

A Living System Approach to MERGERS & ACQUISITIONS - PART I

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Overview

This chapter focuses on a systems view of leadership, strategy, structure and culture and the dynamic nature of the relationships between them and how these relationships could impact the outcomes in mergers, acquisitions and joint ventures. More specifically, the human aspect of the system (in this case an organization) is at the heart of this chapter. As such, market and technical analysts, financial strategists, the local and global nature of the products or services involved, and myriad other critical features involved with merger and acquisition will not be considered here. It is important to see the larger picture of which all these elements are parts and the system is alive because of the human element. The greatest financial strategy combined with market readiness and the technical expertise to deliver can languish for lack of the human side of the equation. It is just that side of the equation that will be considered in the following pages.

The chapter will begin with a case in which one of the authors was the consultant (PK). Many aspects of the systems model that will be outlined later are represented in the case. Following the case will be the explanation of the model including a description of how one's perceptions of the model evolve with experience.

The goal of the chapter is to introduce a process for assessing the human aspects of the organization such that the outcome will contribute in a very real and meaningful way to the consideration of a corporate merger or acquisition.

The Case

Company X — A large technology company made the decision to grow rapidly. The leadership decided that the strategy for growth was through acquisition of Company Y with the technology that they wanted to grow into. At the time, Company X did not feel that it had the time to internally develop the technology. It did not want to create a joint venture partnership with another company because the returns appeared to be greater by outright acquiring a company with appropriate technology.

Company X bought the Company Y, focusing primarily on technology and not on people (though they all became part of Company X). Company X incorporated the technology into new products that could be sold to its market (through its ecosystem partners). The Company X organization was structured in partnership with external implementation companies and their structure led to win-win-win situation for the company, partners and customers so far.

When the Company X presented the new technology and new strategic direction to its external partners, there was unusually low interest (less than 20%). The external partners did not see Company X to be a credible leader in this new domain. As a result, the partners rejected the invitation to become advance partners investing in the growth of this new market with Company X.

Then Company X then hired external consultants to work with problems that had emerged. At the initial meeting, the consultants and Company X revisited the goals of the company, its reasons for acquisition, and its vision. Out of that meeting, all agreed that creating a new knowledge business model consistent with the "genetic code" of Company X would be the outcome of the consulting project. The list of goals enumerated at this meeting included:

- Developing widespread use of this business model across the company to help catalyze cross-functional efforts
- Accelerating new technology absorption inside and among the ecosystem partners
- Reducing cycle time to competency
- Supporting partner strategies
- Influencing new business directions
- Fostering improved customer value
- Advancing the Company X goal of leading the industry

In establishing the process for creating the new business model, the consultants took into account the difficulties Company X was having internally in integrating both the technology and working styles of different divisions within the company including the new division. These internal difficulties as well as the external challenges in communicating and convincing the ecosystem partners are

examples of cultural and structural issues that can be critical to the success of any merger or acquisition. The consultants paid attention to other acquisitions that worked well for Company X and looked for understand what is different in the current scenario. Schein advises that culture be taken seriously; that knowledge allows the company to work with a more complete picture of the consequences of its proposed actions. In this case, by paying attention to culture, we understand the assumptions, reward structures and people motivations behind what works and what does not in the partner model that Company X works with.

Once the potential outcomes were identified, the team identified different functions and people who need to become part of the consulting effort. The consultants identified heads of product development, channels marketing, IT, customer relations, and technical support divisions connected with this product/technology. They met with each of the heads one at a time sharing the vision and goals for the project and validating the assumptions and understanding different perspectives. Enrollment in the project was extremely important as many of the executives were very busy; and they were unavailable unless what was being offered directly relieved their pain or added to their successes. The consultants gave the leaders a choice regarding participation: they themselves could become part of this team or nominate a person in their division who could represent them and make the decisions for that division. Through these meetings, it was possible to get some understanding of how the leadership functions in Company X, the structures that facilitate collaboration and prevent working together, the cultural enablers and impediments that could potentially affect the project. In addition, the strategy that Company X uses in developing, marketing, selling, supporting its products was partially elaborated by some of the executives.

In the first team meeting with people from multiple divisions, the consultants presented a visual tetrahedron model. Similar models had been used for applications ranging from organizational change, business planning, corporate mission development and product design. The four corners of this model represented desired future state, cultural enablers/impediments, structure, and strategy. Using this tetrahedron model shown in Figure 1 (which will be described later in the chapter), the group was able to identify the sequence of questions and tasks they should address as a team. The information generated by this process gave the consultants a sense of the preferred future for the new business as well as the technology that was being developed and introduced. Additionally, the questions the team addressed (in a facilitated dialogue format) helped them to identify cultural enablers, impediments, strategy, structures, technology architecture and potential "show stoppers."



Fig: 1

The actual questions were:

- What constitutes business success? What is the highest vision that you can have in terms of shared vision for this business? Where can you demonstrate sustained leadership?
- What are the cultural enablers and impediments that would accelerate or impede our progress the shared vision?
- What are the core incompetencies (this concept will be addressed below) integral to this culture that should have our attention? How do we overcome those incompetencies to make this business successful?
- What is the structure that would make sense for this business? What do we need to keep in mind while generating appropriate governance structures?
- What is the strategy that would take into account the business model of Company X? How do we leverage the external partners in buying into our technology and create win-win?

The answers to the above questions were elicited from the group in a facilitated dialogue. Consultants facilitated three dialogue sessions; and the conversations were reported to be very useful for the team. They understood what worked in Company X, what didn't how they could go about changing the rewards and recognition for different roles (like sales person vs. customer service engineer vs. product development engineer) and finally the ways in which they could streamline their business processes to come up with a successful new kind of business.

Each of the questions considered in the dialogue sessions led to detailed and meaningful responses from the team members. For example, a question on the company's vision led to "successful adoption of Company X technology as the industry standard" as the definition of business success. They defined the desired outcomes, market opportunities, and what they could do to become the industry leader. The ideas around governance, sharing the vision with people on the front line and enrolling them in it, the execution style that would increase the return on investment in the current market place with their competitors and partners etc. were raised and addressed to the best of their abilities. This question was similar to what is asked in preferred futuring approach used by Ron Lippitt.

Similarly, conversations around culture led to identifying enablers, impediments, root causes, and how they could establish appropriate policies, procedures, and rewards and recognition systems to make their new business successful. There were also discussions about how decisions were made, the execution style of senior managers, sales people, customer support representatives, partners etc. They examined when to hold on to a point of view and when to let go as well as how much will power they would need to push appropriate people to make timely decisions, release budgets etc.

Questions about the organizational structure led to discussions of product architecture, solution architecture, customer support structures, channel-related issues, how people could be motivated or de-motivated, and how, who and when decisions were made etc.

Finally, strategy-related questions led to a smaller group of people getting together to develop a better understanding of their ecosystem needs. They examined the market realities, customer needs, partner interests, technology advantages, product readiness and overall strategic design that could help them to succeed in their business and emerge as a leader. This process led to creating a strategy part of the business model with four cornerstones: Customer, Technology, Partners and the Company X. (See Figure 2.)

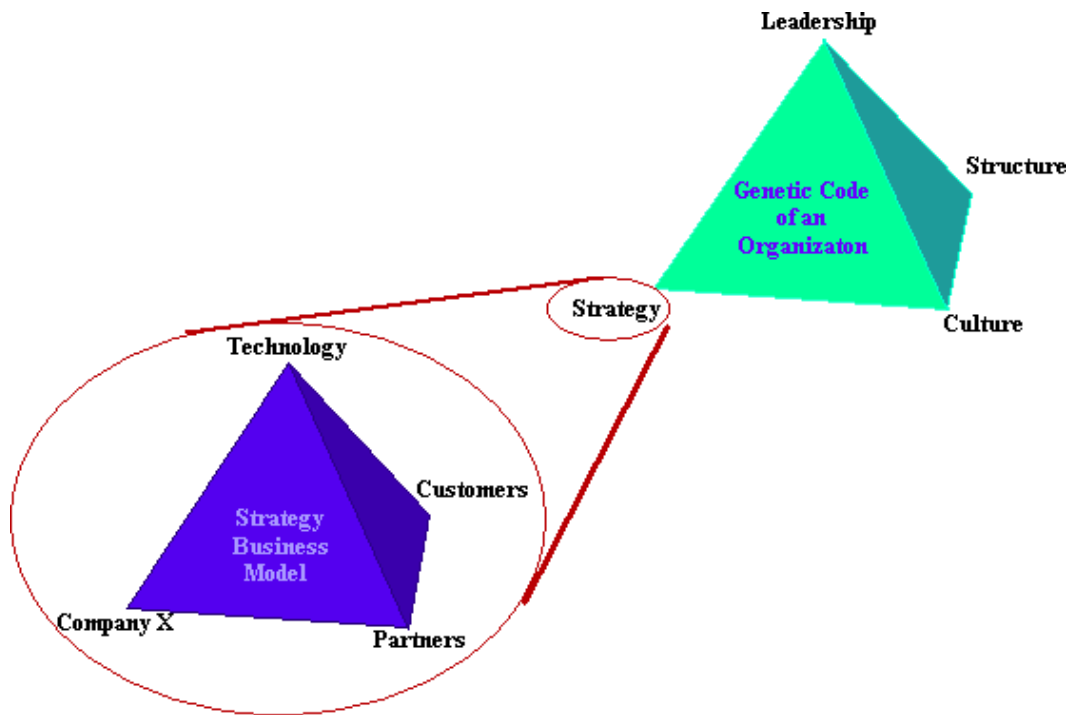
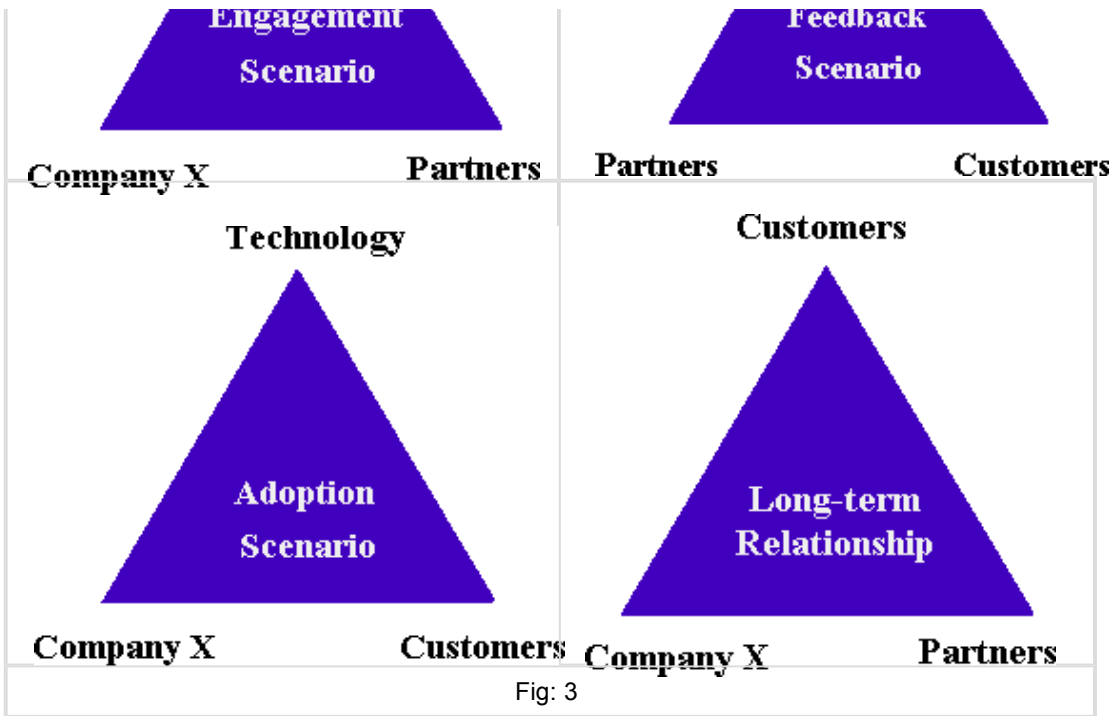


Fig: 2

The team explored potential scenarios like customer engagement scenarios, long term relation-building scenarios (between company, partners and customers), feedback scenarios (how company X could receive feedback about its products and technology from partners and customers), customer adoption scenarios all of which could be used for performing what-if analyses and developing further understanding of the competencies they needed to achieve their business success. (See Figure 3.) Please note that each of the scenarios have one missing corner.

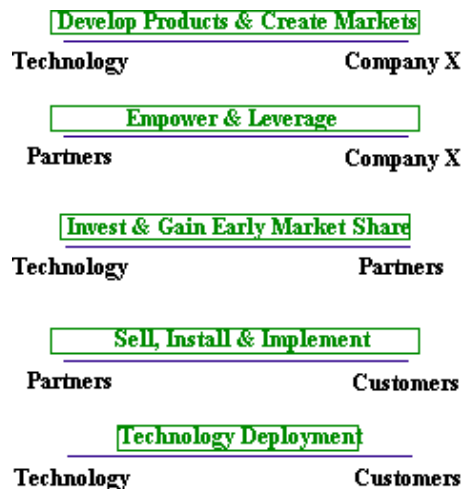




The consultants then began to explore the tensions between various constituents of the ecosystem. For example, there is tension between what company wants and what partners want. Similarly what customers want and what partners or company wants. When these tensions are managed between each polarity new competencies are developed between that set of corners. This work resulted in the development of six strategic competencies for accomplishing the Company X's success:

- Developing products and creating markets for those products with the new technology from the acquired company.
- Empowering and leveraging partners to help company X and the product to become industry leaders
- Partners selling, installing and implementing new products and solutions from Company X.
- Customers deploying the products in different divisions of their own company and making them part of their work processes
- Partners investing in learning the new products and technology and gaining market share for the product and the company
- Customers adopting technology and deploying the products from Company X

If any of the six competencies were not developed in the company, then the ultimate goal could not be reached. Each competency connects two of the cornerstones identified above. For example, Competency #1 was developed between Company and technology; Competency #4 is between partners and customers. While we only indicated one way relationship in the competencies above, those relationships are reflexive between the two linked cornerstones. (See Figure 4.)



Customer Adoption
Company X **Customers**

Fig: 4

The small group came back to entire team and presented the strategy model, which was modified slightly and subsequently adopted by the entire team. An action plan was developed to build the competencies in Company X in a systemic way. The action plan is shown below in Table 2. Finally, a control mechanism was identified to review the progress on a monthly and quarterly basis. Then another group of IT professionals sat together with the consultant to come up with system architecture for each of the scenarios (engagement, feedback, customer adoption, long term relationships). For each scenario to be successful, three competencies have to be well developed. For example, Customer Engagement scenario requires that Company X empower and leverage partners, develop products and create markets for the new technology, and for partners to invest in new technology and gain early market share. The systems and architecture design was developed to make sure that there are mechanisms that aggregate customer and partner use of knowledge to identify potential markets, feature needs, competition, progress etc. **The Table 1** lists the four scenarios and associated competencies. Please note that same six competencies show up twice under the four scenarios.

Engagement Scenario	Feedback Scenario	Customer Adoption Scenario	Long term Relationships
Company X empowers & leverages Partners (and vice versa)	Partners invest and gain early market share	Company X develops products and creates markets	Company X empowers & leverages Partners (and vice versa)
Company X develops products and creates markets	Partners sell, install and implement new products and technology	Customers deploy products made by Company X sold through partners	Partners sell, install and implement new products and technology
Partners invest and gain early market share	Customers deploy products made by Company X sold through partners	Company X products and technology gets adopted as industry standard	Customers deploy products made by Company X sold through partners

These scenarios drive the system architecture that was designed. So business success was the leadership criteria. Cultural enablers and impediments of Company X gave the leaders an ability to create rewards and recognition structures that would motivate their people. Strategy was devised using systems thinking approach paying attention to the needs of the company, type of technology, selling and delivery model through external partners and the needs of the customers and marketplace. Finally structures are put in place (in this case system architecture) for its web based sales software to complete the picture.

In this way, the Company X built a business model based on systems perspective and then from that high level conceptual model created a strategic action plan to guide their day to day actions. (See Table 2.) This exercise helped the participants to understand different structures in which each group works, cultural impediments and enablers that make them work together effectively (like compensation for sales people vs. engineers vs. customer support professionals). It also allowed the company to create a coherent strategy that is consistent with its overall business strategy and gain a leadership position in the new market.

Later this process was documented and used in assessing partnership opportunities, company and subsidiary relationships (replace partners with the name of the subsidiary) etc. Because the business model is built based on how things actually work in Company X, it represented the genetic code of that company and could be used to understand why some things work and why some things don't, what is needed to change and what could be preserved when they merge with other companies.

Action Plan with monthly and quarterly milestones (Table 2)

Competencies	Required Deliverables	Where Are We?	Desired Outcome	Action Items	Owner	Due Date
Develop Products and Create Markets	- Early Involvement	Good beginning. Currently inconsistent	Preparedness and Awareness	Tie-in w/ product side NPI process	Rao	
	- Identify Good Triggers			Determine	Josh	

				entry point for lifecycle services		
				Get the technical support ready	Vic	
				XXX	Yoshi	
Invest in Early Marketshare	- Training - Vision deployment - Appropriate budget allocations	Sometimes Reactive	Early engagement	Partner investment and training	Gus	
Empower and Leverage	- Good relationship management - Clear direction	Mentoring and training User conferences	Strong competencies	curriculum development	Steve	
Sell/Install/Implement (EFT)					Jackie	
Deploy				Early accessibility	Yvonne	

The model

Prasad Kaipa, in 1989, developed the 3-dimensional modeling process employed here, which is called a model. It was further developed and actualized in 1992 with the help of Chris Newham and is reported in System Thinker article (1998). Although the model is generally used in a visioning process, it has a wide range of applications. A tangible, 3-dimensional model offers another way of perceiving the relationships posed in the system. In the previous case, by building one 8 inch plastic color tetrahedron for each participant allowed them to “play” with the model and see the interconnected nature of various components and their interactions. The tetrahedron allows the viewer to gather information about the model that is not easily understood from the abstract verbal description (Kaipa 2000).

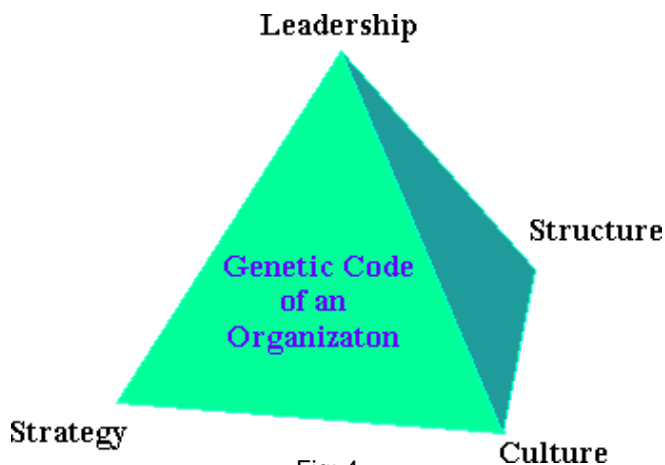


Fig: 4

The model communicates abstract as well as aesthetic information. It has corners, flat sides, edges, and color. The concepts involved in the model, absent shape, color, and texture, are related abstractly in the text model. But in its tangible form the model adds the dimensions of color and relationships within physical space. This invites visual and tactile manipulation of the model. Among the many options, one can rotate it in space, move it from one face to another using an edge as the axis of rotation, or consider what would be necessary to keep the model balanced on the tip of one of its corners. This process of manipulation offers a constant change in how the pyramid is perceived. Likewise, there is an ever-changing flow of ideas about the relationships that it contains and how they might be combined.

Physical description of the model

This model uses the shape of a tetrahedron; it has four corners, six edges connecting them, and four faces. (The Egyptian pyramids have four triangular sides and a square bottom) All sides of the tetrahedron are triangles equal in area and dimension in this model although in reality these can be distorted. Figure 1 above contains the elements of the pyramid. A subset of the fourteen basic elements of this model will be considered here. The discussion will begin with the cornerstones of the system and proceed through the edges that connect the corners. The faces created by any three cornerstones and their connecting edges will not be considered in this chapter.

Leadership, Culture, Strategy, and Structure will be the cornerstones in this model (fig. 1). Any two cornerstones are connected by an edge, which describes a reflexive relationship between them. As this relationship is developed and refined it becomes what is called a "competency." Now what exists between the cornerstones is much more than a reflexive relationship; it is a skill. It functions not only to describe something that happens by the interaction of the cornerstones, but can now be used as a tool for accomplishing something.

Any three cornerstones and their connecting edges define a face, which can be viewed as a scenario of how things would look if those elements dominated the organization. (Fig 3)The cornerstone and its three edges that are missing from the scenario can be seen as simply running in the background (at best) or actually missing (at worst).

The models created here will have two aspects, one Bright and one Shadow. If one is looking at the tetrahedron manifesting all the positive qualities of a system, one is viewing the Bright side. If one could then turn the pyramid inside out, the Shadow side would be visible. This dichotomy creates a tension between the positive and negative elements within the system. It adds another dimension to the model as one considers the information it has to offer. We will be considering the Bright side primarily, although we will offer examples of the Shadow side when we refer to the negative attitudes and behaviors.

In the next sections we will discuss the pyramid structure which will become in essence our "genetic map" of the organization. These discussions will take a broad look at each component and a sample of the range of possibilities associated with it. One can then refer to the case at the beginning of the chapter to see how that component was manifest in the organization under consideration.

...continued in [Mapping the Organizational DNA - Part II](#).