

Beyond the Deal Newsletter

*Mergers and Acquisitions that
Achieve Breakthrough Gains*

www.beyondthedeal.net

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Quote of the Month:

"Watch the turtle. He only moves forward when he sticks his neck out."

Lew Gerstner

In this Newsletter

This first article is a set of observations from my November trip to Shenzhen, China for a Knowledge Cities Summit and to neighboring Hong Kong. China is engaged in a necessary dynamic to generate enough growth to match its enormous and rapidly expanding population. China is not just growing through low cost production and simply bulking up. It is making a variety of experiments in approach, design and technology to become a more knowledge-based country. This inevitably extends to making cross-border acquisitions geared to gain access to expertise and resources but also significant entry into global markets. Some of these major acquisition forays were rebuffed, more so on a political basis than an economic one. Over time those barriers will lessen, but the tough challenges of how well the various types of Chinese organizations are prepared to follow up with effective integrations will remain. Cultural issues are paramount here (not understating all of the other integration challenges common to any integration) and we will continue to explore them.

The second article is a conversation with Euan Semple, a leading advisor on the design and implementation of social media tools in business. Our conversation expands on social media themes in the

September discussion with Jessica Lipnack. The focus here is on what is practically involved in incorporating social media tools so that new combining organizations can use them to markedly enhance the flow of personal and organizational knowledge during the course of integrating two, often very different, firms. Enabling critical knowledge flow is essential to building the capabilities in the newly combined organization. Using social media tools can dramatically reduce frictions and uncertainties have their own high costs and drag effect, while yielding better informed decisions, speeding the rate of integration processes and raising the quality of the integration.

Coming in January:

The January Newsletter will have a session with Jonathan Low, partner and cofounder of Predictiv LLC, focusing on the topics of assessing the value of intellectual capital assets in acquisitions and integrations and on how to approach developing the a brand strategy for the newly combined organization.

In This Issue:

- **Comments on the trip to Shenzhen China and Hong Kong: The need to understand underpinnings of Chinese Culture in emerging Cross Border Acquisitions**
- **A Conversation with Euan Semple on Uses of Social Media in Integrations**

Visit to Shenzhen, China and Hong Kong: What Does This Enormous Growth Mean for Cross-Border Acquisitions?

The trip to Shenzhen, China in November, 2009 to participate in the 2nd Knowledge Cities Summit and neighboring Hong Kong was more that worthwhile. Shenzhen had been a village of 30,000 people prior to 1980 and is now a city region of 10,000,000 people. The relevance to this newsletter is that Chinese metropolitan regions are scrambling to become knowledge based and international in scope. As that happens there will be a significant growth in the number of cross-border M&A's that take place.

China's historic emphasis on being the low cost producer is decreasing. China is becoming one of the countries with strong

efforts to transformation into being knowledge-based, with its cities in the vanguard of that effort. It is not entirely alone. Other countries, such as Finland, are also taking significant steps to become knowledge based as well. As much as Chinese cities have had explosive growth in the last thirty years, the next decade will be even more telling. Shenzhen is in discussions with Hong Kong to develop joint metropolitan economic zone on their common border, with the goal that the overall region will surpass London, Paris, Chicago and Los Angeles economically by 2020. These plans not only involve domestic companies but also include recruiting major international firms as well. The opportunity for breakthroughs in technology and types of offerings will be remarkable, as will be the breakthroughs in new types of organizational arrangements.

No doubt this rapid expansion will involve acquisitions, strategic alliances, partnering and the like. Yet little attention has yet to be paid to the necessary conditions, processes practices, and values that will be the basis for success in these ventures.

At the Summit, colleague Artie Ng (of The Hong Kong Polytechnic University) and I gave a session on the underappreciated dimension of how ancient Chinese Wisdom is incorporated into the management philosophies that guide actions of Chinese firms, including how they will carry out cross border acquisitions. The attendees at our session were quite struck by our unprecedented effort to take into account dominant Chinese cultural values, versus Western values, in an M&A integration setting. One of our next steps is to develop case studies into the different Chinese businesses types (state owned, family owned and emerging entrepreneurial firms) tend to be culturally influenced in carrying out M&A's and their integrations.

Yes, culture does matter, and understanding the interplay between Chinese and Western values in acquisitions and integrations is fundamental to good outcomes.

Conversation with Euan Semple on Using Social Media Tools to Accelerate Integrations

How Do You Start Using Social Media Tools in An Acquisition Setting?

JC: How can an acquiring company use its social media set up to bring the core capabilities of the acquired company to the surface?

ES: In many instances people are rushing into social media tools. It takes time to build a culture where people feel comfortable enough to

talk meaningfully about the big issues that would be relevant to them in a larger situation. People need to have established trust with each other and be comfortable using what is invariably quite an open system to talk about these sorts of things. Companies also need to have established a scale of use within the organization that makes it representative. If a company were to deploy these social tools in a rush before anticipating a merger, it would risk having a full subset of your organization not getting to important issues. By doing it they could wind up alienating significant parts of the population who have not yet become part of that network.

JC: Should a company start with some form of pilot program?

ES: Most people who have been successful with using these tools have started small and implemented them incrementally. It is better if people discover their advocates and extend by word of mouth from people who have had some success and have benefited from using the tools, who can pass on that enthusiasm to others. I have yet to see instances where a successful social media initiative has come through central senior dictate. People suddenly stop opening up.

JC: Does the company have to find a receptive population and perhaps a champion or two?

ES: Definitely. In the early days you are more likely to be successful by finding out about individuals who are already working these ways on the web outside the organization, or are interested in doing so. You need to find the pioneer population or people with enough pain. If there is enough of a problem, people are willing to consider something radically new. That is another possibility.

Good Questions is the Answer

JC: What would a social media approach for an acquisition/integration look like and how could it work?

ES: It is not only possible but advisable to influence the conversations that take place in these spaces. In my experience, you do that mostly by asking good questions. If there is a situation that is about to arise, such as a merger, you begin to ask questions about how people feel about that. Ask them what their anticipated reactions will be. Ask them how best to make it work. Part of the shift involved in working in this way is that managers, rather than making pronouncements or deciding things in isolation, have the opportunity to manage by being interested, by focusing people to change some things that matter and helping to influence the conversations by asking really good questions.

If you have a population that is used to doing this, you could come in

quite hard with some targeted focused questions. If people are less comfortable and experienced then you probably have to start more gently and a bit more generally.

One of the issues that needs to be dealt with is that you end up with a mixed population, with early adopters who get quite confident and get familiar with each other and adopt the jargon quickly. That can be quite off putting to "newbies" as they are known. An effort has to be made collectively to go out of your way to encourage, welcome and engage those who are less competent. It would be helpful to have a mentoring capability. We had an unofficial mentoring process that operated effectively at the BBC where people would go out of their way to make it easier for new people coming in.

Don't Do This Unless You Take Your People Seriously

JC: What would impede or undermine the effectiveness of using social media in an acquisition setting?

ES: The biggest risk is if people felt it wasn't being taken seriously. If using social media tools is done in a token sort of way, which happens quite a lot, people begin to notice that they are encouraged to say what they think and are given the impression that the process will be a collaborative one but actually the real decisions and real conversations are taking place in a conventional way behind closed doors. Obviously there is a degree that will have to be the case. Nobody is naive about that.

The degree to which the process is seen as engaging and collaborative will determine its success. A lot of the reasons that mergers and acquisitions fail is because nobody took the cultural issues seriously enough. This isn't just nice to have, or some idealistic thing of having everyone involved in every decision. It is more to do with that if you want people to become engaged in the reasons for the change and understand, they have to be allowed to talk about it.

Managers talk about developing a culture and managing community. It is people who establish culture or engage communally. Many, if not most of the tools we have available to us to manage organizations have been pretty blunt instruments in comparison to the subtleties that are involved. The prospect of social tools is to be able to be much more congruent and sophisticated about how you engage people in those kinds of cultural environments.

Most of us inhabit multiple communities or tribes. That is especially true in expert environments involving high level research like pharmaceuticals. People have at least as much connection with other professionals at the same level in other organizations as they do with people in different disciplines and at different levels within their

organization.

In the past managers have tried to tidy up the environment, make it more organized. Now it is beginning to be understood that it is necessary to have the messiness that the social tools engender. You begin to realize that you need to know what is happening as well as what is interesting and to see those as expressions of patterns. You need good tools and good people to discover both weaker and stronger signals in the mess so that you then become more informed as to what is going on.

JC: What are some compatible organizational structures that support that?

ES: A lot of what gets in the way of any organizations is politics and power and simply having these tools does not remove that. The playing field may have changed but many of the rules are the same. However a "small pieces loosely" joined approach seems to make the most sense. Instead of forming large bureaucratic divisions have lots of relatively autonomous teams communicating all the time.

What Is Needed to Make This Happen

JC: What values, technologies, software, etc. need to be in place (that is, the knowledge ecology) so that people are comfortable in using social media and will use it?

ES: Use whatever works. I've watched people pitch the "killer app" or build integrated, shiny knowledge tools but they are have not as successful as they should have been. The churn rate of the new technology is quite high. The latest things are coming along quite fast, much faster than your IT department is used to dealing with. There are a whole host of new issues in managing that, making things rational enough to get value out of them without getting stuck with them once they become old. Through experience, the predictability of which tools will work for which people is not clear. We had a situation at the BBC where you we had one technology that initially did not click but suddenly six months later it suddenly began to take off.

In going back to the ecology idea, the thing is to have a variety of tools, try them in different circumstances and see which takes and which develop faster and better. Rather than trying to upfront plan everything that you are going to do. It is made easier by the fact that these tools are relatively cheap. There is also the possibility for people to do things outside their firewall to begin with. Part of what is behind the emergence of cloud technology is that this technology makes it possible to do things without jumping through all of the hoops currently necessary in our constrained IT environment.

Having a range of options that are relatively low cost enables you to migrate without too much pain. That kind of approach is more likely to succeed.

Very often you don't know what your needs are until you start using the tools. One of the challenges of SharePoint is that you need to have an idea of what you want before you start building it. Most people don't have a clue about that until some way down the road.

A characteristic of this environment is a high degree of perceived ownership by the user.

If people are going to engage in social tools they have to feel to some extent that they are in control of their tools.

JC: What kind of time, effort and other kinds of resources would be required to develop and implement such a system?

ES: There are lots of different ways to approach this. Over engineering and over managing will make these kinds of things less successful. The premise from the outset should be not to spend more than you have to on them. You do need to discuss ownership before you start, though. The system can and should to a high degree become self-managing and self-regulating so you don't have to assign lots of conventional administering to the effort. On the other hand, it does take an effort to grow the environment. Most of the time and effort needs to be spent explaining, enthusing and drawing people into the environment.

JC: What people need to be involved in this effort? Do you need: A core group to frame the effort, an interface group, some middle managers and everybody else?

ES: These efforts need people who are themselves enthusiastic and engaged. It is not going to work if you have picked someone just because he or she has the right job title from HR. We are talking about quite a big shift in how people work and perceive their organizations. That's not going to happen unless there is a degree of energy and commitment behind it.

People have to see this as a pathway to get somewhere. One, they have a passion for it and second, it is a vehicle for getting somewhere in their lives. It is not just another system that people have to learn. It is a social-technical phenomenon.

JC: What kind of resources does an organization need to make this work?

ES: The technology can be relatively off the shelf and customized as

needed with a degree of local expertise. The core group can be three or four people who guide and develop it. These people manage networks of other people who take on different degrees of responsibility themselves. In real terms, it would take a fair amount of people's time and energy, but in terms of dedicated jobs it shouldn't be too much.

The BBC, when I was there, had about 25,000 staff and our effort in some way reached almost all of them. That was implemented by my team of two to three people and the technical side, pretty much one person. Once we got to more formal management we had about ten people involved, but this was part of their other jobs. The actual initiative was carried out by three or four of us. We spent about \$400 on the original software and I guess over our six years spent a total of about \$40,000 on a total of five systems and the hardware they ran on.

The storage effort does not require huge amount of data. It is mostly plain text. The minimum requirement is you don't need to use new technology at all. You can just use Facebook, which costs nothing.

JC: Is this more an intelligence factor than a finance factor?

ES: Making the right judgments about what you spend and where and what you get back for it matters more than anything else.

JC: What is the possible configuration of ingredients that will yield exceptional outcomes?

ES: The whole thing is based on the hyperlink. It is the ability to point to things or people or conversations or information that is useful. I have seen organizations that have spent lots of money on knowledge repositories and document storage which can't be linked to readily. They have a proprietary system. That means you can't point to the instance of the information you want to get at.

The main point is to make it as standards-based as possible and to avoid locking stuff up in over-engineered technology. These tools are proliferating on the Internet and grew without everybody having to agree to use the same software, because they are using standard protocols and whatever. In a way this is the antithesis of the environment that Microsoft builds which tends to lock people into specific file formats, specific standards, etc.

People have to have easy and familiar ways to find and point to interesting stuff. The more that this happens the more collective sense making you get and the more value you get from your technology investment.

As far as different types of tools, there needs to be a range. Some tool will be more suited to some people than to others. Some activities will be more suited to some than others. The nature of the information that you are trying to store and retrieve will be different. People will move from one tool to the other. They may have an off the cuff conversation with Twitter, but want to point to some content in their blog or some formal regulated information stored in a document. The point is that users will be able to join them all up themselves. The context will be more of a matrix.

Confidentiality and Security

JC: What about confidentiality and security issues?

ES: The security thing is an interesting one because to some extent centralized security is doomed to fail because it constrains things too much or does not keep up with the speed of changing technology.

The ability of users to be more in control of what they share with others will be more important but people do need to be educated as to the sensitivity of the data. Deciding who sees what, why and when, is highly contextual and difficult to manage centrally. Give people the tools to manage their own security but spend the time explaining to them what is risky and how to avoid that risk.

Willingness and Engagement Matter

JC: How extensive does this effort have to be to make it work?

ES: That goes back to the question of how you get people engaged. In a merger and acquisition sense you want as many as possible to be making a more effective move towards the other company. Equally, if you have a particular group who are willing and keen, you can be very effective with these technologies.

The key measure is: Making something better or doing something that couldn't have been done otherwise happen.

Influence not Control

JC: How are social media being used during M&A integrations?

ES: People are more and more using the tools on the web when these situations arise. From another perspective, I would not be surprised if people from a target company are, on their own initiatives, communicating on LinkedIn and other social media about alternative positions as an acquisition of their company is being

discussed and underway.

A company does not have an ability to control; it has the ability to influence.

The Possibility of Unprecedented Gains

JC: How would implementing such a framework allow a new organization to remake and reposition itself?

ES: People are beginning to understand that their own staff is their best advocates in the market place. Conversations are not only taking place amongst the staff of the new combined organizations but also with the clients of the two originating companies. There is a huge potential to migrate your corporate message and branding and to be explicit with customers about the reasons that any merger would improve the services and products they are being offered. If you are able to talk about the reasons behind the merger and benefits of the merger, both internally and outward facing, that surely is a good result.

JC: Thanks very much for a participating such a provocative and exciting conversation.

Euan Semple

[Euan Semple](#) is a leading authority on the use of social media. He gained unparalleled experience as Director of Knowledge Management at the BBC and subsequently with major organizations such as Nokia, the World Bank, NATO and Scotland's National Performing Companies. He has unique insights into how to make social media work for large and small companies as well as governmental and not for profit organizations. His focus is on how social media affects businesses and how they relate to increasingly connected and vocal customers. He enables organizations to get ahead of the competition in this often bewildering game.

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friend.

All the best,

Jay Chatzkel
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