





merge without misery

Emotions can matter as much as bottom lines.

BY ROSABETH MOSS KANTER



ROSABETH MOSS KANTER is the Ernest L. Arbuckle Professor of Business Administration at Harvard Business School and author of *The Change Masters*, *Men and Women of the Corporation*, and *Confidence*. Adapted from *SuperCorp: How Vanguard Companies Create Innovation, Profits, Growth, and Social Good* (Crown Business). ©2009

The whole thing got off to a very bad start.

Almost immediately after the announcement of a takeover bid for their company in June 2003, 3,500 male employees of Chohung Bank shaved their heads and deposited the hair in front of the skyscraper that housed the headquarters of Shinhan Bank, the competitor that wanted to buy Chohung. That amounted to a huge pile of straight black hair in the historic center of downtown Seoul. This was hardly expected behavior for bankers. And as protests go, this instance of resistance to change was highly visible, intensely embarrassing, and a strong signal of what could lie ahead if the merger went through.

It was a hairy situation, so to speak. But it was only an extreme (and extremely visible) version of the turmoil and discontent that can lurk in the shadows of major change. Resistance to change is always a danger even in small projects and promising innovations. But when a whole company is about to change its shape, to transform itself into something entirely different through a merger, emotions can run rampant.

Mergers are a business practice that nearly everyone loves to hate. Employee anxieties rise in the uncertainties surrounding who will go and who will stay as the acquirer “consolidates” (cuts jobs), or in the disruption caused by new rules or roles. Old-fashioned company loyalty tugs the heartstrings, when people have formed important parts of their identities around being part of particular companies. For example, when Procter & Gamble and Gillette announced their agreement that P&G would acquire Gillette, there were undoubtedly many long-term Gillette employees who would have gladly supplied Gillette

razors for Chohung Bank employees to shave their heads, in solidarity with all those who hate mergers. And not only employees but just about everyone else seems to hate mergers too, except the bankers and lawyers who live off them or competitors who use the confusion to poach business. Concerned investors often drive down acquiring companies’ share price. Customers fear changeover problems that disrupt service. Politicians in the neighborhood of a takeover target rally populist sentiment against a change that threatens to remove a local headquarters or cost jobs.

Despite all the potential difficulties, mergers and acquisitions continue to burgeon, within countries and across borders, except in tough times, when the capital spigot that fuels deals is temporarily shut off. Companies use M&As to fill gaps in product portfolios, enter new geographic markets or gain scale in existing ones, and, most important, add new capabilities that help them get out ahead of major external changes. Although many companies suffer losses before realizing the economic value of their changes and a high proportion of mergers fail to live up to expectations (sometimes even destroying financial value), vanguard companies tend to buck the trend.

One marker of vanguard companies—those that use their unique strengths to provide innovative solutions to societal challenges—is their ability to integrate new people, products, ideas, and capabilities quickly and effectively, while still remaining true to their purpose and values. Indeed, strong values encourage leaders to pay attention to culture and human emotions as they add new parts and shed others. This helps vanguard companies take giant strategic steps. Their approach to mergers and other huge but potentially threatening changes combines discipline and humanism. They stress high standards and provide tools to meet them, and they also have leaders who

invest in creating a welcoming, inclusive culture. Vanguard companies provide a very different model of how companies can grow through acquisitions without making people miserable and, under the best circumstances, perhaps making employees and communities a little happier.

WHEN THE EMOTIONAL IS RATIONAL

As the pile of hair in front of Shinhan's headquarters got higher and higher, so did the worries. Shinhan Bank leaders paused momentarily to consider their plans to buy troubled Chohung Bank. Chohung was a venerable, 107-year-old Korean icon that had served the conglomerates known as *chaebols* but had faltered during the 1997–98 Asian financial crisis and had fallen behind the times in other respects. A little larger than acquisitive upstart Shinhan, Chohung had already suffered several blows to its pride, including a government bailout and, two

By June 2003, Asia was back on track as the region of the future. Global competition was coming, and so Shinhan leaders went ahead with the bid for Chohung with an unusual strategy in mind. First, they spent four days negotiating with the union. They gave away a great deal—or so it seemed on a superficial glance at the contract—before handing out caps to Chohung's protesters to cover their bare heads when they went back to work. Shinhan agreed to raise the compensation of Chohung employees to match Shinhan standards. They agreed to equal representation on the boards of a new holding company, Shinhan Financial Group, and on all key committees. They agreed not to formally integrate for three years.

Everything seemed stacked against the merger, and some bank customers, seeing all the turmoil and the hair, took their business elsewhere. But a little over a year later, after a series of creative events designed by joint task forces under the ban-

Emotional bonds were so strong at Chohung that union members shed their hair and held their bald heads high as a sign of loyalty.

years earlier, a failed attempt to acquire Shinhan. Still, emotional bonds were so strong at Chohung that union members (in Korea, a category reaching well into lower management) shed their hair readily and held their bald heads high as a sign of their loyalty.

Shinhan, founded in 1982, was different from Chohung in numerous respects. As a young entrepreneurial bank, Shinhan had grown by serving the new edge of South Korea's emergence as a developed country: a middle class and mid-sized enterprises. More open to learning from global experience and less dependent than Chohung on either iron-fisted government or equally closed *chaebols*, Shinhan had come through the Asian financial meltdown with a strong balance sheet and leaders determined to be among the world's best. Knowing that liberalization and globalization meant stronger competition from international banks (Citigroup was especially feared), Shinhan leaders wanted to scale up quickly and then tackle the region. They looked for an acquisition and found Chohung, still with hair on its collective head representing growth potential.

ner of "emotional integration," the two banks were virtually integrated in all but name.

A COMMON IDENTITY

The first and most radical emotional-integration idea was a big retreat: the Serabol Summit. Shinhan convened fifteen hundred top managers of legacy Chohung and Shinhan banks for several days of symbol-laden meetings, including climbing a mountain together near a historic shrine, performing rituals in concert, and shedding former roles to meet new people performing new jobs.

A task force of younger professionals proposed and implemented the event; they examined the reasons most mergers fail and decided it was the human factor. They wanted to tap into deep emotions that would make people feel united as part of something big and important. They saw that the standstill agreement with the Chohung union that prohibited formal bank integration did not ban shared experiences. They wanted the Serabol Summit to invoke feelings of solidarity, pull on heartstrings, and forge a common identity as one company; business formalities would remain separate.



The Shinhan task force made sure the emotional integration would feel nothing like brainwashing but, rather, like a meeting of minds.

The group knew that what they were proposing was unprecedented and risky. They knew of no event on this scale in the region—and certainly none in which emotional themes claimed more time on the agenda than discussions of business strategy and change management. Fortunately, members of the top management committee supported the team and were willing to invest.

Unlike their management elders, the younger Shinhan group came of age in the Internet era and saw the power of human connections. They had no memory of the emotional manipulation that had taken place in North Korean prisoner-of-war camps during the 1950s Korean War (the American War to them) that put north and south on separate paths, making North Korea one of the world's danger spots and one known for attempts at pernicious brainwashing in prisoner-of-war camps.

The Shinhan task force made sure the emotional integration would feel nothing like brainwashing but, rather, like a meeting of minds. The team's goal was benign and not coercive: to

offer a setting conducive to employee empowerment—encouragement to speak up and share ideas—and for making friends with people who had once been competitors, to learn to work as partners. They were sensitive to every signal of inclusion or exclusion and tilted the scales toward inclusion.

THE INTEGRATION PAYOFF

As it turned out, Shinhan had given nothing away and had gained everything. In a short time, the new Shinhan Financial Group presided over well-functioning legacy banks operating in parallel but actively exchanging ideas with one another, displaying one another's banners in their own branch banks, and strategizing together about a new model for the bank-of-the-future. Relationships became so strong that the Chohung union of the shaved-head protest was pretty much neutralized and acquired more cooperative new leadership. At the three-year mark, when official integration could take place, the Chohung name disappeared.

Within three years, Shinhan Financial Group grew to become

the largest financial group in Korea and one of *The Wall Street Journal's* twenty-five Asian bellwether stocks. Shinhan's growth in stock valuation has far outpaced the Korean market as a whole.

The managers who formed the new Shinhan Financial Group are smart bankers, incorporating global best practices and rising to the stringent standards of Sarbanes-Oxley for Shinhan's New York Stock Exchange listing. They planned the merger carefully, using advanced management systems, complete with detailed flow charts and dozens of task forces involving hundreds of people directly and thousands indirectly. But neither banking intelligence nor managerial systems would have been enough without the human touches that put egos in check and helped new identities to form. Shinhan leaders were willing to venture into the realm of emotional understanding, tying humanism to management in order to execute a growth strategy.

As in other vanguard companies, Shinhan leaders are smart enough to organize and categorize the work of change in clear ways that enable people to move from where they are, step by step, while envisioning a long-term future, and they pay as much attention to integrating people emotionally as they do to work processes. Shinhan made this three-part model explicit in its post-acquisition activities.

THE THREE-PART MERGER FORMULA

Big transformations stand or fall on human commitment to change. In addition to the formal plans that map the direction of change, people need to be moved from protesters trying to prevent change to active participants shaping the future.

In the Shinhan-Chohung bank merger, the integration structure consisted of three streams of activity, each with a governance body and task forces responsible for specific pieces, and with equal representation from each of the legacy banks. Shinhan called these activity sets "dual bank," "one bank," and "new bank."

Dual bank was the name for continuing to run legacy Shinhan and Chohung banks as distinct entities while encouraging their managers to communicate. While formally separate, they came together in dozens of joint task forces to share best practices and learn about each other's operations and methods. This separation was required by the agreement with the union, but it turned out to be good practice anyway. It helped anchor people in a home base group, prevented confusion, and permitted overlap to ease the transition to new ways step by step. As people began to learn new ways of doing things, they could gradually drop the old ways. Without coercion, managers saw the wisdom of adopting a practice that worked elsewhere—sometimes from legacy Shinhan, sometimes from Chohung. The two banks soon started to resemble each other.

One bank was the umbrella for an extensive set of confer-

ences and events to provide training, understanding of the strategy, common values, and "emotional integration," Shinhan's term for human bonding. The events were both informative and fun, so people had positive stories to tell. They involved ways for people to come to know one another outside of their jobs, which opened up many new connections. The emphasis was tilted toward togetherness—toward the emotional side rather than the task side. The planners wanted people to forge relationships and feel emotionally connected to one another and to the institution.

New bank task forces developed the designs for innovative financial services of the future. This was new territory for both legacy banks, and it encouraged people to look beyond concerns of the moment to envision something totally different. This was a highly empowering mandate, one that was also challenging and required members from each legacy bank to depend on one another.

All of these three streams represent de facto integration, even stealth integration, going around the letter of the union agreement to let people see the value of integrating on their own. In short, Shinhan leaders convened people and let human nature take its course. Once people showed up and had goals to achieve, they started to want to be together and took responsibility for change.

This way of clarifying the tasks and uniting people sends important reassuring messages: *We come from different places, and our separate individual identities are acknowledged and valued (dual bank). We are joined as one enterprise, one community, where we can communicate with one another and feel part of the same entity (one bank). Together, we are building a promising future that we share equally (new bank).*

Effectiveness at integration and building the future is not merely a mechanical process of good change management—it is a human process of concern for people and respect for their feelings and situations. When values and principles are at the forefront, leaders are better able to forge relationships and find common ground, even across acquired companies with seemingly different cultures, and they can make changes some would find threatening with a foundation of goodwill stemming from a broader sense of shared purpose. When leaders are concerned for what is inside people's heads, fewer people (at least in Korea) will find it necessary to shave their heads.

Being able to grow quickly and effectively by adding new parts to the mix can turn organizations of all sizes into giants of their field. Business strategy is a starting point. Paying attention to humanistic values and organizing human effort with those values in mind also help improve the state of workplaces and the world—and, ultimately, produce the high performance that characterizes the vanguard. ■