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FITTING IN

The challenges
of post-merger
integration in China

CHINESE RETURNEES' SINGULAR BURDEN • A LOOK AT HARBIN • PROGRESS ON PRODUCT SAFETY?

People focus: Intelligence-based integration planning

Given that in China most acquisitions are intended to expand capacity and capabilities, buyers tend to be the cultural acquirers, which means integration planning centres around quickly bringing the target into the buyer's fold without weakening or even losing the identified advantages of the target.

Through gap analysis, the human, process and cultural characteristics identified during the due diligence phase are compared to those of the buyer, and the mapped-out differences become the work content for the integration team.

It is natural for decision-makers to want to unify transactional human resources infrastructure by enforcing the buyer's structures and practices, particularly when the target company's processes are found to be less developed, which is often the case in China. But when it comes to cultural integration, the task is much trickier. A lack of discretion and sensitivity is a sure route to failure, as the new entity gets bogged down in individual conflicts and clashes. People decisions are of paramount importance.

Smooth integration requires commitment, adequate homework and careful planning. Like any complex project, the daunting challenge of post-transactional integration should be broken down into smaller, manageable tasks, to enable effective project management.

- **People decisions:** To reduce uncertainties and avoid chaos, planners must clarify the tasks and identify designated drivers. Decisions are in order on the following areas:
- **Integration leader:** Relevant experience is critical, including experience with the industry, country and, most important, a track record of handling similar deals. In cases where such qualified executives are not available, then individuals assessed should be open, flexible, adaptable and quick studies.
- **Buyer-side HR:** Again, previous experience is very helpful.
- **Target-side HR:** Often HR professionals at Chinese target firms do not seem highly sophisticated, since in most domestic companies HR is not much more than personnel. Yet these managers are familiar with what is happening inside the organisation and can play critical roles in the transition and integration.

- **External consultants:** People tend not to realise that the consultant's voice commands special respect because of his or her objective perspective and professional qualifications. External consultants are particularly important in deals featuring drastic differences between the two sides. Financial and legal advisors rarely qualify as integration consultants.

- **Internal communication:** Timely explanation to Chinese staff of the purpose of the deal and what to expect will ease tension and help healing. This should be handled professionally and respectfully.

- **Contingency succession planning:** Members of the leadership team often contribute to the total valuation of the deal. Integration planners should prepare for unexpected departures due to incompatibility and disagreement. For critical roles and accounts, contingency succession planning should be in place.

- **Key talent retention:** More often than not, the purpose of the acquisition makes retaining key talent the central integration task. Major reorganisations such as mergers and acquisitions exacerbate talent turnover, already a problem for most firms in China. Unless handled quickly, accelerated attrition alone can destroy much of the value around the time of transaction. The integration team should use the data gathered during a diagnostic talent audit during the due diligence phase to start career-planning initiatives as a pre-emptive.

The methodology might be seen as common sense. But just as love is blind, sense may be less common during the adrenaline rush of an M&A deal. Some compare people due diligence to a pre-nuptial agreement. The irony is that while the idea has a great deal of logical merit, few actually do it.



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