

Steffens, Marec Béla

**Article**

## Lessons from merger in Poland

Journal for East European Management Studies

**Provided in Cooperation with:**

Rainer Hampp Verlag

*Suggested Citation:* Steffens, Marec Béla (2003) : Lessons from merger in Poland, Journal for East European Management Studies, ISSN 0949-6181, Rainer Hampp Verlag, Mering, Vol. 8, Iss. 2, pp. 194-210

This Version is available at:

<https://hdl.handle.net/10419/90307>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

## Lessons from a Merger in Poland

*Marec Béla Steffens\**

*In 2001, Siemens Ltd. Poland was merged with another Siemens subsidiary in Poland, a former state-owned company called ZWUT. The author is a manager who took part in the merger. He describes the principles and stages of the merger processes and draws general lessons from it, for a merger is today no longer a once-in-a-lifetime event but a frequent feature of business. Special emphasis is laid on communication and personnel issues, and also on the timing of the merger: a gradual approach can ease much of the tension of a merger.*

*Im Jahr 2001 wurde die Siemens GmbH Polen mit einer anderen Siemens-Tochtergesellschaft in Polen fusioniert, mit einer früheren Staatsfirma namens ZWUT. Der Verfasser war einer der an der Fusion beteiligten Manager. Er beschreibt die Prinzipien und Phasen des Fusionsprozesses und zieht daraus allgemeine Schlußfolgerungen – denn eine Fusion ist heute kein einmaliges Ereignis mehr, sondern eine häufige Erscheinung im Wirtschaftsleben. Besonderes Gewicht wird auf Kommunikation und Personalthemen gelegt, ebenso auf den Zeitablauf: ein gradueller Ansatz kann den Druck, der auf einer Fusion lastet, deutlich vermindern.*

### The two companies

In 1993, Siemens AG had taken over a then state-owned company called ZWUT, a manufacturer of switching systems in the Polish telecommunications market (Steffens/Sundrum 1993 a+b). Acquisition of one of the local players was a precondition set by the government for foreign vendors who wanted to be admitted to the Polish market. As new owner, Siemens invested some USD 120 million and made ZWUT the market leader among Polish suppliers for telecommunications networks.

ZWUT was handled by Siemens's Public Communication Networks Group, while the business of most other Siemens Groups was done by the regional company, Siemens Ltd. (in Polish, Sp. z o.o.). When Siemens reorganised the structure of its telecommunications business, ZWUT took over the enterprise business (that is, the sale of telecommunications solutions to companies for their

---

\* Marec Béla Steffens, born 1964, doctorate from Hamburg University in 1992, Group Financial Director, Information and Communication Networks, Siemens Warszawa, Poland. Corresponding address: marec-bela.steffens@siemens.pl

own use, not to public network operators) from Siemens Ltd. in April, 1999. In the new structure, ZWUT S.A. a Siemens Company (with S. A. being the Polish abbreviation for joint-stock company) represented the entire Information and Communication Networks Group (ICN) and the Networks and Service divisions of Information and Communication Mobile Group (ICM N+S), while Information and Communication Mobile Devices (ICM D) and Siemens Business Services (SBS) belonged to Siemens Ltd. Thus either company represented one and a half of the three Siemens Groups active in the Information and Communication field.

This was not always practical and, following a worldwide tendency within Siemens, it was decided in summer 2000 to merge Siemens Ltd. and ZWUT. This was expected to generate several advantages:

- There would be one face to the customer.
- New sales opportunities would open up because customers of one company might need products and solutions from the other.
- Central departments would achieve synergies.<sup>1</sup>
- The bundled purchasing volume would result in better prices and payment conditions.
- Future reorganisations would not require the sale of business units from one Siemens company to another.

Now we know from literature that about two thirds of mergers fail (Ainspan/Dell 2000, 13; Stahl 2001, 61). In contrast to instinctive assumptions, the risk of failure is not the higher the more divergent the merging companies' cultures and their countries' mentalities are (ibid. 69). So our task of merging two subsidiaries of the same multinational in the same country was by no means trivial. Interestingly, in the rather few years of their existence Siemens Ltd. and ZWUT had developed significant differences: Polish senior managers of Siemens Ltd. tended to speak German rather than English, at ZWUT it tended to be the other way round.<sup>2</sup> Some of the Groups of Siemens Ltd. used to have commission business where Siemens AG in Germany is the customer's contract partner, with Siemens Poland having the role of an agent and sometimes of a service sub-contractor. ZWUT had started the same way, but meanwhile did only own business where Siemens AG is the main supplier of equipment and of components for ZWUT's assembly line, but leaves external pricing and

---

<sup>1</sup> The planned headcount reduction was rather marginal compared to the total manpower of the merged company; the synergies would also enable the central departments to take on some tasks like corporate purchasing, e-business, quality and risk management which previously were not done on corporate level.

<sup>2</sup> Because Russian as the first foreign language was mandatory at schools before 1989, rather few Poles are fluent in two other foreign languages such as English and German.

operative business responsibility to ZWUT. The share of own business had increased at Siemens Ltd. as well. In the fiscal year preceding the merger, ZWUT, although it did the business of only one and a half Siemens Groups, had some 800 employees doing a turnover of EUR 315 million, while Siemens Ltd. with its many Groups had a considerably smaller size.<sup>3</sup> This tended to irritate both sides. Things were not made easier by the fact that ZWUT in itself was by no means homogeneous: the company had three Lines of Business (serving fixed network operators, mobile network operators and enterprise customers, respectively) with rather different histories, views and role models.

We had to take care of these differences, and by all means we had to avoid the worst-case outcome of a merger where both sides regard themselves as the loser.<sup>4</sup> It was fortunate however that in terms of product responsibility there was a clear split between Siemens Ltd. and ZWUT. Sales and service managers soon realised that this merger would be different from most mergers described in the press: there was no direct competition between the business units of the two merging companies. The operating Groups from both sides could continue their respective business strategies. In this sense it was a genuine Merger of Equals (Schmidt 2001, 603) although we rarely used the term, rather the word integration.

It also helped that the merger took place just before the economic downturn and in particular the crisis of the telecommunications market reached Poland. So we could rightfully state that the merger was not a reaction to crisis and its aim was to rearrange rather than to downsize. (It is natural that all fears and negative indicators are eagerly associated with the merger, and it is necessary to continuously counteract this tendency.)

### **The working groups**

The target date for effectiveness of the merger was set to 1. Oct. 2001, the start of a new business year at Siemens worldwide. In Jan. 2001, working groups and decision-making bodies were established. The whole merger organisation was quite balanced between the two companies, with the exception that from the beginning it was clear that the name ZWUT would go whereas Siemens Ltd. would stay. Marketing studies had revealed that, although ZWUT was a name of traditionally good reputation, customers had been fully aware that from ZWUT they were buying Siemens products and services.

---

<sup>3</sup> In commission business, turnover is booked for the commission only, not for the whole contract value. And, due to the limited responsibility, commission business usually generates less profit than own business.

<sup>4</sup> Cf. German reunification.

The working groups were composed of that staff from both sides who would have to implement the new processes in the merged company. This participatory approach ensured a rather high acceptance of the working groups' results.

The time schedule was set tight: the groups had to define all processes and regulations of the merged company within half a year, by 31. July 2001 – with August being the main holiday month in Poland and September being absorbed by the annual closing. The 22 working groups covered all areas that were touched by the merger in either or both companies: accounting and controlling, payroll and personnel development, IT, general administration, etc.

Each working group had to define their own tasks and deadlines. The resulting charts were discussed in project status meetings so that deadlines could be changed if one group needed another group's results earlier. Overlapping areas were identified and clearly assigned. Some of these status meetings had to be attended by all working group leaders, others were for some group leaders with adjacent areas. Unlike some other mergers reported about in literature (Ainspan/Dell 2000, 34), both sides' Human Resources and Corporate Communications managers were involved right from the beginning.

A Project Manager was nominated, the head of Siemens Ltd's Internal Audit, a German<sup>5</sup>. He was supported by a lawyer, a controller for the working groups' deadlines, two cost controllers and three staff members doing the documentation. This author was co-leader of five of the above working groups and acted as the Project Manager's deputy or partner from ZWUT side. On Management Board level, the Chief Financial Officer of ZWUT got the lead.

Decisions were made by a Steering Committee which consisted of Siemens Ltd.'s Chief Executive Officer, ZWUT's three Management Board members and one representative of Siemens AG. Two members were Polish and three were German. Two other representatives of Siemens AG with relevant experience formed a consulting committee. Formally of course all major decisions had to be sanctioned by the two companies' Supervisory Boards.

It was characteristic of this merger that all working groups were led by two managers, one from either side (except the working group for ICN because ICN existed only at ZWUT). It was made clear to them that they would succeed together or fail together. This was the spirit of the merger and would be the spirit of the merged company<sup>6</sup>. Where the two leaders disagreed, they had to put the matter through the Project Manager to the Steering Committee, best in the form of two or three options with pros and contras already analysed. Of the working

---

<sup>5</sup> Who symbolically anticipated the merger by marrying a Polish colleague from ZWUT.

<sup>6</sup> „Based on what the employees see and hear about the integration team, they will see what is expected and anticipated from them in the future.“ (Ainspan/Dell 2000: 32).

group leaders, five were German and the other 27 were Polish. Some leaders served in more than one group.

For all group leaders and members the merger meant a lot of work in addition to normal duties, therefore an additional bonus was paid according to actual involvement and performance in the merger process. A merger budget was set up and comprised bonuses, legal cost, IT cost, the cost of merger events for employees and customers and the cost of occasional break-outs and social events of the working groups. Normal personnel cost continued to be borne in full by the respective home units of the participating staff. In the monthly reporting, merger cost were shown separately from current business which allowed for better control and also gained better acceptance within the operating Groups.

It was deliberate that personnel decisions were not made public at the beginning of the process, although in the Polish culture there is a strong tendency to put relations with people before facts<sup>7</sup>. In the working groups, we focussed on defining first what the merged company should do, then on how we want it to be done, and only then we looked at who would be suitable best for doing it. The organisation should be based on the process needs of the business, not be built around particular persons.

## **Shaping the Future Company**

While the Management Board members at the beginning knew only the managers of their own company, they interviewed the other side's key players and soon agreed on a list of top managers who should be actively discouraged from leaving the company in the merger process. In the typical situation where only one of two working group leaders could become the head of the respective area at the end, we wanted to avoid that one or both of them would contact the next headhunter and go for an undisputed job elsewhere. So the responsible managers (and in case of top people, the responsible Management Board members) would assure both working group leaders appropriate jobs provided that they actively contributed to the success of the merger. In most cases it was communicated to such pairs quite early who would get the desired position and who would not. The latter would then get an offer for another attractive job available within the company.

This generally worked very well, with only two cases of top-level managers who left the company in connection with the merger (they got external offers for positions that Siemens could not match). Also on employee level we managed to assure critical knowledge bearers that their jobs were not in danger. On the Polish labour market of that time, telecommunications engineers and in

---

<sup>7</sup> Although Feichtinger/Fink (1998) and Fink/Novy/Schroll-Machl (2000) focus mainly on the Czech republic, many of their observations fit to Poland very well.



particular IT specialists were in great demand, and the new German Green Card regulation created fears of significant brain drain (wrongly, as we know today).

It certainly helped in the process that the Steering Committee did not try to avoid difficult decisions by making evasive compromises. Where two leaders compete for the same position, for example, it would not help to comfort the one who becomes deputy by designing the deputy position so strong that the department head gets only the routine tasks and/or can effectively be blocked by the deputy<sup>8</sup>. The deputy should get challenging tasks but not at the cost of the department's effectiveness. Still we tried to ease the situation of the one who did not get the desired position<sup>9</sup>. Usually we did not downgrade him or her in terms of salary, formal rank, car etc. even if this was an exception from the regulations. Such privileges will die out over time.

On Management Board level it would have been an easy but unconvincing compromise to retain all five Board members of the two companies in a united body. It was clear from the beginning that the new Board would certainly not have that many members. Eventually one Board member from either side left the company, another one left the Board but stayed as head of a large Group,<sup>10</sup> and the new Management Board consists of two members, one Polish, one German: the former Chief Executive Officer of Siemens Ltd. and the former Chief Financial Officer of ZWUT hold these positions now in the merged company. For the merger it certainly helped that already from 1 Jan. 2001, nine months before the merger, the same Chief Financial Officer served in both companies in parallel.

Back to the working groups. They spent considerable time and efforts in fact-finding, and this was indispensable indeed. It was in fact surprising how little the two companies, since 1998 located in neighbouring buildings on the same premises, knew about each other. There were several instances of managers and staff performing the same central tasks in either company who first met in the working groups preparing for the merger. Of course we faced many communication problems because either side took its own structure for granted and needed time to realise that the same matter could be handled in a completely different way which was not necessarily worse. It was a definitive advantage that we had

---

<sup>8</sup> From another merger I know an example of successful joint leadership of a key department but it is rare that two personalities match that well.

<sup>9</sup> Ashkenas/DeMonaco/Francis (1998): "Restructure with respect...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."

<sup>10</sup> Which required a lot of comforting talk – not that much to him (as the matter was clarified with him already before his delegation to Poland) but rather to his direct reports who felt themselves downgraded. It was difficult for them to realise that the Management Board of the merged company was a level that de facto did not exist in ZWUT with its one and a half Groups.

this learning process in the working groups in a relatively early stage. From there it was only a small step to realise that on either side some processes were superior while others were inferior, and again others were neither better nor worse but simply different.

Thus it became comparatively easy to agree on the best practice processes that the merged company would apply. They were not all taken from one side, in the same way as the key people represented both sides. And it certainly helped that a few basic principles were established by the Steering Committee quite at the beginning:

- the organisation principles, describing the role of the operating Groups, the principles of delegation and substitution as well as fundamental rules of co-operation;
- the four eyes' principle, namely the traditional Siemens rule that always one technical and one commercial manager have joint responsibility for their business, decide and sign together (before the merger, Siemens Ltd. did not have this rule while ZWUT had it);
- the tasks of the future Corporate Departments.

### **Redefining the role of the Corporate Departments**

The latter was important because not only the worksplit between Corporate Departments had to be defined (it was not identical in the two companies), but also the one between Corporate Departments and operating Groups. Where would the Corporate Departments have an advisory function only, where a guideline competence and where would they perform operative function as well? In ZWUT with its one and a half Groups the central departments were aligned to these specific Groups and had taken over tasks that at Siemens Ltd. were performed within a Group. Thus for each ZWUT central department the respective working group had to identify what was a real corporate task and had to be transferred to the merged company's Corporate Departments, or what was Group-specific and would thus be transferred to the Group. According to the task split, the respective staff was allocated to either Corporate Department or Group.

For example, ZWUT had a Purchasing section as a central department. It procured furniture, office material and alike (this was then transferred to Corporate Administration), but also material and services for the business of ICN Group (accordingly, this was integrated into ICN). And it had general knowledge about suppliers in the Polish market that was transferred to the Corporate Procurement Office, a new department in the merged company. In the same manner, ZWUT Marketing gave company-related tasks to Corporate Communications, whereas Group-specific marketing tasks were incorporated into ICN and ICM Groups,



respectively. Where tasks were transferred, the related staff was transferred as well.

Of course, such split is not always obvious. When not all Siemens Groups but some of them intend to participate in a certain trade fair, when is it a matter for Corporate Communications? We defined a minimum of three Groups, otherwise the Groups' marketing units have to take care of it. Is booking an outgoing invoice a Group task or a Corporate Finance/Accounting task? The Steering Committee decided that the operating Groups should have as much responsibility for their process chain as possible. Therefore Corporate Finance would, on the basis of national laws and Siemens worldwide regulations, set the basic rules and watch over their implementation. But operative accounting was given to the Groups (in line with the old Siemens Ltd. practice). Only Groups too small to have their own accountants could have their bookings done by Corporate Finance – and pay for this service.

Indeed Groups should think about what corporate services they really want and get only what they are willing to pay for<sup>11</sup>. All Corporate Departments had to conclude Service Level Agreements with the operating Groups in which tasks and prices are described. Prices were calculated on a rather general level taking the actual and planned cost of both sides' central departments into account. The next step will be that Corporate Departments will have to develop catalogue prices for particular services and compete against external parties offering the same kind of services. Of course there is a downside to this (certain core functions will never be outsourced, a too detailed catalogue creates too much work in application, and any remaining cost after all internal charges still stay in the company). Nevertheless it helps both the Corporate and the Group level to have transparency on what services are wanted and what their provision costs. This transparency will also help to avoid double functions: it must not happen that the same task is performed both on Corporate level (to ensure consistency throughout the firm) and on Group level (to make sure that the various Groups get what they respectively want). The outsourcing processes completed already before (Steffens 2002) had sharpened the eyes for this kind of considerations.

## **Gradual Merger versus Big Bang**

For legal reasons there has to be one effective date of the merger. In Poland this is by law the date when the judge's approval of the merger is actually entered into the commercial register. Note that the crucial date is not the day of the judge's signature but the date of entry into the court's database – and unfortunately the IT system operating this database tends to be quite unstable. The actual

---

<sup>11</sup> At least as far as the Management Board gives them discretion. Mandatory services in order to maintain Siemens standards etc. are excluded from the negotiation process described here, and the charges are set by Management Board.

date of the merger is relevant for pending orders, incoming and outgoing invoices, work contracts etc., so it is very inconvenient indeed when this crucial date is not known even a few days in advance. This after our merger had been put on hold for a few weeks by one of the involved authorities who declared itself unable to do anything because our company file could not be located in the authority's archive. We had already taken the easier path to a merger by changing ZWUT's legal status from joint-stock to limited liability company; mergers between companies of different type were impossible until recently and are still unusual. Polish laws are already quite close to those of the European Union, legal practice however is a different issue.

Even with the effective date being uncertain, we worked towards the merger. New or updated internal regulations of either side were shaped towards unity already one year ahead of the merger. For example types of cars were harmonised long before the merger. It was not required that people would actually change cars according to the new types and categories, as this would have created a wave of resistance against the merger. (Cars are a very emotional issue in many countries, and very much so in Poland where public transport is underdeveloped and people still need a couple of years to get over their memories of brands such as Fiat Polski.) But wherever new cars were ordered, this was done according to such regulations that would remain in force after the merger so that the merger as such did not cause a change. Also all kind of procurement sources and general administration procedures were harmonised well before the merger.

Half a year before the merger, even the two IT departments were integrated. For legal reasons, the ZWUT IT staff had to report to a ZWUT manager in all matters relating to labour law, but they got their actual tasks from the Chief Information Officer of Siemens Ltd. whose authority was established in both companies. In return, the former CIO of ZWUT became Chief E-Business Officer of both companies at the same time. A short contract was drawn up to satisfy the law: Polish legislation on transfer prices in transactions between affiliated companies is in line with international standards. Fines are extremely high and become due even if the pricing as such is found correct but the underlying documentation was not provided to the tax auditor within the prescribed seven days. If such contracts exist and tasks and prices are clearly defined, a Corporate Department established in one company can serve an affiliated company well before a merger, and also if no merger is intended at all<sup>12</sup>.

On the IT side, both companies had outsourced the administration of their IT infrastructure to Siemens Business Services (SBS), an operating Group within Siemens Ltd. Towards SBS, the Chief Information Officer is representing the

---

<sup>12</sup> In Hungary, Siemens Telefongyár and Siemens Ltd. did a de facto merger with joint management and single Corporate Departments without legally merging the two legal entities (which would have destroyed a significant tax benefit).

users as customers. Before the merger, ZWUT had SAP/R3 while Siemens Ltd. had not. To implement all modules of SAP for all Siemens Ltd. Groups would have been impossible within a few months. To maintain two separate systems and to merge monthly closing data by hand would have been very unsatisfactory and easily cause errors. Instead, it was decided relatively early that Siemens Ltd. would introduce the financial and controlling modules of SAP, whereas SAP for logistics would follow after the merger. ZWUT's SAP was extended to include Siemens Ltd., and the chart of accounts was changed. An interface was created so that data from Siemens Ltd.'s Profin system could be transferred into SAP, which made SAP a kind of umbrella system.

For handling human resources data, both companies had their own systems. After analysis of their strengths and weaknesses, it was decided to eventually discontinue both systems and to introduce SAP HR. This was done not at the merger date but with the first salary payment in 2002, as most tax and social security reporting duties are based on the calendar year.

Looking back and evaluating the merger, our practice of phasing the merger was one of its key success factors, and at another opportunity I would go even further into this direction. Even the key players of a merger do not manage to keep track with all different versions of all relevant regulations. When practically all basic rules of a company, all forms and procedures are changed on a single day, and the respective guidelines and circulars are being published within a very few days, even good-willing staff will feel drowned and unable to comply with all the new rules. If therefore these changes are being implemented step by step, chances are better that employees and managers stay à jour and adopt the new guidelines. If the timing of the merger is disintegrated, some learning curves start earlier. Of course this stepwise approach needs to be applied carefully because several changes are interdependent. Nevertheless, when people get used to the practical implications of the merger rather early, this reduces fear.

### **Communication: Overcoming fear**

Indeed fear, uncertainty and doubt are inevitable companions to every merger. Even people who complained about each and every person and procedure in the old company tend to idealise the past when a merger approaches. Even more so after the merger. It seems the only cure to this, the only chance to overcome the consequences of a merger, is the next merger: then the new antagonism will erase the old one. I have seen several examples of this.

But cynicism is no substitute for considerate actions. Early and substantial communication is necessary in order to reduce fears to the unavoidable minimum and to show the upsides of the merger. The first suspicion will always be that a merger is about cutting jobs, so it needed to be shown that this merger had dif-

ferent goals. It helped that we could point at a general tendency within Siemens and cite examples from personal experience where similar mergers had actually worked. And we gave the merger a positive touch: the best practice of either side would be made company standard, in Corporate Departments as well as in sales where the Group with the best customer contacts would open the door for the products of the others. “With proper communications, even the emotions of fear and guilt<sup>13</sup> can be redirected and changed to positive action.” (Ainspan/Dell 2000, 16).

Apart from regular management meetings, merger status reviews and numerous working group sessions, we organised a special merger event for managers and a few weeks later a series of information events in Warsaw and the regional locations to which every employee was invited. These events were carefully prepared<sup>14</sup>: while it was openly admitted where a question could not be answered yet, it would have been counterproductive to leave too many questions open. Late communication leaves room for rumours, but too early information is equally dangerous as it cannot yet have sufficient substance.

At all these events, employees had the opportunity to ask questions, which they could also do via the Intranet or by letter, even anonymously. All questions and answers were published on the Intranet, as well as all status reports and the drafts of the various regulations. Computers were set up in public areas for employees without one on their desk. This openness should express a new spirit of cooperation instead of the hoarding and monopolising of information that was characteristic for the socialist past (and is still far from being forgotten). On either side people were reluctant to open Intranet firewalls and doorway gates to the other company’s employees, but top management insisted on this. We also introduced new ID cards for everybody that would not reveal to which company an employee belonged before the merger, not even through the personnel number.

At Siemens AG, the merger was supported on a corporate level but several operating Groups suspected that it would lead to additional cost burdens from Corporate Departments. It had to be shown that this would not be the case. Of course, all cost and headcount comparisons had to be prepared in such a way that only equal tasks were compared, not simply equal names of departments.

In a second wave of events throughout Poland, customers and the press were informed. While it was psychologically important to give the internal rounds

---

<sup>13</sup> Such guilt as may be felt by employees who could stay in their jobs while others were transferred into less attractive positions or even dismissed.

<sup>14</sup> Although we did not use such nice symbolism as Siemens Hungary did in a similar case: they had the two merger parties represented by two employees dressed as bride and bridegroom, which was even more fitting because they symbolised the two companies’ locations – Prince Árpád street and Gizella street.

precedence, we know now that the external information round should have come faster after the internal one. We learned that in particular key customers entertain fears that attention towards them might fade away in the larger organisation or that their trusted partners on our side might lose power. We managed to react fast on the first signals of this kind so that negative effects could be averted and the positive side of the merger was established in the customers' minds.

It is a commonplace that the communication strategy must be consistent "while the drama of the merger unfolds" (Ainspan/Dell 2000, 19), "a drama with all the tension of a medieval passion play" (Ashkenas/DeMonaco/Francis 1988). Indeed this is a key factor. Managers, employees, customers and the press will not only follow the messages given to them, but also those given to other audiences, and even ascribe greater credibility to what is being told to others (Ainspan/Dell 2000: 21). So it would be disastrous to be inconsistent. These audiences tend to suspect in any case that there is a hidden agenda, so they will look for supporting evidence. In case they realise that managers only outwardly support the merger but continue to live in terms of the past, this will do a lot of damage. Also employees must be constantly discouraged from using the old names, logos etc. And of course the different past of the other side must not be belittled or derided.

This does not mean that the merger must be idolised. The merger was not chosen because it is the only possibility and free of fault, but because it is seen by the entire management as the best combination of advantages and disadvantages that is currently available. Such a sober approach enhances credibility.<sup>15</sup>

Another important commonplace is that the ongoing business must not suffer from the merger. There is a tendency in restructuring processes that people care more about the size and place of their box in the new organisation chart than about the customer who is ultimately deciding on the very existence of the organisation. From top management level it was made clear and visible that such inward-focussing would not be tolerated and that cooperation would be rewarded, while obstruction would be sanctioned.

## After the Merger

Of course the first weeks after a merger are difficult for everyone. It took time for all managers and employees to get adjusted to the new structures and new forms, but by and large we have succeeded quite well. People with complaints were discouraged from permanent grumbling and directed towards people who would consider revisions of the respective processes. We made clear that the regulations would be reviewed after some time so that improvements could be

---

<sup>15</sup> "Even when the news is bad, the one thing the staff...appreciates most is the truth" (Ashkenas/DeMonaco/Francis 1988).



incorporated. What should be done better next time is that people who apply new regulations and forms wrongly should get specific advice instead of blank refusals. Tact is particularly necessary where the new regulation is close to one side's old one.

Was this merger in Poland more difficult than one in Germany? Not really.<sup>16</sup> The emotional level and the level of personal involvement of Polish managers tends to be higher than that of Westerners, which requires more patience. The very high degree of downward loyalty, too, can be irritating to foreigners: Polish managers tend to fight for their own employees as if they were their trade union representatives. This may be due to paternalistic tendencies in socialism or to the weakness of trade unions in the companies concerned.<sup>17</sup> Also one has to keep in mind that the huge exposure to mergers, restructuring and privatisation after 1989 created negative associations. But one can get used to all these issues and achieve a lot with a combination of factual arguments and demonstrated (genuine) respect. In result, we had a successful merger driven by expatriates and local managers alike.

In order to make it clear that the formal completion of the merger is not the end of the story, a leadership excellence programme was designed. This is a series of workshops set up by AchieveGlobal in which all first and second line managers will participate. All workshops are held outside the company and include a lot of group work so that managers can practise cooperation with their peers whom they in a number of cases knew from sight only. AchieveGlobal also did extensive interviews with managers and employees on their perceptions of the merger, and the workshop contents were aligned to the results.

The following points are what most interview partners appreciated in the merger process:

- the planned approach
- the focus on business processes
- the communication sessions for employees and customers
- the clear problem recognition
- the “us versus them” mentality was relatively rare.

---

<sup>16</sup> It was fortunate that both organisations had the same structure with Warsaw as main location and a number of regional offices. To merge a Kraków company with another one in Warsaw (or, even worse, Katowice) would imply a number of regional and historic aversions.

<sup>17</sup> In the limited area of my observation, this behaviour was not caused by egalitarianism: the aim was not to have equal salaries, but to raise them on all levels, keeping the differences. In companies located in smaller towns or such with own settlements where both managers and workes live, these relationships can be much more complex.



Less favourably evaluated was the way of communication: meetings were considered too large for open discussion, and instead of e-mails and the Intranet there should have been more personal interaction. It was also identified that second line managers need a better understanding of their role within the company strategy: they are ready to commit themselves and desire to be involved, but not always clear about what is expected from them beyond the sheer numbers reported.

Issues addressed at the first two workshops (which were for first line managers) were the vision and mission of the merged company, the division of responsibilities between Management Board, operating Groups and Corporate Departments as well as leadership style. For the issues identified as most urgent, task forces of 3-4 members were set up ad hoc, with results to be presented at the next regular management meeting. For example, new forms of meetings will be designed to strengthen the corporate feeling, and in particular sales managers selling different products and solutions to the same set of customers will be brought together so that they may exchange experience in a semi-formal setting.

In the twelve months since the merger became effective, it turned out that the attention is gradually fading away from the merger as such. The spirit of co-operation is not so much dependent on merger-specific topics, but rather on the way how the actual business is developing. Today, ex-Siemens Poland is irritated by ex-ZWUT's grossly deteriorated volume and profit figures; it takes time to realise that this is the toll taken by the worldwide crisis of the telecommunications sector, not by lacklustre behaviour after the merger. The other Groups in Poland are so far unable to compensate for what is missing on the ex-ZWUT side, their operations have been too small. So the Groups affected by the crisis and also the Corporate Departments have to downsize very significantly, far beyond anything planned in the merger process.

This situation was not created by the merger, and no merger measure could have prevented its effects. The critical business situation makes it more difficult (but also even more important) to achieve the targeted improvements in leadership and communication. Siemens company history shows that there always have been some Groups in a boom and others in recession, so over time managers and staff will experience both the upsides and the downsides of a multi-sector company.

### **Summary: Merger lessons and recommendations**

- Mergers are not unique events but a frequent feature of today's business world. So it is worthwhile to analyse the experience and to learn from it (Ashkenas/DeMonaco/Francis 1988).
- Never underestimate the challenge of a merger. Cultural proximity does not make a success more likely.

- Consistent communication to all involved groups is a must. And give them enough opportunity to tell you what bothers them. Use this feedback in your further communication.
- Start early to communicate, but not when you have no contents developed yet.
- Both sides' Human Resources and Corporate Communication departments must be involved from the very beginning.
- Do not fake an answer where you do not have it yet. Identify what preconditions must be fulfilled and when you expect this to happen.
- Do not allow major time gaps when the same kind of information is to be distributed to several groups of recipients.
- Stress the expected positive effects of the merger. Be honest, not overenthusiastic.
- Describe where your merger will be different from negative trends and examples known from the press.
- Have a balanced merger team and decision-making body. Make their structure and proceedings transparent. Involvement and participation ensure much better acceptance of the results.
- Allow the merger team sufficient time for due diligence on both sides. Let people discover how things were done on both sides and what advantages and disadvantages both methods have. Go for best practice in the merged company.
- Do not delay decisions, and do not circumvent difficult decisions by making non-viable compromises.
- Define what the merged company shall do, how it shall be done, and only then who shall do it on the basis of competence and consistency with other tasks and processes. Define rules and principles that serve the aims before looking at who will be affected in which way. In particular, define clear interfaces for divisions and departments and avoid overlapping areas.
- It is not necessary to publicly announce the nominations of the future managers in advance as long as the nominees themselves are informed and the following point is observed.
- Identify which key people the company should not lose. Managers with sufficient authority to speak for the future company should assure them that they are wanted to stay and that there will be an attractive job for them even if the one they are aspiring goes to someone else.

- Do not allow managers to position themselves at the cost of others competing for the same position. Where two people put their private fight over company interest, make clear you will rather fire both than find out who deserves 55% of the blame and who only 45%. In general, make sure that cooperation is visibly rewarded and obstruction sanctioned.
- Try to avoid downgrading people in terms of salary, formal rank, car etc. Create consistent rules for new cases, while privileges of the past may die out over time.
- Avoid the parallel existence of two IT systems for the same task. For a transition period, one system may however serve as a feeder for the other which becomes the umbrella.
- Make a gradual merger process. Start learning curves as early as possible. Do already now whatever can be done now. It is much easier to merge two companies that have been in a process of harmonisation for some time.
- Where new regulations and forms were introduced, make sure that people get the necessary advice when starting to apply them.
- Make it clear that the integration process will not end once all the new structures and regulations were published. Schedule post-merger activities so that there is a process for introducing improvements, and let people realise they will not be left alone with the aftermath of the merger.
- Never forget your customer does not care whether you are just now busy with merging or not.

## References

- Ainspan, N. D./Dell, D. (2000): Employee Communication during Mergers, The Conference Board Research Report No. 270-00 RR, New York.
- Ashkenas, R. N./DeMonaco, L. J./Francis, S. C. (1998): Making the Deal Real: How GE Capital Integrates Acquisitions, in: Harvard Business Review 76 No. 1, pp. 165-178.
- Feichtinger, C./Fink, G. (1998): Interkulturelle Probleme im Ost-West-Management: Die Theorie des kollektiven Kulturschocks (Intercultural Problems in East-West Management: The Theory of the Collective Cultural Shock), in: Osteuropa-Wirtschaft 43, pp. 227-241.
- Fink, G./Novy, I./Schroll-Machl, S. (2000): Tschechische, österreichische und deutsche Kulturstandards in der Wirtschaftskooperation (Czech, Austrian and German Culture Standards in Business Cooperation), in: Journal for East European Management Studies, pp. 361-376.
- Schmidt, S. L. (2001): Merger of Equals – Idee und Wirklichkeit (Merger of Equals – Idea and Reality), in: Die Betriebswirtschaft 61, pp. 601-614.
- Stahl, G. K. (2001): Management der sozio-kulturellen Integration bei Unternehmenszusammenschlüssen und -übernahmen (Management of the Socio-Cultural Integration in Mergers and Acquisitions), in: Die Betriebswirtschaft 61, pp. 61-80.

- Steffens, M. B. (1998): Verhandeln in China – Ein Leitfaden in 60 Punkten (Negotiating in China – A Guideline in 60 Points), in: Harvard Business Manager 20 No. 6, pp. 19-24, in English in: China Economic Review 9 (1999) No. 1, pp. 20 f., and No. 2, pp. 18 f.
- Steffens, M. B. (2002): Outsourcing in Poland – a Case Report, in: Osteuropa-Wirtschaft 47, pp. 41-50.
- Steffens, M. B./Sundrum, L. (1993a): Joint Ventures in der Telekommunikationsindustrie - Erfahrungsbericht eines Großunternehmens in Osteuropa (Joint Ventures in the Telecommunications Industry - A Large Company's Experience in Eastern Europe), in: Osteuropa-Wirtschaft 38, pp. 47-55.
- Steffens, M. B./Sundrum, L. (1993b): Political Change Opens Telecommunication Markets, in: Telcom Report International 16 No. 4, pp. 19-22.