

White Paper

Management Compatibility Making Mergers Work

Management Compatibility is probably the single most important influence on M & A success or failure. But extensive research into M&A situations indicates that while elements such as channels, technologies, distribution systems, etc. are often compatible, the way managers in different organisations operate is frequently at odds. And where merged groups operate significantly differently the results are increased cost, low staff retention, deteriorating market share and general performance decline.

Professor Robin Stuart-Kotze
Senior Advisor

Introduction

Most failed M&As cite incompatibility in their management teams as being a major contributor to failure – think of DaimlerChrysler and you have a worst case scenario.

Conversely, massive benefits can be realised through positive management interaction and by teams working well together – which is why a little time spent understanding team compatibilities in M&A organisations pays dividends.

The Behaviour Questionnaire™ is a diagnostic scan that can be applied quickly and simply to 'map' organisation compatibility– providing clear, quantified comparative feedback of how and where teams will work well together, and where they won't; where value adding behaviours are being demonstrated, and where they aren't.

This document shows examples of how this information can be simply and easily obtained, and the power of the insights it provides.

Mapping Management Compatibility

This document is an abridged example of a pilot study analysis (completed in four weeks) requested by a client organisation wishing to scope the degree of difficulty of integrating its management with the management of an acquired competitor. Using data gathered from a representative sample of managers in the two companies, the results provide a fair assessment of the degree to which the management of the two companies and their separate business units can be successfully integrated.

The Situation

- A professional services company (company A) acquiring a competitor (company B)
- The principal objective of the acquisition is to increase market share
- A secondary objective is to achieve cost reduction through economies of scale.

The Task

- To identify the problems/ opportunities of integrating the management teams of companies A and B
- To estimate costs in terms of time, resources and cash expenditure
- To identify areas of management synergy and potential synergy
- To identify areas of management conflict and potential conflict
- To map required changes for successful integration

The Outputs

1. Mapping the behaviour of managers in the two companies:
 - creating a detailed map of how each individual and work unit is behaving
 - identifying where managers are
 - accelerating company performance
 - sustaining company performance
 - blocking company performance
2. Pinpointing areas of management synergy and potential synergy
 - identifying where management integration will prove cost effective
 - identifying where to begin the integration process to create positive momentum
3. Pinpointing areas of management conflict and potential conflict
 - identifying where management values and behaviour clash
 - identifying where preventive action must be taken
4. Measuring individuals' and groups' propensity/ inclination to change
 - identifying the likely change adopters and likely change resisters
5. Identifying necessary behavioural changes for successful management integration
 - who, where, what, and to what degree

The Case Study

The Process Steps

1. Agreeing depth of the analysis with client
 - deciding the extent of the data collection
 - who, where, how many people
2. Gathering base data from selected managers
 - what managers in the two firms are doing
 - whether they are accelerating, sustaining or blocking corporate performance
 - where this occurs in the organisations – level, division, function
 - their specific dominant behaviours (how they manage)
 - their management styles
 - their propensity/ willingness to change

Data is collected in one week through the application of an electronic questionnaire¹. Selected managers are required to spend one hour completing the questionnaire.

3. Analysis of compatibility/ incompatibility of managers in Co. A and Co. B
 - by division, function, level, work group and individual
 - style of management
 - dominant behaviour
 - goals and objectives
 - core values
4. Identification of areas of management conflict / potential conflict
5. Identification of areas of management synergy / potential synergy
6. Estimated cost effectiveness of management integration area by area

Scope of the Analysis

- 79 managers in Company "A"
- 60 managers in Company "B"

Drawn from 4 levels:

- Level 1 – executive committee
- Level 2 – divisional and function heads
- Level 3 – senior managers.
- Level 4 – middle managers

Drawn from 4 Divisions

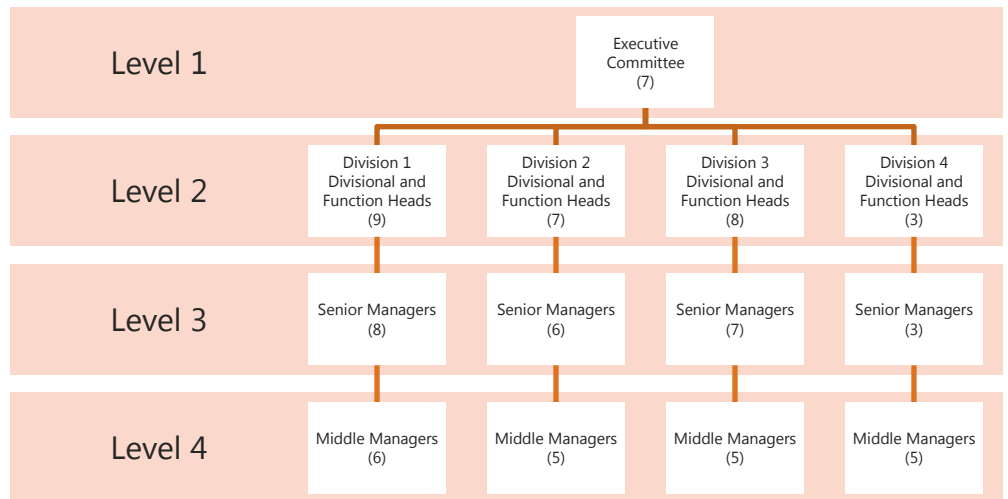
See overleaf for organisation charts of Company A and Company B.

¹ Note: The Behaviour Questionnaire has been developed and used over 25+ years and been used by more than 10,000 managers in a wide range of industries and organisations around the globe. Its results have very high reliability and validity as demonstrated by independent research (data available on request).

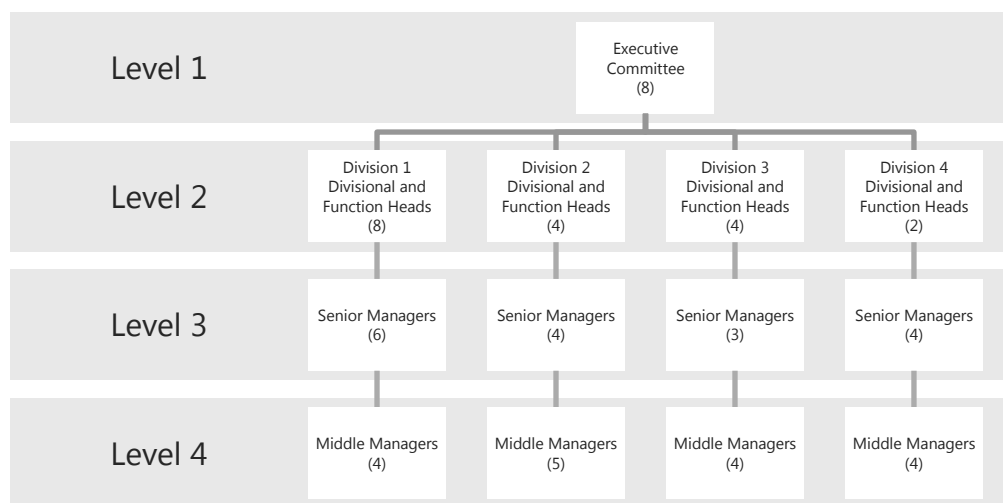
Compatibility of Management Company A and B

The numbers in brackets in the organisation charts show the number of managers in each category from which diagnostic data was collected. With the exception of Level 1 (Executive Committee) where 100% of managers were included, a representative sample of managers was chosen to participate in the analysis from each level and from each division in the two companies.

Company A

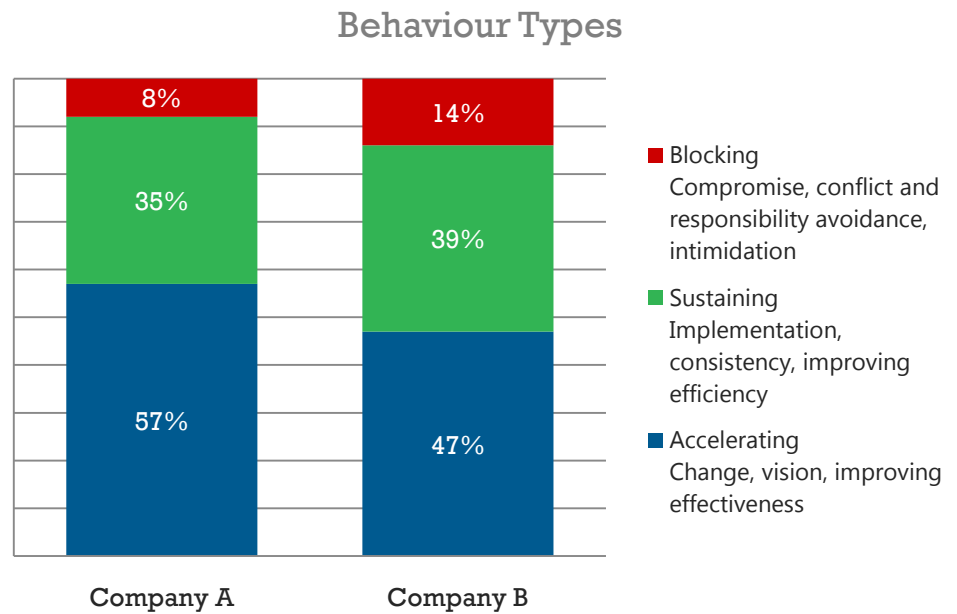


Company B



Comparative focus on Behaviour Types

We looked at the comparative focus on Accelerating, Sustaining and Blocking behaviours, which are shown in the chart



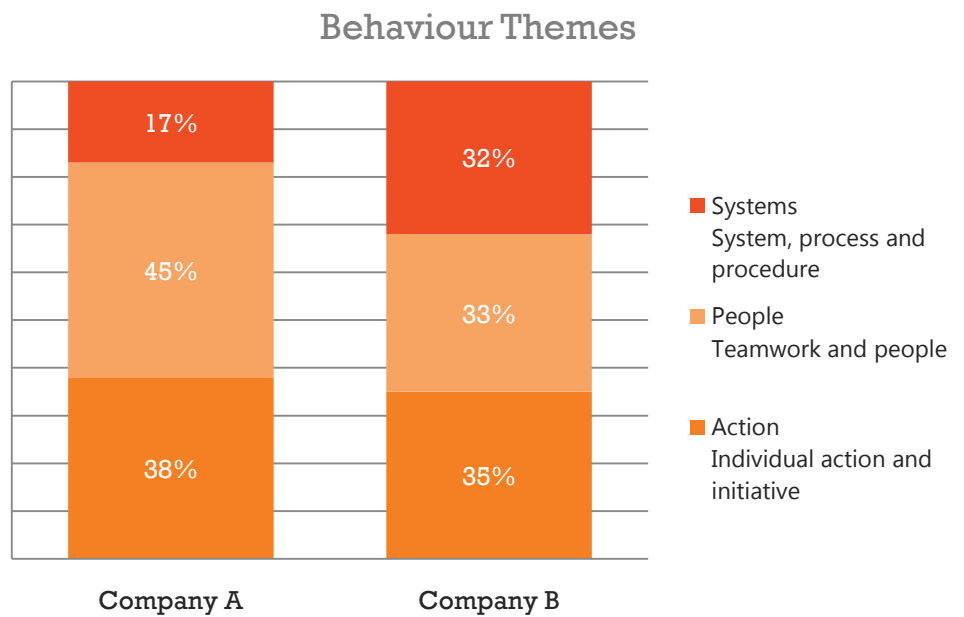
Overall, Company A's managers focus more of their energy on change, vision and improving effectiveness. These types of behaviours **accelerate** company performance.

Company B's managers focus more attention on implementation, consistency and improving efficiency. These types of behaviours **sustain** company performance.

Company B's managers engage significantly more in behaviours characterised by compromise, avoidance of responsibility and conflict, and intimidation. These types of behaviours **block** company performance.

Comparative Focus on themes

We looked at the comparative focus on Themes of the behaviours, which are shown in the chart below:



Overall, Company A's management shows a greater focus on teamwork and people.

Company B's managers focus their actions significantly more on system, process and procedure.

Already potential sources of conflict are surfacing, as Company B's management is seen to be less vision and change driven, more system and process driven, and engaging in a significant amount of performance blocking behaviour.

Comparison of Dominant Behaviour

Eclipse M&A Monitor identifies and measures approximately 400 specific management behaviours. By aggregating data from the individuals in Company A and Company B we are able to identify the particular dominant behaviours exhibited by each of their managements. These are ranked from 1-400 on the basis of the degree to which managers can be observed displaying them.

From the table below it can be clearly seen that:

Focusing on specific results, treating people fairly; making sure people get the resources they need to do their jobs; finishing tasks regardless of problems; consistently reviewing and clarifying objectives with people and concentrating on priorities

are common behaviours shared by both management teams. But

giving people the authority to change the way they do things; driving decision levels downward as much as possible; encouraging people to manage their own careers and trying to create a team spirit

are seldom observed behaviours in Company B.

Note: Research indicates that a company's dominant culture is explained by the twenty or so most frequently observed behaviours of its managers. Behaviours ranking below 60 are relatively seldom observed.

The table below shows Company A's top 20 behaviours – i.e. the twenty specific actions that are most prevalent among managers in Company A. It also shows where these behaviours rank in Company B.

Dominant Behaviours – Top 20 (1-20)	Ranking in Company B
Company A	
1. Take a clear position on issues	21-40
2. Encourage people to accept challenges	41-60
3. Focus actions on specific results	1-20
4. Strive to do more than people expect	41-60
5. Make sure people live up to their commitments	41-60
6. Get people to learn from their mistakes	21-40
7. Give people authority to change the way they do things	61-80
8. Drive decision levels downward as much as possible	61-80
9. Encourage people to manage their own careers	61-80
10. Let people get on with things without interference	41-60
11. Try to create a team spirit	61-80
12. Treat people fairly	1-20
13. Support and encourage contributions from everyone	41-60
14. Make sure people get the resources they need to do their jobs	1-20
15. Finish tasks, regardless of problems	1-20
16. Consistently review and clarify objectives with people	1-20
17. Concentrate on the priorities	1-20
18. Cut red tape wherever possible	21-40
19. Always look for the better way to do something	21-40
20. Network extensively	41-60

The next table shows Company B's top 20 behaviours – i.e. the twenty specific actions that are most prevalent among managers in Company B. It also shows where these behaviours rank in Company A

Dominant Behaviours – Top 20 (1-20)	Ranking in
Company B	Company A
Pay close attention to detail	61-80
Demand quality output from everyone	21-40
Finish tasks, regardless of problems	1-20
Consistently review and clarify objectives with people	1-20
Concentrate on the priorities	1-20
Constantly review the progress of tasks	21-40
Make sure the right people are consulted and involved in key decisions	21-40
Try to make procedures helpful rather than obstructive	21-40
Assess the long-term effects of actions	41-60
Try to take a strategic view of the business	41-60
Only reach conclusions after careful analysis	61-80
Make sure people don't deviate from standard process and procedure	61-80
Make a careful assessment of risks	21-40
Try to avoid setting potentially dangerous precedent	61-80
Make sure problems are dealt with consistently	61-80
Focus actions on specific results	1-20
Treat people fairly	1-20
Make sure people get the resources they need to do their jobs	1-20
Make people see the importance of their tasks	21-40
Always try to give assistance when asked	21-40

Once again there is congruence between the two managements on half-a-dozen dominant behaviours.

However, five things which managers in Company B do a great deal – i.e. put great store by – are seen as insignificant by managers in Company A. These are:

paying close attention to detail; only reaching conclusions after careful analysis; making sure people don't deviate from standard process and procedure; trying to avoid setting potentially dangerous precedent; making sure problems are dealt with consistently

This reflects, at a higher level of detail, what the earlier charts indicated. Company B sees detail, process, procedure and consistency as being far more important than Company A does. On the other hand, Company A sees delegation, giving individuals freedom to act, and creating a team spirit as much more important than Company B does.

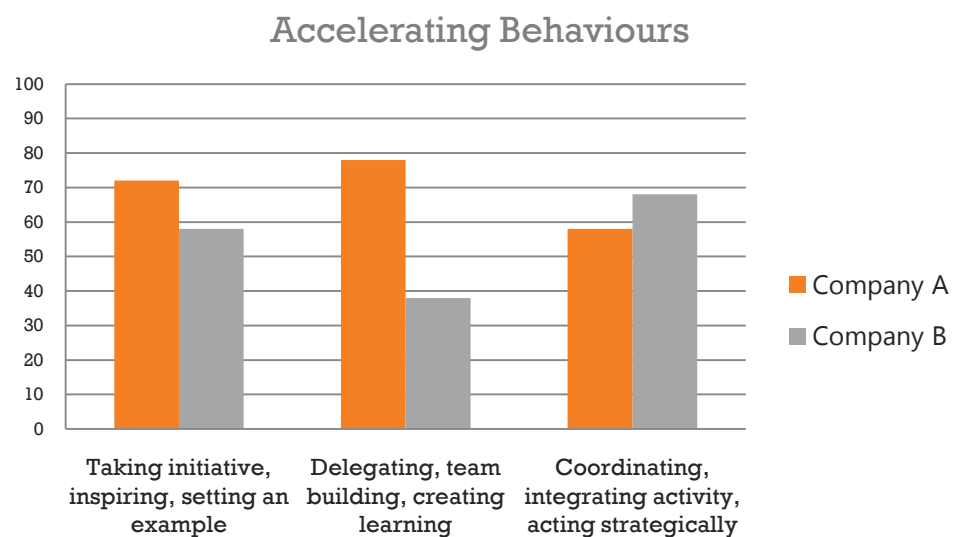
These are areas of potential conflict. Mining the data to examine differences between particular divisions of the companies or between managers at various levels of the hierarchy can identify where these incongruities become problematic.

Comparison of Management Style

Comparison of performance accelerating behaviours

Research has identified a group of behaviours that accelerate corporate performance – i.e. that change things and drive things forward. They can be grouped within three basic management styles:

- Behaviours that involve taking initiative, inspiring people, and setting an example
- Behaviours that involve delegating responsibility, team building, and creating learning
- Behaviours that involve coordinating and integrating activity, and thinking and acting strategically



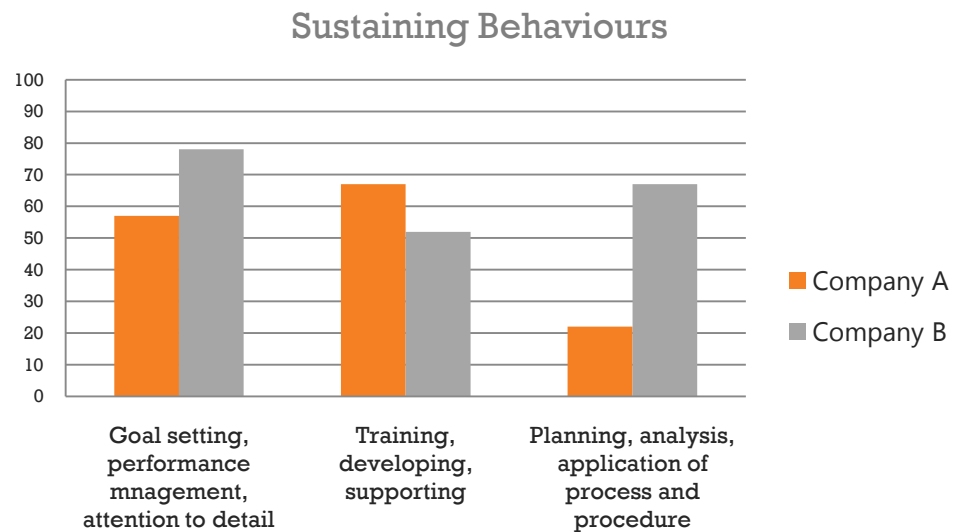
This graph further illuminates some of the differences between the management styles of Company A and Company B.

Managers in Company A are much more likely to take initiative, to set the example, to inspire people and get them excited and committed. They also delegate more, focus on building teams, and help people learn, grow and develop.

Comparison of performance sustaining behaviours

Research has identified a group of behaviours that sustain corporate performance – i.e. that focus on maintaining consistency, on sustaining quality, and on improving efficiency by cutting costs, streamlining systems, etc. They can be grouped within three basic management styles:

- Behaviours that involve setting clear goals, managing performance, and paying attention to detail
- Behaviours that involve training and developing people, ensuring they have necessary skills and resources to do their jobs, and providing help and support.
- Behaviours that involve detailed and careful planning and analysis, and the application of systems, processes and procedures



When we look at performance sustaining behaviour, Company B is seen as placing much greater emphasis on careful planning, detailed analysis, the application of process, procedure and system. It also places higher value on setting shorter-term goals and objectives and monitoring performance against them.

Managers in Company B place greater emphasis on attention to detail than their counterparts in Company A.

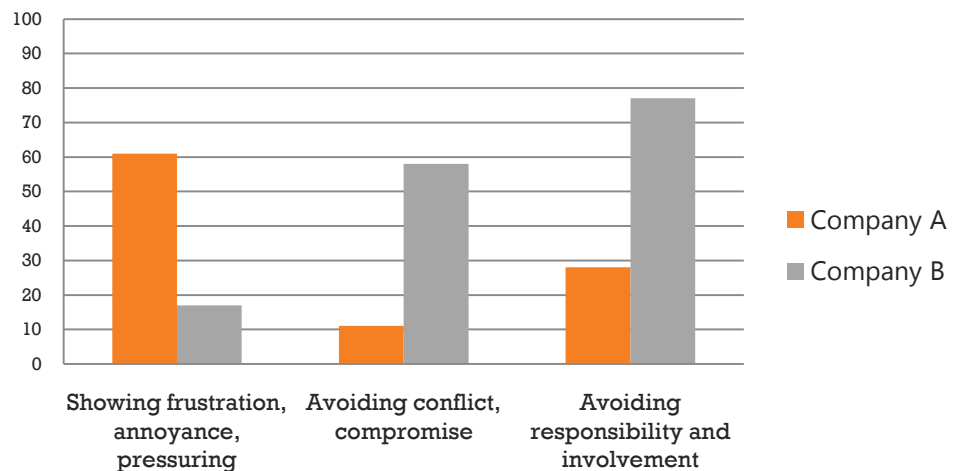
Company B places less emphasis on training and development, and providing help and support to people.

Comparison of performance blocking behaviours

Research has identified a group of behaviours that block corporate performance. The research has also identified the root cause of these behaviours. Performance blocking behaviour is almost always the result of external factors putting stresses and strains on managers, to which they react. They are caused by, and are individuals' reactions to, feelings of frustration, anxiety, perceived threat, and uncertainty. They manifest themselves in three basic forms of behaviour:

- Defensive-aggressive reaction to frustration, annoyance, pressuring, intimidation, loss of temper, veiled threat.
- Avoidance of conflict or argument, uncommitted compromise, appeasement, feigned agreement.
- Avoidance of responsibility and avoidance of involvement

Blocking Behaviours



Earlier in the analysis Company B's management was shown to be diverting 14% of their time, effort and energy in performance blocking behaviour, as compared to Company A's 8%. Longitudinal research over 20 years indicates that in large organisations a level of less than 10% of performance blocking behaviour, while certainly not optimal, is sustainable. A level of 14% is not.

There are three central and important issues concerning performance blocking behaviour.

- **The behaviour is contagious.**

Individuals who vent anger and frustration on others engender resentment which manifests itself, at best in avoidance, and at worst in covert sabotage. Individuals who refuse to make decisions and express “agreement” with whoever exerts pressure on them cause massive frustration among others, as do individuals who avoid taking responsibility and who shy away from becoming involved in important issues. Performance blocking behaviour breeds negative, energy wasting, blocking responses from others.

- **The behaviour is controllable.**

It is important to recognise the difference between personality and behaviour. Personality is extremely difficult, if not impossible, to change. Behaviour is not. Extensive research shows that individuals are able to change their behaviour to adapt to varying situations, almost regardless of their underlying personality. The critical element is recognition of the negative behaviour. Once it is recognised as fact, individuals can explore its causes and either deal with them or deal with their reaction to them. Performance blocking behaviour is not so much an individual issue as it is a situational issue.

- **The behaviour is transformable!**

The amount of energy and activity available to an individual is in a sense finite. One can either put one’s energies and activities to positive use – or not. If one indulges in negative behaviour 20% of the time then that implies that one has “lost” the equivalent opportunity to make positive contributions. However, because the behaviour is controllable, it is also transformable. Blocking behaviour can be transformed into accelerating or sustaining behaviour with relative ease.

Data Mining - more detailed analysis

The data from a Behaviour Questionnaire organisational scan can be mined to increasing levels of detail. The data gathered from Companies A and B has been analysed by:

- hierarchical level
- division
- hierarchical level and division
- individual manager

The stratified sample of managers from Companies A and B is not complete enough to allow analysis by team or work group, but with more comprehensive sampling these comparisons can be made.

An example of a more detailed comparative analysis:

Company A, Division 2, Level 4 with Company B, Division 2, Level 4

Top 20 Dominant Behaviours Company A : Division 2, Level 4	Same behaviour ranked in Company B Division 2, Level 4
Focus actions on specific results	21-40
Strive to do more than people expect	61-80
Make sure people live up to their commitments	21-40
Get people to learn from their mistakes	41-60
Let people get on with things without interference	61-80
Try to create a team spirit	61-80
Treat people fairly	21-40
Support and encourage contributions from everyone	61-80
Make sure people get the resources they need to do their jobs	1-20
Finish tasks, regardless of problems	21-40
Get people to learn from their mistakes	1-20
Expect people to do the best they can	41-60
Give people visible recognition for good work	21-40
Give and accept straight feedback	61-80
Get people to stretch themselves	41-60
Make the difficult decisions	61-80
Provide direction for people	21-40
Create a sense of urgency	81-100
Give people a sense of belonging	61-80
Always complete jobs on time	41-60
Give people frequent feedback on performance	41-60

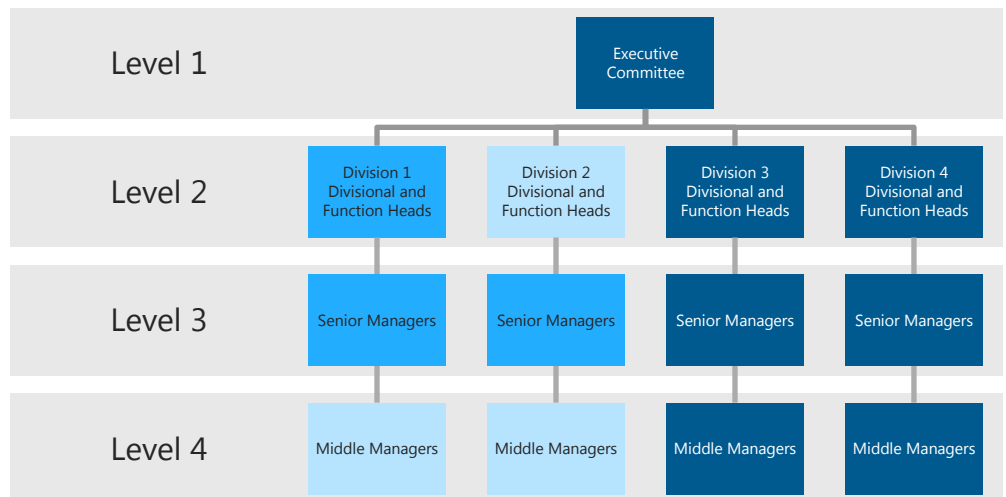
There is high incompatibility between managers at Level 4 of the equivalent divisions of the two companies. This incompatibility, combined with measures showing low propensity to change among the managers sampled indicates difficulty and commensurate high cost in integrating these groups.

(In fact, complete analysis indicates that management at all levels in Division 2 of Company A and Company B are unlikely to be easily or successfully integrated. See the following charts.)

Organisational Merger Compatibility Scan of Company B

Company A having acquired Company B, the assumption is that Company A's culture and behaviour are expected to dominate the merged entity. The organisation chart below shows the degree to which Company B's management is compatible / congruent with their counterparts in Company A – i.e. where management integration will proceed smoothly and where difficulty will occur.

- High compatibility
- Moderate compatibility
- Low compatibility

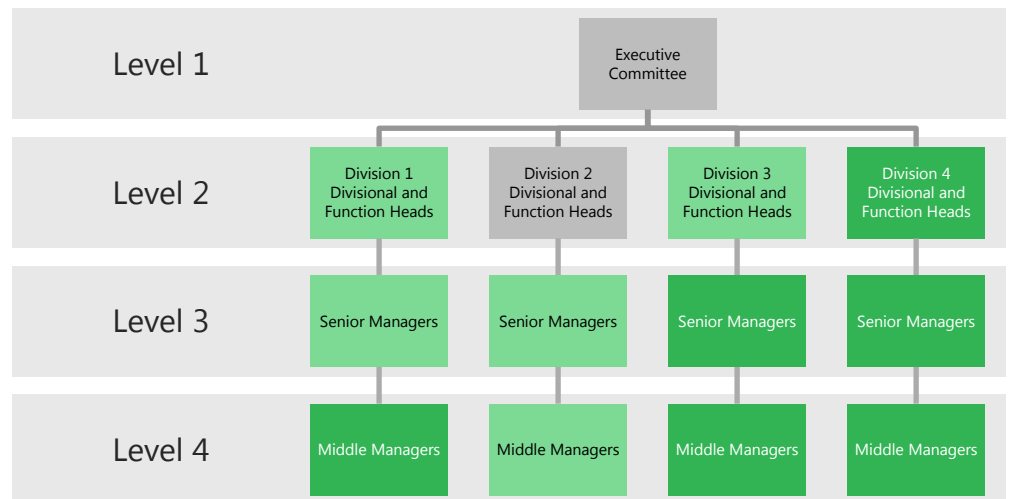


Estimated costs for the successful integration of management in the two companies are derived from the compatibility data summarised in the chart above and the propensity to change data summarised in the chart below and are based on (a) whether adaptation and change is feasible, (b) if so, the amount of time and resource required to bring about necessary behavioural changes, or (c) whether integration is not possible, or at least unwarrantedly costly.

Analysis of Propensity to Change

The Behaviour Questionnaire data is collected at the level of the individual. Analysis of this data produces a Propensity to Change rating. It is a measure of an individual's willingness and ability to change a significant range of behaviour.

- High Propensity to Change
- Moderate Propensity to Change
- Low Propensity to Change



Estimating cost for management integration

The analysis is able to provide an estimate of the cost of management integration of two companies or groups. It does so on the basis of the following data:

- The level of behavioural compatibility/ incompatibility of managers in the two groups
- The level of propensity (willingness/ ability) to change of managers in the two groups
- The estimated time required to bring about specified behaviour change (see below)
- In cases where behaviour is highly incompatible and propensity to change is low – i.e. where integration is unlikely (or is likely to prove disruptive) – the cost of redundancy, based on current salary and seniority.

Identifying specific required behaviour changes for successful management integration

The Behaviour Questionnaire analysis is able to produce a blueprint of specific behaviour changes for every individual involved in an organisational scan. This process requires the collection of an additional level of data which enables the client to benchmark the precise behaviour necessary to manage each specific job most effectively.

The process produces

- a map of the precise behaviour necessary to manage every specified job most effectively
- a map of the incumbent's current behaviour
- a detailed blueprint of the required behaviour change

Note: The Behaviour Questionnaire is able to quantify the level at which a manager exhibits any one of approximately 400 specific behaviours. It does so on a scale of 0 - 10. It is also able to quantify the level at which a specific behaviour is deemed appropriate to manage a job most effectively.

Matching these two outputs produces a quantified, specific, clear blueprint of observable, measurable behaviours to which a manager can commit to achieving over an agreed time period. Re-measurement at the end of the time period ascertains the degree to which the agreed changes have been made and hence provides a system for monitoring the progress of successful management integration.