and on a Reflect-Back Workshop, which validated the findings. (A description of the LSE Complexity Group's Integrated Methodology can be found in Mitleton-Kelly 2003c and 2004a)

Company EnF acquired an organisation made up of small firms that had already gone through a series of M&As, in a different but related market to its main operations. The parent company was primarily a UK organisation while the acquired company (AcqC) was distributed throughout Scandinavia. There were therefore *apparently* significant cultural differences and in the first two years after the merger these tended to overshadow other differences in business processes and procedures. At this point EnF joined the LSE Complexity Group project. The research findings showed that national cultural differences were not a significant issue, but other areas that impacted on the relationship with the AcqC did need more urgent attention.

Eighteen months into the project, the relationship between the parent and the AcqC had improved and the new company had increased its market share. The integration process in EnF was much more successful than in SSF, partly due to the recognition of a problem early on and an attempt to correctly identify and remedy the situation.

***'Designing'* A New Integrated Organisation**

SSF company was good at mergers, had gone through several and the current one was considered *"a good fit - a good mix of business and financial strength"*. They were acknowledged by the market to be excellent at pre-merger planning, however they made two serious errors. They assumed that integration was merely a matter of good planning and that once they had appointed the integrated Board and the heads of the support functions, all else would automatically follow. They also assumed that the integration process to create the new organisation could be designed in detail in advance.

> *"They actually announced the new Board of each of the business units. ... So effectively you've done the integration because you've made all the difficult decisions."*
> *"So work starts on integration the second the announcement happens, and you come together as teams almost as soon as that's happened. These are the support functions of HR, Finance, etc. We let the rest of the business run on. So the support functions actually work together to design the processes."*

Organisations often assume that it is possible to 'design' an organisation in the same way that engineers can design a new product, but this is an erroneous assumption and the repeated failure of organisational restructuring and of M&As to create a successful new integrated organisation, provide significant evidence that a different approach is required.

Human systems are complex and are fundamentally different from machine-type systems. Human behaviour is not predictable and people are capable of changing their rules of interaction, thus changing expected outcomes. They are able to *self-organise*, to influence each other and be influenced in turn, and this reciprocal influence can change ideas, behaviour, ways of thinking, working and relating - that is, humans are able to *co-evolve*, to self-organise and to *create something new that is emergent* in the sense that it could not have been predicted at the outset. They create intricate *networks of relationships* sustained through communication and other forms of *feedback*, with varying degrees of *inter-dependence*. Although heavily influenced by their history and culture they can transcend both when necessary. When they meet a constraint they are able to explore the *space of possibilities* and find a different way of doing things, i.e. they are creative and innovative. (The principles of complex evolving systems shown in italics are discussed in Mitleton-Kelly 2003b)

To create a new organisation successfully the thinking needs to move away from the machine paradigm - organisations cannot be designed in detail, in advance. What they do need, however, is a *clear vision and direction*. In addition they need **an enabling infrastructure,** that is, **a framework of social, cultural, technical, economic and political conditions that will help them achieve that vision.** An enabling framework provides a new approach to 'designing' organisations, based on the theory of complexity.

The logic is that organisations need to grow organically; they need to explore alternatives and find the most appropriate ways of working suitable to the task; this is not an argument for total lack of structure or accountability or leadership. All those are necessary, but structure has to start as an outline that is then allowed to evolve into that which is required and necessary. Organisations, both in the private and public sectors that have adopted this approach find that individual responsibility increases to a significant degree and accountability becomes clearer and stronger. They also find that they develop true distributed leadership, as everyone is a responsible agent working towards a shared vision, exploring possibilities and taking initiatives that nevertheless fit well into the overall strategic direction. They achieve this through a strong network of relationships and peer support (rather than pressure).

The official 'leader' then becomes a person who holds that space for them, negotiates with other stakeholders and is free to scan the horizon for new patterns and to influence the overall direction.

Two years after the merger, however, SSF had no clear vision to give direction and to create a sense of identity and coherence, just a sense of fragmentation *"Our culture is very fragmented, both within business units and across the group."* Part of the reason was that the original business had not integrated - they had not become one new business *"What we've got is two bolted together businesses"*.

This lack of integration into a coherent whole is not unusual after a merger or acquisition. The original firms try to maintain their old identity and there is a constant struggle to impose ways of working, procedures, etc onto the other. Instead of conflict and imposition, complexity would argue for the notion of *'co-evolutionary integration'*. That is, the coming together of two or more separate companies to create a new organisation. An apt simile here is that the new organisation is like a child. It inherits certain characteristics from each parent but has its own distinct identity. If the merged organisations had that objective in view, then the way they approached post-merger integration would be more positive and creative.

Despite the lack of integration in SSF, there was a sense of pride in the company's position in the market place *"It is great to be part of the largest company in our industry."* There was also an awareness that they needed to create some kind of enabling infrastructure to support the change and to facilitate communication and the sharing of values. But these ideas were voiced by middle managers who did not have the power to influence Board decisions but who did nevertheless influence their local area of operations.

> *"We're trying to generate a framework, an infrastructure that can disseminate this information and support people in defining what the values mean in their areas."*

They were aware that they needed a coherent culture but they were not clear what kind of culture they wanted. They again talked about creating a culture in the same naive and mechanistic way that they thought about the design of the organisation.

> *"What behaviours do we want?"*
> *"We need clarity on end goal or we could be wasting a lot of time and resource."*

In a more insightful way they were also aware that this did not mean *"necessarily a uniform culture"* and someone actually raised the profound question "*What do we want to be? To do?"*

Another mistaken assumption is that a coherent culture is the same as a uniform or homogeneous culture. But this is not necessarily the case. A resilient organisation needs to be able to accommodate several heterogeneous cultures, provided that there is overall coherence that provides unity of purpose and/or values. As will be illustrated by EnF diversity does not need to be a problem, but can be built upon to strengthen the new organisation.

Communication

This was an area that attracted conflicting comments. Some were very critical, which if addressed, could become powerful enablers. While others illustrated how communication was already acting as an enabler.

Some of the critical comments referred to 'the strategy cascade' and SSF was said to be *"not good"* at communicating the strategy, of discussing it and clarifying it. *"I think the communication ... is not particularly good. I don't think the leaders play an active role."* The leaders did not play an active role, but this reflected an overall weakness in sharing knowledge: "*As a group, my view is we are spectacularly bad at knowledge management."*

One of the themes that emerged was that there was a lot of unnecessary formality, with much emphasis on formal structures rather than on reflection about the business. In an uncertain organisational environment formality and the following of well-established procedures, is seen as the safe way to proceed. Another theme was that the new business was fire-fighting all the time and not enough time was spent on looking at context. Overall there was little time for reflection and this was an indicator of the manic activity that permeated the organisation.

Communication upwards was constrained, possibly due to fear or lack of trust. The CEO did try a suggestion channel called 'tell Harry' (a pseudonym) and an open door policy, but this wasn't entirely successful because the fear was too embedded *"that doesn't work necessarily very well because staff here, still think that to speak your mind might be held against you and I don't really know how you break down that barrier, because we've got a blaming organisation."* The sense of blame, of fear, of lack of trust had permeated the organisation and some traded on that fear to build their own power base.

The CEO also led lunchtime communication sessions, which were viewed as positive and an enabler to greater clarity and team building. Furthermore an HR team was experimenting with facilitating conditions such as room format, music, etc. for the sessions to make them more appealing. There were two sessions once a month of 1.5 hrs each open to all, and attendance was voluntary. These were successful in so far as they attracted a good number of participants, but the effect on the culture was still very limited. Partly because the willingness to be open and to communicate was not shared by the rest of the management team *"Haven't got any feedback loops breaking through the levels ... they've not got a shared agreement about what they are delivering. The CEO is very, very clear about what he wants delivering and then as soon as you get below him, I hear conflicting messages which worries me."*

Furthermore there was a strong perception that two years after the merger, the Executive team was not working together effectively *"We're from excellent to poor and I think that, again, that's one of the consequences ... there hasn't been a pulling in together".* The initial idea therefore, that appointing an integrated executive team early, would solve the problem of integration, had not materialised. To overcome the problem they appointed a new CEO, and as indicated above he was trying very hard to open the channels of communication. But the attempt was only partially successful because it was too top-down and because his Executive team did not share his aspirations and did not work well together - that is, they reflected the fragmented culture of the rest of the organisation.

In addition there was not enough attention paid to the 'people issues', defined by one interviewee as *"people and direction and leadership"*, after the merger. Initially, during the merger and for those leaving, conditions were good, but it was felt that now efforts needed to be concentrated on those staying, with more emphasis on personal development, as training and development budgets were often cut - *"Will we invest in the capability of our people?"* The perception was that there were good development programmes for senior staff but not so good for junior staff.

Making Change Happen

Organisations that have gone through a merger have to spend a great deal of time and effort on the integration process. Both organisations have to change, to create the new integrated organisation. The mistake is to assume that this degree of change can be determined by careful planning. Not that planning is unnecessary; simply that it is not sufficient. What is required, in addition to thoughtful planning, is an environment that encourages and facilitates exploration of the space of possibilities, i.e. exploring alternative ways of working that are appropriate to the needs of the new organisation. To do this there has to be a significant degree of self-organisation, to allow individuals to come together without external direction to experiment with new ideas, and new ways of working.

Facilitating self-organisation, exploration of the space of possibilities and emergence, is the key to creativity and innovation. It is also a prerequisite for co-evolution. A successful merger is in essence a successful attempt at *co-evolutionary integration* -

when the partners influence each other in a reciprocal way (not one-way imposition), experiment and find the best way of working together. In SSF there was little evidence of self-organisation and exploration - there were two possible reasons for this: (a) fear of failure and its effect on one's career and (b) a control mentality that saw experimentation as dangerous. In part there was a risk if advice given to the public was inaccurate or a new product was not sound; but these risks could be contained. The error was in assuming that this risk applied equally to the development of different ways of working and to the building of relationships. The perception of risk was also associated with the lack of standards. It was true that there were duplicate systems and sets of procedures - but these were a result of tight control rather than experimentation.

Self-organisation was not totally absent in SSF, but there was a noticeable division between those who felt able to self-organise and those who felt serious constraints. Senior managers were seen as being good at self-organisation, because they had the space, the authority and the power to act independently, but this did not appear to be the case for the rest.

Junior staff tended to use a formal approach to present new ideas. They feared that they would be turned down and therefore needed to seek approval. The size of the merged organisation did not help.

> *"The bigger we've got, the more formal it's had to become, because there are more people bidding for that very same resource The smaller you are, the less formal it is."*

Although some enlightened senior managers wished to encourage self-organisation, it did not happen. *"We've nearly got ourselves into a spoon feeding type approach, if it doesn't come from senior management, we're not going to do it, rather than well why don't you just do it anyway?"*

The reluctance of staff to self-organise was possibly due to the following reasons:

a. Lack of clarity on roles, responsibilities and objectives.

b. Decisions were pushed upwards because they did not feel comfortable in making them, as their boundaries of authority were unclear.

c. All changes were perceived as needing approval.

d. The organisation seemed to prefer a structured disciplined approach.

Focus and Leadership

One of the main themes was that too many projects were claiming equal high-level priority and all were competing for limited resources, time, funding and energy. Many interviewees appeared exhausted with the constant battle to meet so many high priority deadlines. *"We try to do too much all the time, constantly failing." "We have so many projects clambering for resources at the moment.* ***All the projects are classed as priority one*** *and so it's difficult to know what to work on first."* Overall there had been just too much change and they were suffering from change-fatigue *"they are punch drunk from all the change";* with the corollary that it was difficult to believe that the transformation would take place.

This was indicative of the lack of direction and focus. They needed clarity to help them concentrate their efforts on the important issues: *"We potentially set out to try* *and do too much too soon in our merger, possibly not the right things first."* They also felt the lack of leadership: *"They desperately need vision, but they need leadership to go with it to lead them out of where they are."* The workforce was in effect rendered unable to help itself, so they needed *" to be shown the way out"*. But leadership was not readily available as the Executive team was not *"knitted together"* and did not have a *"consensus view"*.

Weak leadership coupled with a controlling attitude, lack of a clear vision and direction, all contributed to becoming a dysfunctional organisation. Yet when the merger took place the companies involved did not suffer from these shortcomings. Size did make a difference in the sense that systems, processes, structures, procedures, etc did not easily scale up; there was also much duplication and no clear idea of how to integrate the duplicated systems quickly and effectively. These issues were not unique to SSF, but are common in M&A failures. The overwhelming need to grow, to become a global player, to become the industry leader, or simply to increase the organisation's or the individual's power base, become drivers for their own sake and push all other consideration aside.

A complexity perspective on the other hand would take a more holistic view and look at all the conditions necessary for a successful merger or acquisition. Apart from the financial and legal dimensions there are also the social, the cultural, the technical and the political dimensions that need to be taken into account. Each plays an important role in the social ecosystem of the organisation and influences all the others, while the ecosystem influences individual parts. The whole co-evolves and creates new order.

Integration Across National Cultures

Company EnF acquired an organisation made up of small firms that had already gone through a series of mergers and acquisitions, in a different but related market to its main operations. The parent company was primarily a UK organisation while the acquired company (AcqC) was distributed throughout Scandinavia.

The parent company was in a market that demanded extremely high quality and safety, while the products of the dependent company were not in the same category. Applying the same procedures was inappropriate and in due course started affecting the innovative response of AcqC. Had this continued it could have had serious implications for the entire organisation. AcqC at the time of the acquisition was a leader in its field and that position was due to its relationships with its customers and its quick response to their changing requirements. The new procedures made that response very much slower and were beginning to affect AcqC's relationship with its customers. In addition, the parent company had imposed a matrix structure that was confusing and difficult to work.

EnF was very much aware that there was an integration problem, seen in terms of the different national cultures. At a Conference in 2002 they identified *'awareness of cultural differences'* as one of two main issues to focus upon. The other was clarification of roles and responsibilities. The HR Director in EnF was tasked with addressing the two issues, but did not know how to go about it. The LSE research project had just started and some initial findings were presented to EnF. At that meeting the HR Director asked the LSE research team to work on the integration issues. As this was a *collaborative action research project*, 14 members of the parent company and the AcqC, joined the LSE research team. Together they formed four teams and interviewed the top three management layers in the Nordic countries, the UK and the USA. The EnF teams were guided by the LSE research team in conducting semi-structured interviews and in analysing the findings from the transcripts.

At a 2-day workshop the four teams identified a set of common themes, dilemmas, key questions and underlying assumptions. A set of recommendations, based on the findings, was presented to the Executive Board and adopted. The interview findings were supported by a tool called 'Landscape of the Mind' (LoM), which identifies preferences in decision-making, knowledge acquisition and sharing, etc. The majority of the top team had answered the LoM email questionnaire and the results were quite surprising. They showed that there was no significant difference in the preference profiles of the Nordic and the UK teams, hence many of the problems associated with the national cultural differences were more apparent than real.

Apart from the interviews, LoM findings, workshop and Board meeting, the LSE Group also attended meetings, conferences and joint presentations. In addition a second set of interviews was conducted with the high flyer team that had acted as interviewers and an agent-based model was built based on an email questionnaire.

The findings showed that the national cultures issue had become a smoke screen that was used to hide all the other difficult issues that were impacting the relationship between the parent company and AcqC. Eight overarching themes were identified at the 2-day workshop, and cultures was only one of them:

1. Complicated structure
2. Human behaviours
3. Relationships
4. Cultures
5. Communication
6. Matrix interfaces
7. Leadership/role of central team/management
8. Identity

Matrix Structure and New Product Development

The complicated structure was associated with the matrix organisation. This was something that the parent had imposed on the AcqC - the latter had been a set of small firms with simple business models and a shallow hierarchy. Everyone knew everyone else, as they were often part of the same small community with one or two main employers. The AcqC firms built relationships both within the firm and outside with their customers. They had a large global customer base while the parent had very few, but large customers. The matrix was relatively new for both parent and AcqC and no one knew precisely how to operate within it. The parent, however, was already used to a fairly complicated structure as part of a large organisation, they also introduced the matrix rather than having it imposed upon them, hence the psychology and the dynamics were quite different. For the AcqC on the other hand the changes were significant. They had gone through 2-3 mergers and acquisitions in a relatively short time, they had as a parent a very well known organisation, but one which operated in a totally different market sector and was not familiar with AcqC's market. The parent brand in fact was seen as a constraint for the AcqC not an advantage.

The matrix was so complicated that it can only be described as a cube. It was not surprising therefore that the second issue identified by the 2002 Conference was *'clarification of roles and responsibilities'*. The fuzzy boundaries of responsibility and accountability, the multiple reporting lines, etc were uncomfortable and confusing for an engineering culture that prefers clear, unambiguous structures. For the AcqC it was even more difficult as their previous business model and structure was relatively simple, clear and unambiguous. However, in due course some of the AcqC's senior managers learnt that the best way to *'work the matrix'* was through good informal networking. One interesting and uncharacteristic insight into the matrix was that it would *"produce leaders who are comfortable with change and complexity"*. Another point was that there were *"no cross functional activities"* and that they needed *"real not virtual teams, with a physical focal point e.g. war room"*

EnF acknowledged that working the matrix was a problem and that it affected its relationship with AcqC and one of the recommendations accepted by the Board and implemented was the need to define the desirable characteristics and behaviours for a matrix, and to provide training and support for working in a matrix. Furthermore it developed programmes and events to facilitate informal networks, develop trust and foster loyalty to different groups.

Another issue associated with the complicated structure was new product development. Prior to the introduction of the matrix the location of product development was quite clear for both parent and AcqC. Those who interfaced with the customer brought back ideas and requests about the development of the product and these were directly implemented. But when the customer facing business units were separated from the operating business units, the responsibility *(factory or marketing?)* and location of product development became confused *"team responsibilities have been split to detriment of the ability to meet market demands"*. In addition customers were confused, as they no longer knew who their main contact person was. This was a serious issue for the AcqC as they had built their reputation with their worldwide customers on their quick response rate and innovative approach. But post acquisition ideas for product development had to be submitted to head office in the UK, signed off, counter-signed, etc and the process became cumbersome and slow and innovation was in danger of being seriously compromised. When this point was made to the Board by the LSE team Director, they were surprised and taken aback, but then realised the potential damage of this procedure and implemented the following actions, giving them a high priority.

The product development process was clarified for the businesses; and a 'Customer Focus' programme was developed with a consistent account management process to facilitate the relationship between the customer and the business.

Relationships, Culture and Communication

The 'human behaviours' and 'relationships' themes produced the most voluminous comments at the 2-day Workshop. The main points relating to the relationship between parent and AcqC were the following. Both sides were seen as having hidden agendas. The parent suspected the AcqC of sticking to the old structures and trying to preserve their old relationship with their customers; that they gave too much emphasis to their small entity interests over those of the group; that knowledge was power and people did not want to share their knowledge. On the other hand, the AcqC suspected the parent of having a hidden agenda because of lack of transparency and open communication; they also feared that they planned to close them down, hence creating mass unemployment in their small communities, as they were seen not to share the same culture of community. Both were inaccurate on the whole and once they were voiced, it was much easier to address them.

One of the main insights on the national cultures theme was that *"awareness of national cultural differences may not be enough"* and that this was *"not a national culture problem* <u>*but*</u> *a business culture problem"*. The national cultures issue was seen both as a *"stumbling block"* and as a *"smoke screen"* hiding other issues such as lack of empowerment and *"lack of confidence to put the right person in the right job for fear of cultural faux pas"*. It was recognised that there were business sub cultures even within the parent with *"cultural differences in doing business"* and *"cultural differences in communications"*. Regarding the parent and the AcqC *"customer relationships were affected by different styles of doing business"*. The imposition of ways of working was recognised, in particular that the parent culture of corporate governance plus self protection did lead to a detailed and lengthy decision making process.

Culture and communication were seen as going *"hand in hand"* and that national styles did affect customer relationships. The inadequate and multiple information systems of the group were not fully integrated and that was another constraint to communication.

Leadership, Role of Central Team, Management

One of the main findings from the workshop was that middle management lacked drive and created an impermeable layer between middle and senior management *"senior management understands the strategy but the message is lost in the levels below"*. People were evading the matrix not operating it and they exploited grey areas for personal benefit. They also used the *"confusion of the matrix"* to excuse non-delivery. The Central team was criticised for not explaining why they request information, while themselves not providing information in the best way. This created the perception that *"people feel that they lack full information"*. It was also acknowledged that the centralised reporting regime was overdone and was based on the parent requirements that were inappropriate for the AcqC.

EnF took these findings very seriously and implemented a whole series of action streams. They put in place a Leadership programme to develop business leaders and managers. They simplified and reduced management reporting requirements. Finally they now aim to clarify the strategy process, and to communicate it by making it relevant locally. Organisational changes in structure, roles and interfaces are being communicated in a variety of ways including several articles in the in-house journal. They are also trying to develop more effective ways of sharing knowledge.

EnF Success

Fifteen months after the 2-day Workshop, which identified the real underlying issues, most of the recommendations have been implemented. The Board listened and took action and the parent company co-created an enabling framework with the AcqC to facilitate integration. The framework consisted of 12 action streams and these were outlined above. But prior to that the HR Director had the vision to work collaboratively with a research team and to try out a different way of thinking based on complexity. In addition he appointed a Project Manager whose dedicated efforts and management style made the project a success and EnF is on the way of actually creating a culture of co-evolutionary integration.

By opening up again the product development process they enabled self-organisation by the local teams and the exploration of the space of possibilities and facilitated creativity and innovation. They have relaxed their rigid structure and have enabled emergence without risk. They have acknowledged the importance of connectivity and have worked hard to improve the relationships between the parent and the AcqC. They have improved their feedback and communication processes and opened up new channels. They have understood the subtle balance of interdependence and have learned to co-evolve through reciprocal influence between the parent and the AcqC. They have done this by honouring the differences between them and by seeing diversity as a strength to build upon, not as a weakness.

Summary: Enablers of Integration Post M&A

The two case studies moved in the opposite direction, each beginning at a different starting point. SSF's merger started well but deteriorated when not enough attention was given to social and cultural integration. The two sets of employees were not given the space to explore the new relationships and to experiment with new local micro-structures. SSF made the mistake of assuming that integration would happen in the absence of an enabling environment. The senior management team was so taken up with its own power struggles and agendas, that they engendered an environment of fear and blame, which constrained the exploration of new ideas, of different ways of working and relating and the spontaneous coming together of new groups to explore the new; i.e. they inhibited self-organisation, the exploration of the space of possibilities and consequently the emergence of new order or in this case of a new integrated post-merger organisation.

EnF on the other hand started with the belief that national cultural diversity was a serious problem. But they were prepared to experiment and to try out a new approach. When the evidence was presented that the perception of the problem was inaccurate, they re-focused on the other deeper issues uncovered by the collaborative research process and addressed them fully. This however did not mean that they ignored their cultural differences. But by addressing them in the first instance they reduced the problem considerably and they continued to work to improve relationships. This reflected their belief that relationships mattered. The Conference had articulated that belief by identifying cultural awareness and roles and responsibilities as the key issues. The main difference was that they were no longer hiding behind a single simplistic explanation, but acknowledged the complex nature of the underlying issues.

Following is a summary of the key findings both from the merger and the acquisition, as both addressed the challenge of post-M&A integration:

- Clear and well communicated vision and direction
- Strong sense of identity (not uniformity but an overall sense of coherence that accommodates diversity)
- A leader who 'holds the space', articulates the vision and direction, identifies emergent new patterns quickly and develops partnerships/networks/alliances
- Distributed leadership and distributed power
- Effective and timely communication of the process; the reasoning behind it and the benefits and successes to be gained
- Regular updates on progress
- Key successes: *"recognising what we are doing that's good"*
- Gain involvement: open to everybody, so they feel part of the change process
- Time for reflection not just constantly fire-fighting
- An evolving business model - there is no single 'right' model

The last point in one sense captures the process and the thinking behind co-evolutionary integration following a merger or acquisition. The business model as well as the culture of the new organisation should be allowed to emerge, not through a detailed design but through the creation of an enabling environment that facilitates the co-creation of a new organisation through co-evolution not imposition. There is also no one correct or optimal model. What may appear as optimal in one set of circumstances will no longer be optimal when those circumstances change, but if the organisation is able to co-evolve with a changing environment then the business model stands a better chance of being appropriate in any current conditions.

If an organisation adopts a complexity perspective then it would (a) actively facilitate, rather than inadvertedly inhibit, the emergence of new ways of working, new relationships and power structures, (b) through enabling infrastructures that facilitate emergence, self-organisation and the exploration of the space of possibilities. It would therefore (c) encourage the self-organisation of local teams and (d) the exploration of alternative ways of working or ideas for new products, or simply a different way of doing things. This of course carries a great deal of responsibility, as the well being of the organisation cannot be jeopardised. (e) The structure of such an organisation would be neither too organised nor too random (e.g. a kind of fuzzy matrix); and (f) the power structure would favour distributed power (g) acknowledging the value of distributed intelligence and knowledge throughout the organisation. In addition such an organisation would (h) value variability and the consequent large repertoire of responses through diversity in people, cultures, products, markets, etc.; (i) it would understand connectivity and interdependence and that generative relationships foster a collaborative culture that (j) is likely to co-evolve and co-create a new responsive organisation that would enable it to cope in unpredictable environments and to achieve co-evolutionary integration.

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