

Anti-Synergies in Acquisitions The Leadership Gap

Very often during the integration phase of an acquisition when a larger company is acquiring a much smaller one, remote unknown management replaces the local and usually, highly respected management. The degree to which this happens can vary but often it goes well beyond what was imagined by the executive leadership of the acquiring parent. This situation is particularly prevalent in remote situations and remote can be anything remaining in a separate facility more than 10 miles from the new management.

Many acquisitions integrate the acquired organization into their current organizational structure. As each functional group takes stewardship over its wards the number of managers is multiplied beyond the contemplations of the executive team. It seems to the executive leadership of the parent that only a few new leaders have been introduced. They expect the new development group to report to their development group; the marketing group, the finance group and the HR group likewise. But in fact, these groups get further fractionalized when they are integrated into each of these functional groups.

By the nature of the much larger organization, specialization persists and the result is the introduction of more remote leaders. Different reporting relationships are developed for the tech writers, the release engineers, the hardware versus the software engineers, the benefits personnel within HR, the PR people within marketing and so on. While the executive management believes they have broken the acquired unit into 4 or 5 basic functions, in reality, closer to 20 new managers have been introduced (see Fig. 1). This is hidden from the executive team because they still often have a small number of managers that they consider to be operationally responsible. Meanwhile, the overarching strategic goals get lost in the functional feeding frenzy.

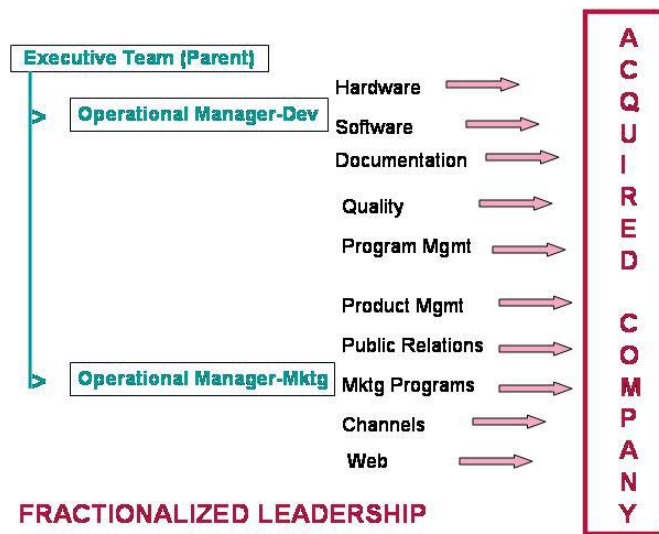


Fig 1

The effect that this remote fractionalized management can have on an acquired unit is significant. The former leadership begins to feel emasculated as they now have perceived leadership responsibility without managing much of the resources that they used to have. Employees are left to deal with multiple managers and multiple interpretations of strategies, goals and timetables. Often the perspective of the new managers at the parent is that they have added one or two new employees. The managers are remote and these new employees will see less and less of their manager as the acquisition settles in. Attention and leadership is marginalized and splintered. The sense of team that once existed in the acquired unit wanes. The strong sense of direction often found in smaller companies is now dispersed with the multiplicity of managers and the feeling of control or influence that once existed with key employees disappears.

In one acquisition of a smaller company by a larger one, the former General Manager of the acquired company used to have quarterly briefings with all employees (as well as an occasional general email to all employees). In these quarterly updates, he would review the last quarter's results, and discuss priorities and important events coming up in the next quarter. Once acquired, he became the head of development for the unit as Marketing, Finance, Customer Support, HR and Operations all reported in separately. As a result, he stopped doing the Quarterly meetings (and the email) and felt it was out of place for him to meet with all of the employees because many of them no longer reported to him. Employees, starving for information about the acquisition, the new company, and changes in the business circumstances, interpreted the information vacuum as a deliberate characteristic of the new parent's culture. "They don't like to tell us what is going on with the business," was commonly believed.

Solution

Replace straight line management relationships with dotted line responsibility wherever possible. This will put a higher burden on the parent's specialized managers to work with a higher level of leadership within the unit to establish goals for their "subordinates" in the acquired unit. This will ensure that the goals that they would like to set are in keeping with larger strategic goals of the organization. It will keep the senior leadership within the acquired unit empowered. Eventually, you might want to fully integrate the unit and create direct reporting relationships but consider doing it one to two years after the acquisition.

The specialized functional managers within the parent organization will resist this because it is more work for them and less control. But keep in mind that for the most part their job is compatibility. Their job is to make sure that the acquired unit's documents, user interface, benefits, processes, systems and the like, operate within the larger framework of the company. This often has little to do with creating new customer value which was the intent of the acquisition. The reasons for being compatible, of course, can often be compelling but occasionally trade-offs need to be made. Dotted line



relationships and empowered local leadership is the best way to err on the side of the achievement of strategic goals versus integration goals if and when they are in conflict.

Another step that can be taken to improve the leadership within the acquired unit is to have the leaders of the acquired unit report into the parent corporation at a level that is higher than the usual logic would imply. The usual logic suggests that it's reporting relationship is a function of its size – both in terms of employees and revenues. Often if viewed in terms of its cost (that is, the investment made in the acquisition) it would suggest a different place within the organization. This higher reporting relationship increases the influence of the leadership within the company as well as provides more direct information about general company decisions which can then be better explained to the new employees.

Whether the local leadership is someone from the parent or an original employee of the acquired company, having empowered full time leadership cannot be replaced by remote part time managers. Research indicates that the most important retention factor for any employee in any job is the relationship that they have with their manager. It's no wonder that acquired employees often become disillusioned with their new circumstances, lose energy, and become less productive. Let the functional managers build their credibility over time, provide support, and suggest direction. You might lose a bit of time in the integration process but you are likely to gain in the realization of your strategic objectives and the retention of key employees.

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