
Making the Deal Real: How GE Capital Integrates Acquisitions

by Ronald N. Ashkenas, Lawrence J. DeMonaco, and Suzanne C. Francis



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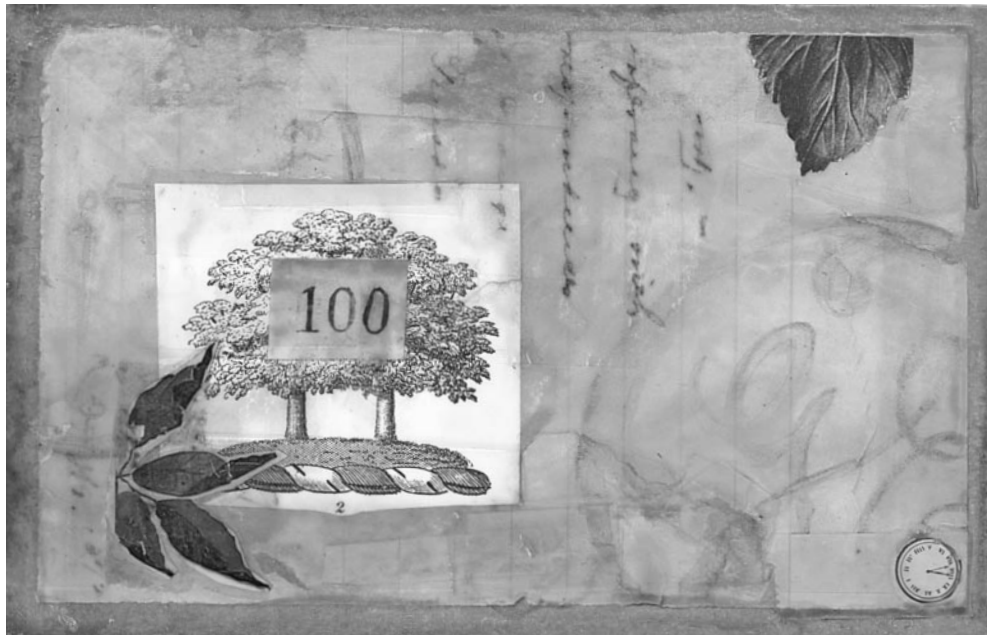
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The work starts well before the ink is dry.

Making the Deal Real: How GE Capital Integrates Acquisitions



by Ronald N. Ashkenas,
Lawrence J. DeMonaco, and Suzanne C. Francis

LIKE THE PROCESS BY WHICH A CHILD LEARNS TO WALK, most business innovations emerge from dozens of trial-and-error experiments; from seemingly random actions that eventually form a pattern; from hundreds of small, almost imperceptible adjustments that eventually result in a solid step forward. This has been true for developments ranging from lean manufacturing to concurrent product development to business process reengineering—all now well-accepted innovations that emerged from dozens of experiments until they crystallized to form a methodology others could follow.

An exception to this rule thus far has been innovation relating to acquisition integration—the process by which one company melds with another after the deal is done. Most acquisitions and mergers are one-time events that companies manage

No wonder most managers think about how to get acquisitions over with—not how to do them better.

with heroic effort; few companies go through the process often enough to develop a pattern. Thus it tends to be seen not as a process—as something replicable—but only as something to get finished, so everyone can get back to business.

The tendency to see integration as a unique event in an organization's life is magnified by the fact that acquisitions and mergers often are painful and anxiety-producing experiences. They involve job loss, restructured responsibilities, derailed careers, diminished power, and much else that is stressful. No wonder most managers think about how to get them over with—not how to do them better the next time.

Improving the acquisition integration process, however, may be one of the most urgent and compelling

Ronald N. Ashkenas is the managing partner of Robert H. Schaffer & Associates, a management-consulting firm based in Stamford, Connecticut. He has led transformation efforts at several public-sector and Fortune 500 companies, including General Electric. Lawrence J. DeMonaco has been a human resources executive with GE for 20 years. For the past 4 years, he has been a senior vice president of human resources for GE Capital, responsible for HR activities outside the United States. Suzanne C. Francis is a senior partner with Robert H. Schaffer & Associates. For the past 5 years, she has worked with GE Capital to develop and apply its acquisition integration process.

challenges facing businesses today. Industry consolidations, the globalization of competition, technological developments, and other trends have touched off an unprecedented wave of mergers and acquisitions that shows no signs of abating. According to figures from the Securities Data Company published in the *New York Times*, the dollar value of U.S. mergers and acquisitions announced in 1996 alone grew more than 27% to \$658.8 billion from \$518 billion in 1995.

Despite this enormous growth in merger activity, acquisitions that appear to be both financially and strategically sound on paper often turn out to be disappointing for many companies: the acquiring company takes too many years to realize the expected synergies or is unable to get people to work together productively or puts the companies together in such a heavy-handed way that the unique capabilities of the acquired company (its best people and most valued customers, for example) melt away. Perhaps that's why a study reported last January in the *Economist* of 300 major mergers conducted over a ten-year period by Mercer Management Consulting found that in 57% of these merged companies return to shareholders lagged behind the average for their industries.

Given this confluence of events—a growing number of mergers and acquisitions combined with high failure rates—it is increasingly important that executives learn how to manage the integration of acquisitions as a replicable process and not as a onetime-only event. One company to learn from is GE Capital Services—an organization that has made more than 100 acquisitions in the past five years, resulting in a 30% increase in its workforce, the rapid globalization of its businesses, and a doubling of its net income. GE Capital has been working to make acquisition integration a core capability and a competitive advantage that will enable it to continue its growth in the future.

For the past three years, we have been part of a team that has helped GE Capital learn from its extensive acquisition-integration experience to create a more replicable process. We have interviewed dozens of managers and staff members from both acquiring and acquired businesses, including many who after being acquired by GE Capital became acquirers themselves. Using these interviews and related documents and materials, we have helped GE Capital create a model for acquisition integration. This model has been fine-tuned through workshops with GE Capital's many acquisition-integration experts, and it has been applied successfully to several recent integration efforts. (See the exhibit "The Wheel of Fortune.")

Growth Through Acquisition

To appreciate the lessons GE Capital has learned about acquisition integration, it is important to understand that GE Capital itself is the product of dozens of acquisitions that have been blended to form one of the world's largest financial-services organizations.

GE Capital was founded in 1933 as a subsidiary of the General Electric Company to provide consumers with credit to purchase GE appliances. Since then, the company has grown to become a major financial-services conglomerate with 27 separate businesses, more than 50,000 employees worldwide (nearly half of them outside the United States), and a net income in 1996 of \$2.8 billion. The businesses that generate these returns range from private-label credit-card services to commercial real-estate financing to railcar and aircraft leasing. More than half of these businesses became part of GE Capital through acquisitions.

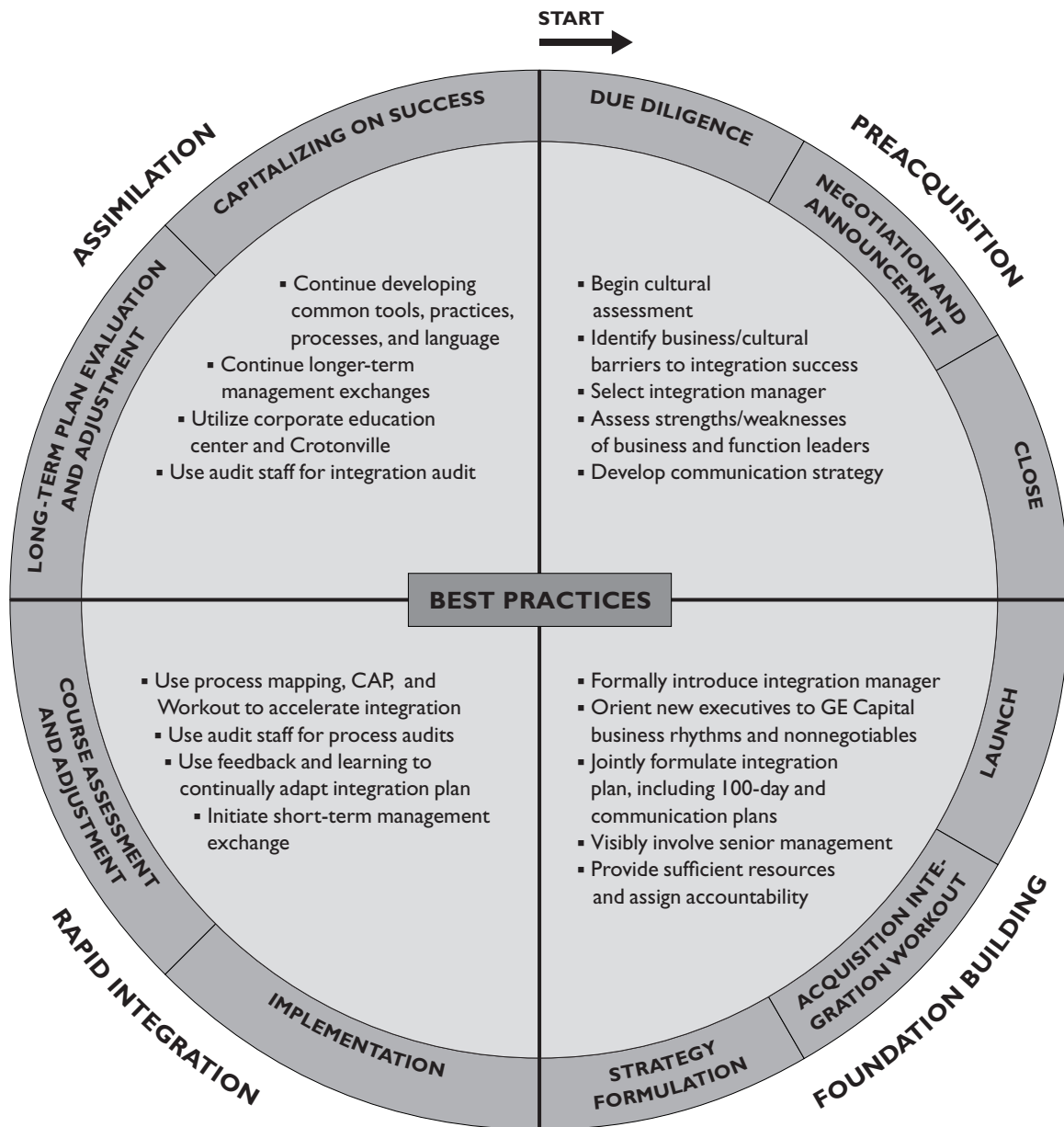
For the past decade, since Gary Wendt became chairman of GE Capital, the company's plans for growth have included acquiring companies. Thus every business is constantly seeking acquisitions. To engineer these deals, each executive vice president (who heads a group of businesses) has a Business Development, or BD, officer. Larger businesses within each group have their own

THE WHEEL OF FORTUNE

Over the years, GE Capital Services' acquisition-integration process has been discussed, debated, tested, changed, and refined. It is now established well enough to be codified in what we call the Pathfinder Model.

The model divides the process into four "action stages," starting with the work that goes on before the acquisition is completed—that is, before the deal closes—and continuing all the way through assimilation. There are two or three subprocesses in each action stage, such as due diligence during the preacquisition stage and strategy formulation during the foundation-building stage. Finally, each action stage includes several best practices—specific and practical steps managers can take to support the process.

The model's neat and systematic appearance belies the fact that acquisition integration is as much art as science. The Pathfinder Model recommends a particular sequence of leveraged actions, but there are aspects of every acquisition-integration process that are new or unique. As in any major organizational transformation, managers will have to improvise. The model, however, can prevent improvisation from becoming the whole show.



BD officer, and Wendt also has BD people on his staff. Those professionals, many from consulting firms, focus on finding, analyzing, and negotiating acquisitions that will contribute to GE Capital's growth.

The acquisitions come in different shapes and sizes. Sometimes, the acquisition is a portfolio or asset purchase that adds volume to a particular business without adding people. Sometimes, it is a consolidating acquisition in which a company is purchased and then consolidated into an existing GE Capital business. That happened when GE Capital Vendor Financial Services bought Chase Manhattan Bank's leasing business. Sometimes, the acquisition moves into fresh territory, spawning an entirely new GE Capital business. GE Capital made such a "platform," or strategic, acquisition when it bought the Travelers Corporation's Mortgage Services business. And finally, sometimes, the acquisition is a hybrid, parts of which fit into one or more existing businesses while other parts stand alone or become joint ventures.

From these acquisitions, and its efforts to make them work on a financial and organizational basis, GE Capital has learned the following four lessons:

LESSON 1:

Acquisition integration is not a discrete phase of a deal and does not begin when the documents are signed. Rather, it is a process that begins with due diligence and runs through the ongoing management of the new enterprise.

Any manager who has been involved with an acquisition will agree that the process proceeds through a number of fairly predictable stages: selecting possible acquisitions, narrowing the field, agreeing on a first-choice candidate, assessing compliance with regulations, convening preliminary discussions, formulating a letter of intent, conducting due diligence, completing financial negotiations, making the announcement, signing the agree-

ment, and closing the deal. And given these stages, it is natural to assume that integration would begin after the deal is closed.

For many years, GE Capital, like most organizations, proceeded under that assumption. Business development specialists, working with business leaders and finance experts, saw most of the deals through to closing. After the documents were signed and the mementos exchanged, managers were expected to take over and begin the integration process.

Unfortunately, in most cases, that approach to integration was less than effective. Integration was slow and costly. There were constant surprises about peoples' reactions to being acquired, and financial returns were often hindered by delays in putting the companies together. In some cases, when acquisitions did succeed, it was mainly because the acquired company was left alone and not integrated into GE Capital.

Necessity mothers invention.

Like most things an organization learns, the realization that integration is not a stage following the deal, and could be done faster and more effectively if it were begun sooner, came about through experience. In the mid-1980s, GE Capital acquired Dart & Kraft Leasing and Kerr Leasing, intending to integrate Kerr into D&K. In the midst of that integration process, GE Capital acquired Gelco Corporation, a much larger leasing company that also included other financial-services businesses. At that point, the acquisition strategy called for integrating both D&K and Kerr into Gelco's auto-fleet-leasing business, spinning off some other pieces of Gelco into freestanding businesses, and selling some nonstrategic pieces of the company.

In short, this was no simple acquisition integration, and many of GE Capital's senior executives were concerned that the standard approaches to integration would be inadequate.

As a response, a human resources executive suggested that the com-

pany's communication expert use the regulatory review period *before* the Gelco acquisition closed to create a comprehensive communication plan for the forthcoming integration. But instead of just a

The realization that integration is not a stage following the deal came about through experience.

communication plan, what emerged was the framework for an entire integration strategy. That strategy included a 48-hour communication blitz directed at employees immediately after the deal closed; the formulation of a role in the new organization for the former Gelco, D&K, and Kerr executives; a strategy for presenting the acquisition to the media; a way to handle some necessary consolidations of headquarters staff; and an outplacement plan.

Most important, the framework signaled a new way of thinking about integration—a recognition that there were predictable issues that could be anticipated long before the deal actually closed. The Gelco acquisition turned out to be a watershed for GE Capital, a demonstration that extremely complex transactions could be assimilated more successfully by planning for integration well before the closing.

Integrating: earlier is better. Eventually, the planning process began to extend back even further—into the due diligence phase—as GE Capital executives realized that thinking about integration that early could speed the eventual melding. In the early 1990s, that thinking was formalized during due diligence for a Chicago-based equipment-leasing company. The head of the due diligence effort, having seen how effective the Gelco plan had been, convened a series of end-of-day meetings for the functional captains of the various due-diligence teams (including finance, operations, systems, human resources, and sales) to discuss what they had learned each day

and to develop preliminary plans for managing the acquisition after the deal closed.

Applying those lessons to subsequent acquisitions, GE Capital found that being sensitive to integration issues during the due diligence phase began to foster better decisions about whether to proceed with an acquisition at all. During the final stages of due diligence for the acquisition of a British leasing-equipment company, for example, two senior business leaders from GE Capital had a working lunch with the CEO and CFO of the company, expressly to discuss some of GE Capital's expectations for how the merged company would be run. During lunch, significant differences in basic management styles and values became clear. The conversation led GE Capital to take a harder look at the management culture of the target company and to realize that integration could be difficult and contentious. On that basis, despite very favorable financials, GE Capital walked away from the transaction.

Today recognizing that planning for integration can begin with the very first discussions gives GE Capital a head start in bringing new companies into the fold. For example, during investigations relating to the credit card business of a major European retailer, the due diligence team learned that employees of the soon-to-be-acquired company were concerned that they might lose their traditional shopping-discount benefit at the retailer's stores. GE Capital persuaded the retailer to continue the discount for one year after the

into a positive experience that led to boosted morale (as measured through attitude surveys), greater receptivity to other changes, and higher productivity.

LESSON 2:

Integration management is a full-time job and needs to be recognized as a distinct business function, just like operations, marketing, or finance.

Since acquisition integration is an ongoing process and not a discrete stage of a deal, someone needs to manage it. That may seem obvious, but in reality the issue is complex—one that GE Capital has grappled with for more than a decade.

Let's look at the key players in an acquisition: The acquiring business usually will have a due diligence team that includes people from such areas as finance, tax, business development, human resources, and technology. It will have a "leader" (GE's term for a general manager) who is the ultimate "buyer" of the company. Similarly, the acquired business will have a business leader and a full complement of managers and staff.

Who among that cast of characters focuses on integration? Who is the one person responsible for making sure that the new company becomes a fully functioning, high-performing part of the acquirer?

For many years at GE Capital, the answer to that question was unclear. The due diligence team, which developed the deepest knowledge of the new company and had the best insight into what would be needed to integrate it after the deal closed, usually disbanded after the deal was struck, its members returning to their regular jobs or moving on to the next transaction. The functional and business leaders of the acquir-

ing GE company typically focused only on the integration of their particular units. The newly acquired business leaders, who had the most incentive to integrate and learn how to be successful with their new own-

ers, did not have sufficient knowledge of GE Capital, its resources, or its integration requirements. What's more, they tended to be preoccupied with running the company and also with a host of personal issues—protecting, reassuring, or outplacing their people; figuring out whether they wanted to stay in the new company; and (perhaps unconsciously) proving that their company was even better than the buyers thought.

Given those realities, the business leader of the acquiring GE business was usually assumed to be accountable for integration. But for a number of reasons, that was an unrealistic assignment. In most cases, the business leader had other units to run and was not dedicated fully to the new acquisition. And even when the business leader was able to devote time to the acquisition, his or her focus usually was not on integrating the cultures, processes, and people but, appropriately, on such critical business issues as profit growth, staffing key jobs, and customer retention.

Furthermore, the business leader's very position of authority often limited his or her ability to facilitate integration. People in a newly acquired company need someone they can talk to freely, to ask "stupid" questions, find out how things work at GE Capital, and discover what resources are available and how to use them. They need a guide to the new culture and a bridge between their company and GE Capital. The last person who fits that role is the new boss they want to impress.

A role is born. At GE Capital, the role of designated integration manager evolved, as most innovations do, through a combination of chance and necessity. Consider, again, the case of Gelco. At the time, it was GE Capital's largest acquisition. Larry Toole, a senior human-resources executive who had been involved in the due diligence effort, was asked to stay on and support the newly acquired Gelco team. Toole (now GE Capital's head of human resources) acted as a facilitator to the new leadership team. He brought groups of people from GE Capital and Gelco together in work sessions to develop

Recognizing that planning for integration can begin with the very first discussions gave GE Capital a head start.

acquisition and also agreed to make up the difference of the lost benefit in subsequent years by adding approximately \$200 to each employee's paycheck. As a result, GE Capital turned a potential cause of friction

common plans; he oriented the new team to GE Capital's requirements; he made sure that the soft sides of the integration (such as communication and benefits) were taken into account; and he counseled Gelco's senior managers about how to succeed in GE Capital.

By the end of the 1980s, it was clear that the Gelco integration had gone well. But the critical role that Toole had played as an integration manager was not fully recognized until several other acquisitions that had no integration managers failed to proceed as smoothly. For example, no integration manager was assigned when GE Capital's retail credit-card business bought the credit card operations of the Burton Group (a U.K. retailer) in 1991. Two years later, when the unit was not meeting expectations, a reintegration effort, which did include a full-

time integration manager, turned the situation around.

By 1994, it was apparent that the integration manager was a key role. Then the questions became, Who would make a good integration manager? and How should the job actually work?

An accidental role becomes an intentional strategy. Today two types of people are generally selected to be integration managers in GE Capital—the *high-potential* individual and the *experienced hand*. The high-potential manager is usually a less seasoned person with strong functional credentials who is viewed as a future business leader. That type of person is widely employed in small, straightforward, or highly structured integration efforts. For more complex acquisitions or those that incorporate multiple businesses, an experienced hand—someone who knows

GE Capital well and has proven management skills—usually takes on the integration job.

In all cases, the integration managers that have been most effective have been those that have served on the due diligence team. The integration manager then becomes a full-fledged member of the leadership team for the acquired business, reporting directly to its business leader. Selection of the integration manager is based as much on personal characteristics as on technical skills. In the past several years, the backgrounds of successful integration managers have been drawn from fields as diverse as human resources, auditing, finance, technology, marketing, and law. Some need to be skilled in a second language. But all have strong interpersonal skills and are sensitive to cultural differences. All have the ability to

WHAT IT TAKES TO BE AN INTEGRATION MANAGER

Integration managers manage the integration process, not the business. To do so, they:

Facilitate and manage integration activities by

- Working closely with the managers of the acquired company to make its practices consistent with GE Capital's requirements and standards.
- Creating strategies to quickly communicate important information about the integration effort to employees.
- Helping the new company add functions that may not have existed before, such as risk management or quality improvement.

Help the acquired business understand GE Capital by

- Assisting managers of the newly acquired company as they navigate through the GE Capital system—explaining to a new finance

manager in Taipei, for example, who reports to a business in Chicago, how to buy a personal computer through the GE purchasing network.

- Educating the new management team about GE Capital's business cycle; reviews; and such other processes as strategic planning, budgeting, and human resource assessments.
- Translating and explaining GE's and GE Capital's various acronyms.
- Helping managers of the acquired company understand GE Capital's culture and business customs.
- Helping managers of the acquired company understand both the fundamental and minor changes in their jobs. For example, a CFO accustomed to having full responsibility for tax and treasury accounting needs to be informed that CFOs in the GE

Capital system don't usually cover that territory.

- Introducing GE Capital's business practices to the new company, including its "workout," "quality leadership," "change acceleration," and "management-education" programs.

Help GE Capital understand the acquired business by

- Making sure managers of the newly acquired company are not swamped with requests for information from GE Capital. A number of integration managers insist, for example, that all requests for information go through them so that they can sort through the important ones and allow the other managers to stay focused on the business.
- Briefing GE executives about the newly acquired company to help them understand why it works the way it does.

facilitate groups and a deep knowledge of how GE Capital works. And all have the energy to do what it takes to make an integration successful. (See the insert "What It Takes to Be an Integration Manager.")

Given the job's broad range of responsibilities, it would seem natural to hold the integration manager accountable for the performance of the business. But GE Capital's experience suggests that doing so reduces the accountability of both the business leader and the rest of the leadership team. And in reality, the integration manager does not control the critical business resources. Instead of having P&L responsibility then, most of GE Capital's integration managers are held accountable for the creation and delivery of a disciplined integration plan and for reaching the plan's milestones. In reaching those milestones, the integration manager acts more as a consultant than anything else. The job is to build connective tissue between GE Capital and the new organization, tissue that will allow information and resources to pass freely back and forth, tissue that will become self-generating over time.

An example from a European acquisition illustrates how the integration manager builds connective tissue. After completing the acquisition, the business leader asked the integration manager to quickly introduce the new company to GE's integrity policy. At GE, integrity is not just embodied in a standard corporate-policy statement. It is a detailed requirement meant to ensure that every employee understands what constitutes proper and improper ways of conducting business.

Given the importance of the integrity policy, the business leader expected that the material would be immediately reprinted, distributed, and used in dozens of meetings mandatory for all employees. But the integration manager took another tack. He asked a few senior managers from the new company how people would react to GE's policy. The response was a surprise: "If we send that out, it will be like saying to our people that before GE came along we didn't have any integrity!"

To avoid such a reaction, the integration manager quickly commissioned a small group of managers and staff members to develop a constructive way to convey the integrity policy. The group decided that its own managers (rather than GE's people) should introduce the policy at a series of all-employee meetings. They introduced those meetings by saying, "One of the benefits of belonging to GE is that they have made explicit the principles of integrity that we have always followed in our company but that we never had the resources to write down. And here they are..."

That may seem like a small matter, but the accumulation of such small matters can destroy the connective tissue between companies. The job of the integration manager is to keep that tissue growing.

LESSON 3:

Decisions about management structure, key roles, reporting relationships, layoffs, restructuring, and other career-affecting aspects of the integration should be made, announced, and implemented as soon as possible after the deal is signed – within days, if possible. Creeping changes, uncertainty, and anxiety that last for months are debilitating and immediately start to drain value from an acquisition.

With all the tension of a medieval passion play, at the moment that an acquisition closes, an intense drama begins to unfold between the new owners and their new employees. On one side of the stage are the acquirer's managers, who almost always believe they can run the acquired company better – whether through the introduction of new capital, new technology, new resources, new energy, or new ideas. And since acquisitions come at a price, one aspect of their agenda almost always is to reduce costs.

Playing opposite the new managers are all the employees of the acquired company – from senior

management to shipping-dock staff. Their script tells them that when companies are purchased, the acquiring company often puts its own people in charge, changes policies and procedures, restructures, consolidates, and generally takes over. So they walk onto the stage of the new company feeling anxious, insecure, uncertain, and even angry. Who are these new owners? What are their intentions? Can we trust what they say? Do we still have jobs, and are they the same as before? Why did our previous owners sell? Did we do a bad job, or did they betray us?

In short, the acquiring managers close the deal with a certain amount of euphoria, ready to get on with the exciting challenge of running the new business better. But the staff members needed to keep things running and make improvements are preoccupied with issues of security and identity. They have no interest in a close-the-deal party; they just want to know if they still have jobs.

If left unrecognized, this psychodrama can be debilitating and can send the integration process down the wrong path. On one hand, when issues of security are not addressed immediately, levels of productivity, customer service, and innovation quickly deteriorate as employees focus on their own needs rather than on those of the company. On the other hand, if acquiring managers restructure quickly but without sensitivity, they risk beginning their tenure without the trust and respect of the remaining staff. The challenge is to avoid both traps, to make structural changes as quickly as possible but in a way that maintains everyone's dignity. If that challenge is not met, successful integration may not be possible.

First things first: Do I have a job? Most acquisitions involve restructuring, either to improve the efficiency of the acquired unit or to ensure that its organization fits with that of the new owner. But moving quickly to restructure is not easy, even when obvious changes need to be made. Often the new owners fear that early layoffs will send the signal that they are the "bad guys." So they

delay the inevitable until the “right” time. Or the new owners may worry about the publicity and the potential impact on their company’s image—so they, too, wait to make layoffs, imagining that they can be made quietly later, when no one is watching. And in some situations, the new owners worry that they do not have enough experience with the company and its staff, that they will make mistakes. So they want to wait until they get to know everyone and understand the company better.

For many years, GE Capital struggled both with the challenge of finding the right time to restructure acquisitions and with the decision of when, or if, to bring in new managers. Sometimes, structural moves were delayed for many months after the company had been bought. The realization that this was a mistake came in 1991, one year after the acquisition of a finance company in Europe. It was obvious when the company was purchased that restructuring was needed. Twelve layers of management (which worked out to one manager for every two employees) had created a high-cost, high-control organization whose ability to innovate and change was highly limited. Yet despite the obvious need for “de-layering” and cost reduction, GE Capital kept all the members of the management team in place and allowed them to keep the organization intact. That was done for a number of seemingly rational reasons: fear of destroying

being upset, most employees (as reported in surveys) wondered why GE Capital had taken so long. They had seen the need for cost reduction from the beginning and had spent much of the year waiting for the plans to be announced.

We have interviewed ten CEOs of companies that GE Capital has acquired from different countries about the pace of consolidation. All have said the same thing: “Although at the time we thought that things were moving too quickly, in retrospect, you did not go fast enough.” In short, they said that there is no such thing as an acquisition that does not include some degree of change—in either structure, philosophy, systems, or strategy. Their message was this: if change is inevitable, let’s get on with it rather than allow anxiety and speculation to diffuse energy and focus.

Restructure with respect. A crucial springboard to successful integration is the manner in which restructuring is carried out. First and foremost, the acquiring company needs to be straightforward about what is happening and what is planned. Even when the news is bad, the one thing the staff of newly acquired companies appreciates most is the truth. That includes being able to say “we don’t know” about certain areas or “we have not yet decided” about others. It also includes sharing information about when and by what process a decision may be reached. The truth also

means acknowledging some of the stress and other emotions. As one CEO of an acquired company wisely noted, “Never tell the acquired staff that it will be ‘business as usual’ when it will never

be the same for them again. And don’t tell them that this was a ‘merger of equals’ when you have clearly taken them over. And don’t tell them that they have ‘a wonderful future’ to look forward to when they are still confused and grieving over the past.”

Second, it is critical to treat those individuals who will be negatively affected with dignity, respect, and

support. Not only is this the right thing to do, it is also a powerful way to show those who remain what kind of company they now are working for—and to help them develop positive feelings.

But the most powerful way to move ahead is to get the employees of the acquired company focused on the real work of growing the newly formed business. How to shift the focus toward the future, and get people to start working on it, is the last lesson from GE Capital’s experience.

LESSON 4:

A successful integration melds not only the various technical aspects of the businesses but also the different cultures. The best way to do so is to get people working together quickly to solve business problems and accomplish results that could not have been achieved before.

In many ways, an acquisition is like an arranged marriage: the “parents” negotiate the deal, sign the contract, and then expect the “newlyweds” to live together in harmony. An arranged marriage, however, has a much better chance of success than an acquisition does since only one couple is involved, and the parties usually come from similar cultures and share common values. In acquisitions, many people—sometimes thousands—need to learn how to live together, and the values and mindsets of the acquiring and acquired organizations almost always differ. That disparity is even more marked when the two companies are based in different national cultures.

One vital issue when integrating any acquisition, then, is how to speed the process of getting dozens, hundreds, or thousands of people to work together in harmony. How do you get people from different cultures, who may even have been competitors, to build a new company that will grow and prosper?

From its experience, GE Capital has distilled four steps business leaders can take to bridge the cultural gaps that exist when integrating any acquisition. We have found

Never tell the acquired staff that it will be business as usual when it never will be again.

morale, lack of confidence about which managers to let go, and a feeling that here was a European culture that GE Capital perhaps did not fully understand.

A year passed. Costs remained high, and performance remained low. Finally, GE Capital’s business leader stepped in and forced a thorough consolidation. The surprise was the staff’s reaction. Instead of

that failing to take steps like these to address the “soft” side of integration turns the “hard” aspects of integration—such as reconciling different financial-accounting practices—into mechanical exercises that are executed without understanding or finesse, and often without success.

Meet, greet, and plan (urgently).

Once the deal is closed and the transfer of ownership becomes official, the GE Capital business leader, with the help of the acquisition manager, organizes orientation and planning sessions for the members of the management team of the new acquisition and their counterparts in GE Capital. The intent is to use these sessions to create a 100-day plan for acquisition integration. These sessions help welcome the new senior managers into GE Capital and give them a chance to socialize with their new colleagues. They also provide an opportunity for both sides to exchange information and share their feelings and reactions about the recently completed deal.

As part of the information exchange, the newly acquired managers are asked to talk about their organization, products, people, and plans. In particular, they are asked to talk about the positive aspects of their company—what they feel good about and what should be built upon. They are then asked to share their thoughts about opportunities for improvement—what could be changed, areas of potential growth, and synergies with GE Capital.

Following that exchange, the GE Capital business leader, the integration manager, and other executives describe what it means to be a part of GE Capital—the values, the responsibilities, the challenges, and the rewards. That includes a presentation and discussion of the standards required of a GE Capital business unit, including a list of approximately 25 policies and practices that need to be incorporated into the way the acquired company does business. Those range from quarterly operating reviews to risk policies to quality and integrity procedures.

Drawing on the standards set by GE Capital and the opportunities for improvement presented by the

acquired management team, the group then begins to draft the 100-day plan for acquisition integration. As its name implies, the plan outlines what will be done in the first 100 days to bring the new company into GE Capital. The plan addresses such issues as the need for integrating functions, taking any steps necessary for financial and procedural compliance, making any shifts in compensation and benefits, and managing customer contacts. The 100-day timetable creates a sense of urgency, challenge, and excitement; it imbues the integration with a feeling of zest and energy. At the same time, it forces the management team to move into action and avoid becoming paralyzed by mixed feelings and personal politics.

Communicate, communicate—and then communicate some more.

Creating a communication plan during the due diligence and negotiation phases of a transaction so that employees and external parties are informed as soon as a deal is closed is only the first step in an effective communication program. Keeping the communication process going—and making it reach broadly and deeply throughout the organization—requires more than just sharing information bulletins. It requires the creation of forums for dialogue and interaction that can help span the cultural chasm between acquirer and acquiree.

As in any communication plan, there are four considerations: Audience, timing, mode, and message. For example, for one of its integrations, GE Capital’s Private Label Credit Card business identified several distinct audiences: the senior managers of both organizations; the integration manager and his team; all of the employees of the acquired organization; all of GE Capital’s employees; the customers, clients, and vendors of the combined company; the community; and the media. The appropriate time to communicate was identified for each audience—before the deal was closed, for instance, or at closing, or perhaps 60

days after the closing. And for each audience, the appropriate mode of communication was selected, ranging from newsletters and memos to videos to small-group huddles to town meetings and visits from management.

A fundamental message about GE Capital’s culture underlay the

It became clear that cultural issues were getting in the way of fast, effective integration.

entire communication effort—that at GE Capital, communication and involvement are valued and considered to be critical success factors; that GE Capital does not hide information from employees; that GE Capital wants to create a relationship of trust and open dialogue across all boundaries in the organization. That’s why managers, and not professional communicators, are asked to take the lead in many aspects of the process—so that they will engage in dialogue with their employees, peers, customers, and others. At another level, messages about the course of the integration process are communicated by disseminating the 100-day plan itself, so that everyone has an opportunity to learn its broad outlines.

The assumption here is that the more people know about what is happening, the more they will be able to accept change and overcome their cultural and historical differences. But in GE Capital’s experience, such intensive communication, even when combined with extensive integration planning, is sometimes not enough to bridge deep cultural gaps. A more direct approach to cultural integration may be needed as well.

Address the cultural issues head-on. Several years ago, as GE Capital began to make more acquisitions outside the United States, it became clear that a number of unrecognized cultural issues were getting in the way of fast and effective integration. Those issues were rooted in differences in corporate culture but were

magnified and complicated by differences in national culture. For example, in some companies, deference to authority prevented managers from challenging, questioning, and thus enriching GE Capital's ideas about how to grow the new business. In countries with hierarchical social systems, this pattern of deference seemed to be even more apparent. In other settings, seemingly straightforward instructions were misinterpreted, not only because of language barriers but also because of assumptions about intentions. And in still other cases, GE Capital found that newly acquired leaders didn't comfortably accept the autonomy that comes along with empowerment.

To deal with those issues, GE Capital worked with a consulting firm to construct a systematic process of cross-cultural analysis, leading up to a structured three-day "cultural workout" session between GE Capital and the newly acquired management team. That process is now applied in most of GE Capital's acquisitions, especially when there is a significant non-U.S. component.

Here is how the process works. Using the results of focus groups and interviews with customers and employees, a computer-generated analysis is developed that plots the acquired company's culture on a scattergram across four dimensions: costs, technology, brands, and customers. The analysis also contrasts how employees see the company with the way customers see it. A similar survey is done for the GE Capital business.

Once the survey results are ready, the managers from both GE Capital and the acquired company meet for the three-day cultural workout. (If everything is on schedule, this meeting takes place at or close to the end of the first 100 days.) At that session, the data from the two companies are compared to highlight areas of convergence and difference. With a facilitator, participants go through the data and talk about why they think the results turned out the way they did. They talk about the history of their companies, the folklore, and the heroes that made them what they are. That leads to focused dis-

cussions about cultural differences and similarities and their implications for doing business – for instance, how to go to market, how much to focus on cost, or how concepts of authority differ.

By the third day of the session, participants shift their focus from the past to the future. Based on what has been accomplished in the first 100 days, they are asked two questions: Where do they want to take the company? and What kind of future do they want to create? That discussion results in a written outline of a new business plan for the acquired company, based on the goals that were established as part of the original deal, now augmented by the collective dreams and aspirations of the new management team. After the first 100 days, the stage is set for continuing the integration and development process over the next six months or more on the basis of a shared understanding of cultural differences and a concrete plan for bridging the gaps.

To move from the few to the many, cascade the integration process. Bridging cultural gaps with the acquired management team is critical to the integration process and almost always leads to a richer business plan to which more employees are committed. But in most cases, hundreds or even thousands of other people also need to be part of the process. How can that process of bridging cultures be spread beyond the management team?

The results of the cultural workout can be widely shared and discussed through small-group meetings, videos, and other channels. That gives the wider employee population access to the same body of cultural data as the management team has – and the same opportunity to digest it and consider its implications for the integration. But a more powerful way to spread the cultural integration further is through action. Short-term projects that focus on achieving results quickly and include staff members from both GE Capital and the acquired company almost al-

ways serve to bridge the gap between cultures. In other words, the faster people from both companies are given opportunities to work together on important business issues, the faster integration will occur.

For example, in 1995, when GE Capital's Global Consumer Finance business acquired Minebea Financial, a Japanese financial-services company, the business leader commissioned a number of joint GCF-Minebea teams to accomplish critical business goals in the first 100 days. One team reduced the cost of materials through an initiative aimed at having the suppliers manage inventory. Another arranged for the sale of written-off receivables. Still another reduced the time it took to respond to customers' telephone calls from three minutes to ten seconds. As important as those results were, equally important was what the people from GCF and Minebea learned by working together. By achieving results quickly, everybody could immediately see the benefits of the acquisition – that more could be achieved together than could ever have been accomplished separately.

GE Capital also has been experimenting with other ways to help individuals deal with differences in national cultures. For example, an American assigned to lead a key function in India is individually coached by an external consultant

A powerful way to integrate cultures is to assign short-term projects to yield quick results.

who specializes in national cultures. The consultant can help the relocating manager understand in advance subtle, but critical differences in culture – the need for specific, rather than general, instructions, for example, or the importance of variations in attitudes toward class and gender, in the willingness to criticize others, or in the degree to which employees are expected to take initiative.

Finally, to introduce the GE Capital culture to high-potential leaders

in those organizations newly acquired from outside the United States, the company has initiated a program called Capital University. In this program, selected middle managers are given 6- to 12-month assignments in a GE Capital business or head-office function in the United States. With their families, these managers learn not only about GE Capital but also about the national culture in which GE Capital is rooted. They, too, are coached individually by consultants about differences in national cultures.


A Work in Progress

For almost a decade, GE Capital's leaders have been thinking about how to make acquisition integration a core competence, and they have engaged hundreds of people in the effort. Starting in 1989, workout teams have mapped out the entire

transaction process and have identified essential steps for integration. In 1992, GE Capital employed a "change acceleration" methodology to identify best integration practices and develop a set of model approaches. And since 1995, GE Capital has sponsored periodic conferences to refine those best practices, share tools and lessons, and discuss case studies of integration efforts currently in progress.

Today these lessons are available on-line to all GE Capital business leaders over the company's intranet. There, too, are communication plans, 100-day plans, functional integration checklists, workshop agendas, consulting resources, and the like. A staff member from the corporate human-resources department keeps these materials up-to-date and assists in accessing them.

Despite this progress, acquisition

integration remains an ongoing challenge for GE Capital. The structure of every acquisition is unique; each has a one-of-a-kind business strategy; each has its own personality and culture. No matter how many insights and models previous transactions generate, the next deal is always different, as much an art as a science. Therefore, any company that hopes to benefit from GE Capital's experience needs to accept at least one aspect of its culture—that competence is something never fully attained, that it is only the jumping-off point for an ever higher standard. Today, drawing from the lessons it has learned, GE Capital is better at acquisitions than it was last year. But next year, the goal is to be even better. 

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