Innovation & Organizational Alignment

Network Analysis Enhances Merger Integration

Merger integration can be enhanced by discovering local opinion leaders in the informal network.

Organizational Network Analysis (ONA) can be a powerful tool to help leaders improve mergers of legacy organizations. ONA data can reveal ways to speed integration, drive change, create retention and staffing strategies, foster acceptance of change and facilitate cultural integration.

Although some ONA analyses produce clear and easily actionable results, others require careful investigation to generate maximum benefit. One global consumer products company – the result of a complex merger – found that ONA was useful in understanding uneven business performance. By mapping beliefs and priorities within a key business unit, the company was able to overcome lingering problems from merging legacy operations.

Research Insight

Leaders must identify and understand patterns of beliefs that feed resistance to change.

The Problem:

Integration Stalls when Hidden Assumptions Differ Across Legacy Organizations

Poor integration across legacy organizations contributes to the high failure rate of mergers and acquisitions (70 percent by some estimates). Difficulties in capturing synergies are often at the heart of merger financial underperformance, with traditional large-scale merger integration efforts focusing on quickly combining organizations and pruning redundant elements while preserving valuable uniqueness. But the holy grail of M&A efforts is the transformational integration, where combinations of capabilities drawn from legacy units generate entirely new forms of value for customers – something that, for many companies, is far easier said than done.

When approaching large-scale mergers or acquisitions, network-savvy leaders often use ONA [see sidebar below] to identify the most important opinion leaders (those who are very central in the informal network), and enlist them in efforts to ensure rapid integration of legacy components. While these central opinion leaders are often crucial for driving change, organizations may find their integration efforts bog down if they overlook local opinion leaders – those employees with smaller spheres of influence, two or three layers deeper in the network. Local opinion leaders often are most trusted by the rank and file, and are most closely connected to the beliefs that might differ across legacy components. Misalignment on these underlying beliefs and assumptions about what is good for the organization often sabotages change initiatives as different pockets in an organization act at cross-purposes, even if their efforts are rooted in good intentions.

Network analysis is more powerful when it is used to map the structure of belief systems.

The Solution:

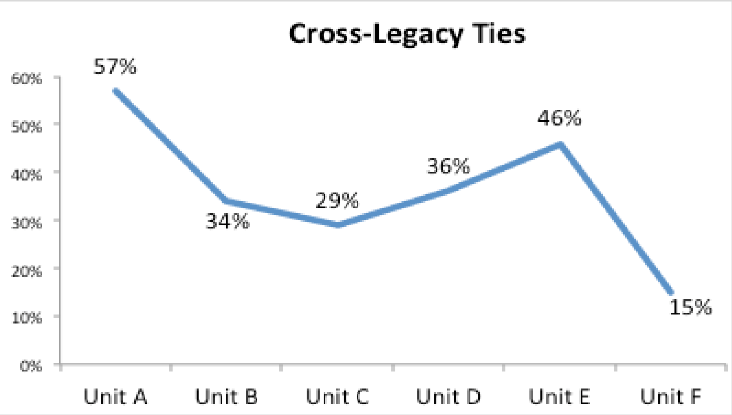
Map the Structure of Beliefs

ONA has been used to identify and address integration challenges across a range of M&As, but none larger or more complex than a recent merger of two global consumer products organizations. Senior executives anticipated billions of dollars in cost savings from elimination of redundancies, and also hoped for significant new revenue streams to come from newly combined capabilities. The organization had used many M&A best practices and, over time, executives could point to many signs that the merger had been a success.

Almost a year after the merger was finalized, senior leaders in one part of the newly combined organization saw uneven performance across a range of business units, and suspected that poorly intertwined networks between legacy employees could be part of the problem. An ONA was conducted, and confirmed that the company's best-performing unit (Unit A in Figure 1) had a much higher proportion of ties connecting employees across legacy organizations. It also revealed that the unit with the slowest revenue growth since the merger had a significantly lower proportion of cross-legacy ties among its members (Unit F).

The network maps on the left hand side of Figure 2 confirm good integration across legacy employees for Unit A, but revealed clusters of individuals who remained more tightly knit with their legacy colleagues in Unit F. To some, this would be the 'answer' to poor integration – time to restructure Unit F to mix people up more and make them build more cross-legacy ties. But a quick examination of the formal structure made it clear that employees had already been blended together across legacy organizations, which suggested that something deeper was driving this. Subsequent interviews with a range of key informants pointed to another unusual perception by members of Unit F: in meetings, people on both sides felt that they were talking past each other – that those from the "other" legacy organization just didn't seem to care. But why only in this Unit F, and not others? Mapping the underlying structure of beliefs suggested that it wasn't that they didn't care, but rather that they cared about different things.

Figure 1

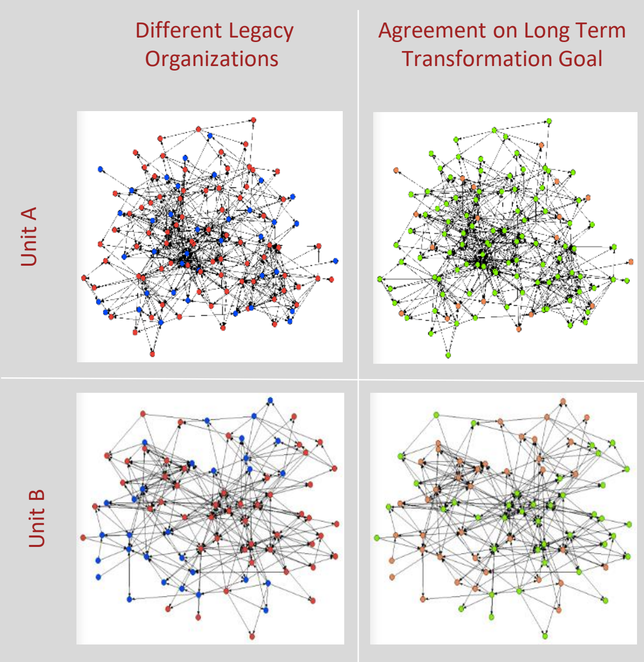


ONA can enhance merger integration in a number of ways:

- Speed merger integration via staffing and other practices that link well-connected people across select silos that matter for success of the merger.
- Drive change more effectively by involving key network opinion leaders in design and implementation teams.
- Target retention strategies to talent that is often missed without a network lens. In most organizations, we know that 3 - 5 percent of people account for 20 – 35 percent of the value added collaborations, yet typically fewer than half of these people are recognized via more traditional talent systems. As a result, retention bonuses are often targeted at the wrong people when decisions are made without considering individuals' network impact.
- Prevent overload on middle tiers of management. In mergers, we often see that 5 percent of the people at middle tiers in the hierarchy absorb over 40 percent of the collaborative demands, as decision rights are not clear and as risk-averse behavior kicks in. This tends to overwhelm a small set of people, which in turn drives turnover and slows the work of others.
- Enhancing cultural integration by measuring and mapping patterns of beliefs and values and structuring merger efforts around this knowledge.

As part of the network analysis, the company captured data about goal prioritization: which of the organization's stated strategic goals each individual held as the most crucial to their own work. If individuals held very different beliefs about which strategic goals were key, then it stood to reason that they would tend to pay less attention to conversations that did not map cleanly onto their own belief system.

Figure 2



One strategic goal concerned long-term transformation of the way in which the company engaged customers. When we examined the data, we found far more agreement on this goal among the well-integrated Unit A, and far less in the poorly-integrated Unit F (see Column 2 of Figure 2). In general, people were more likely to engage in genuine dialogue with those who share beliefs about which goals were most important. But because the legacy components of Unit F differed sharply in their beliefs, this tendency led them to focus their network ties on their legacy colleagues.

Traditional responses to this sort of goal misalignment would focus on (a) better alignment between compensation systems and behaviors associated with a unifying set of strategic goals, (b) more senior leader role modeling of key decision-making principles that validate these goals, and (c) strong executive communication of values and principles around the desired goals. But rather than spin up this kind of large-scale top-down multi-pronged change management effort, the company opted instead to use the network analysis results to precisely target influential people in order to align thinking about strategic goals from the ground up.

The right hand side of Figure 2 shows clearly how the very center of both units' networks were united in their beliefs about how things had to change – but in the case of Unit F, that belief had not penetrated into other more distributed clusters of employees. At the center of each dense cluster of like-minded thinkers were key opinion leaders who had a disproportionate ability to influence those around them, but who were surrounded by people who reinforced their existing beliefs. Senior leaders realized that a much more targeted intervention that engaged the hearts and minds of these local influencers around the unit's new strategic goals could produce a much more precise impact in aligning goals.

Under the guise of a weekend retreat to chart long-term strategic plans for the unit, senior leaders pulled together local influencers from both legacy companies for a broad-based dialogue about changes in how competitors were engaging customers, and what that meant for the company's ability to compete over the medium and long term. For many of these local influencers, this was the first time they had spent time face-to-face in focused dialogue with others in their unit who held passionately to very different beliefs about customer engagement. By the end of the weekend, both legacy groups had realized how strongly they were clinging to beliefs that had become somewhat outdated, and the beginning of a new vision had emerged.

Best Practices:

5 Steps for Better Integration

1 **Look beyond the most influential opinion leaders.**
Understand local opinion leaders who are two or three layers deeper in the network.

2 **Capture data on cross-legacy ties and goal prioritization within the networks of struggling functions or units.**
This helps identify key belief or assumptions that are preventing full integration.

3 **Reconsider stock responses to poor goal alignment.**
A top-down or process-based change or a repeat of communication around culture or goals is probably not useful.

4 **Tailor and target an intervention that addresses beliefs and assumptions.**
Work to engage the hearts and minds of local opinion leader, who have a disproportionate ability to influence those around them.

5 **Be Patient.**
Work with a longer time horizon; continue to invest in the network, monitoring and adapting as needed.

THE TAKEAWAY:

Assess

Use ONA to look at beliefs and priorities, as well as connectivity.

Ask

Who are the local or next-level influencers? Do their beliefs align with each other and with organizational goals and priorities?

Create

Opportunities to bridge differences, find common ground and established new, shared beliefs and priorities.

About the Authors

Peter Gray is an associate professor at the University of Virginia’s McIntire School of Commerce, where he teaches courses on network analysis, organizational innovation, information technology and strategic management. He has worked with a range of companies to identify and capitalize on opportunities for improving organizational competitiveness through network analysis. His research focuses on the collaborative impacts of social technologies, organizational networks, virtual teams and online communities.

Rob Cross is a professor of management at the University of Virginia's McIntire School of Commerce. For almost twenty years, his research, teaching and consulting have focused on applying social network analysis ideas to critical business issues for actionable insights and bottom-line results. He has worked with almost 300 leading organizations across industries on a variety of solutions including innovation, revenue growth, leadership effectiveness and talent management. Ideas emerging from his research have resulted in three books, most recently, "Driving Results through Social Networks." Rob has written over 50 articles, many of which have won awards. In addition to top scholarly outlets, his work has been repeatedly published in Harvard Business Review, Sloan Management Review, California Management Review, Academy of Management Executive and Organizational Dynamics. His work has also been featured in venues such as Business Week, Fortune, The Financial Times, Time Magazine, The Wall Street Journal, CIO, Inc. and Fast Company.

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