CULTURE PARTNERS

Merging Cultures Through M&A

Integrate your teams while building a results-driven culture

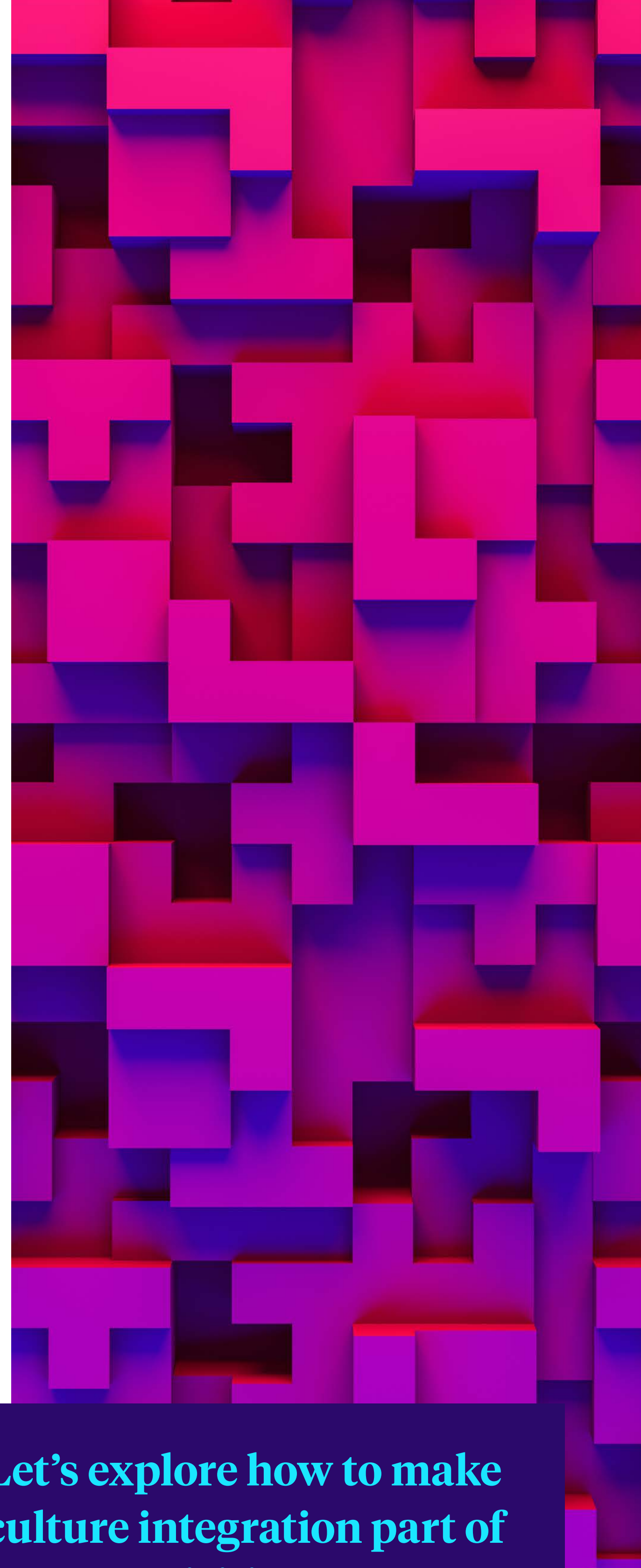
Managing Integration

The number of mergers and acquisitions worldwide from last year came in at 62,000[1] with a total (publicly disclosed) value of $5.1 trillion USD.

M&A offers companies an unparalleled chance to scale—the operative word being "chance," since, unfortunately, most deals do not succeed. According to multiple studies, some 70% to 90%[2] of all acquisitions are "abysmal failures."

These outcomes are a result of a variety of common inadequacies, including ineffective risk management, unclear operational strategy, lack of communication between stakeholders, and poor project management. But the inability to integrate disparate company cultures is the most critical.

Research published in the International Journal of Innovation and Applied Studies confirms that misalignment between two company cultures is a prominent factor in acquisition failure.[3]



Let's explore how to make culture integration part of your acquisition strategy.

Delivering Clarity Around Your Company Culture

Robust planning for cultural integration is critical to the success of your M&A.

It's important to keep two things in mind during this initial phase:

1. Cultural alignment is complex and difficult to measure, but the effects of misalignment will be immediately felt and increasingly over time.
2. Cultural alignment (or misalignment) will impact your results just as much as, if not more than, operational and strategic alignment will.

Workplace culture has little to do with perks or company happy hours. Rather, an organization's culture is the unwritten rules that dictate workplace behavior; it is defined by experiences shaping beliefs which drive actions and results.

We see this play out during an acquisition because **culture drives the decisions made as two companies combine.**

In most organizations, there is a certain type of culture, generally tight or loose, and they are run exactly as they sound. In tight cultures, routine and consistency are highly valued, and strict rules and processes are followed. Loose cultures tend to be more fluid and agile, encouraging innovation and creativity.

Just ask Amazon and Whole Foods, who merged their tight-loose cultures in 2017, ultimately causing poorly stocked stores, distraught employees, and a loss in trust between the organizations and their customers.

Gaps between two converging cultures create miscommunication between leadership teams, lack of clarity around operational strategy, and stunted movement toward key results.

Culture alignment requires intentional management, and ignoring gaps leads to acquisition failure and creates more complexity in the long run.

Effectively addressing integration before, during, and after the M&A transaction will streamline the development and management of the new company.

Establishing Shared Goals

When preparing for an acquisition, leaders from both organizations are often laser-focused on the goals of their own organization. For example, one organization may be focused on boosting long-term growth while the other is focused on immediate expansion of their product portfolio. Failing to address the needs of the combined entity can lead to catastrophic outcomes afterward, escalating conflicting priorities and confusion around expectations across the newly combined teams.

Establishing a set of shared Key Results early on will help mitigate poor outcomes later. This process asks that leaders from both sides lift their heads up to define three to four meaningful, measurable, and memorable key results that everyone in the new organization takes ownership to deliver.

Identifying these expectations gives leaders in the organization clarity and confidence to align their teams quickly and reduce the confusion that can set in after an acquisition.

When the desired outcomes are clear and compelling, you give the new organization something to work toward, together. Then you can go to work aligning around the culture you need to deliver those results.

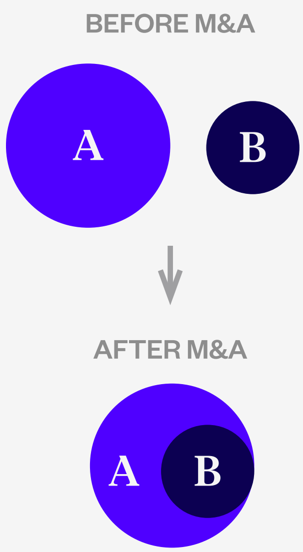
Defining the Shape of the New Culture

There are three culture combinations that describe the type of integration taking place during M&A: assimilation, correlation, and co-creation.

Assimilation

Assimilation occurs when one organization agrees to conform to the other's existing culture. This requires that every employee in the assimilating organization commits to adopting the cultural norms of the other organization—and takes personal accountability for shifting their own cultural norms to align with them.

Assimilation is typically recommended when a large corporation acquires a much smaller organization, as shifting the culture of a small organization will be a more efficient, cost- and time-effective effort.



Organization B (typically the smaller of the two) agrees to conform to Organization A's existing culture.

Another case in which assimilation may be optimal is when a high-performing organization merges with or acquires an organization that has consistently struggled to hit targets.

Correlation

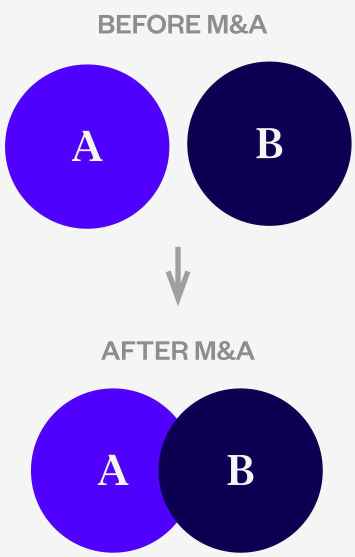
Correlation occurs when each organization's culture remains largely independent, sharing best practices during and after the transaction.

As an example: two restaurant chains undergo a merger facilitated by a larger parent organization. One offers a formal dining experience while the other is a casual, family-oriented eatery.

When the parent organization evaluates the respective customer bases, product price points, and customer expectations, it determines that the businesses are more likely to thrive if their cultures remain independent of one another. Both companies enjoy the shared support, funding, and mission of the larger parent organization while exercising independence.

In situations like these where each organization maintains a unique customer base and a distinct set of benchmarks, a correlation-style culture combination can benefit both organizations.

They can access shared assets, diversification of product or service offerings, and increased funds while also allowing individual cultures to function successfully in the composite organization.



The culture of each company remains largely independent, sharing best practices after the merger.

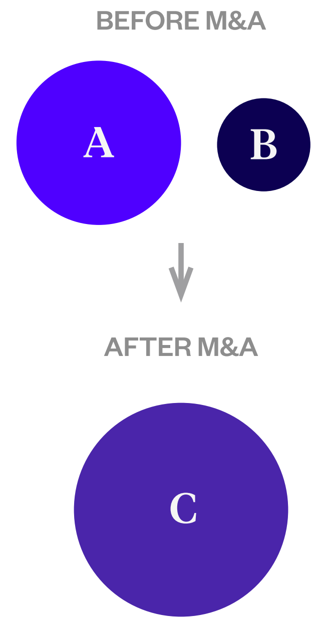
Co-Creation

While assimilation and correlation are appropriate culture combinations for some acquisitions, co-creation is often required to deliver a successful outcome. This culture combination occurs when organizations bridge cultural gaps and collaborate to define and align their leadership development and business process toward an entirely new culture. Co-creation is also the most challenging culture combination to deploy because it demands effective high-level communication, compromise, and clarity.

Consider this example: a large pharmaceutical company acquires a midsize pharmaceutical company. Recognizing that their business practices, customer base, marketing objectives, and sales strategies align, leaders in these organizations pursue an approach to combine their cultures. They collaborate to draft a simple and clear "common constitution"—a written referendum that includes:

1. Shared organizational objectives
2. The Cultural Beliefs, or "future state" required to deliver those objectives

The constitution serves as an official guide for aligning employees around the new culture. This is a new culture designed to produce the exact business results needed from the newly formed organization.



The two organizations collaborate to define and align around an entirely new organizational culture.

Most organizations fail to align around the strategic approach to culture integration and instead allow it to occur organically. These same organizations end up bringing in experts to retroactively rectify this oversight years after the acquisition.

As you might expect, this creates considerable friction within the culture, leading to increased rates of attrition, loss in revenue, and a decrease in overall productivity.

A deliberate promotion of the right mindset and behavior throughout the entire, newly formed organization is the best, early determinant of whether the new organization will thrive.

Assessing Your Company Culture

Ensuring a successful integration begins with a holistic culture assessment of both organizations.

This evaluation of how individuals within each organization think and act will identify the cultural gaps that may emerge and cause disruption after integration.

We worked with a merger of two organizations with vastly disparate cultures. One culture was a consensus-driven organization where decisions were socialized for agreement before moving forward; whereas in the other culture, the norm was to move fast and make decisions quickly based on delegated decision rights. Teams from the fast-moving culture became frustrated that the combined entity was taking too long to make things happen.

They interpreted discussions around a decision not as collaboration but as red tape slowing down the process, breeding frustration and creating wider gaps between the combined entities. If left unchecked, these gaps could have widened to the point of failure.

Thriving in the New Company Culture

Every acquisition is different, and it’s up to leadership teams of both companies to deliberately design a culture that ensures the new organization delivers the desired results. It is also the leaders’ responsibility to model the desired culture, advancing alignment, empowering ownership, and driving personal accountability among all employees.

This deliberate promotion of the right mindset and behavior throughout the entire, newly formed organization is the best early determinant of whether the new organization will thrive. The immediate benefit is in streamlined day-to-day operations, which of course positively impacts the goal of delivering on topline results.

While this cultural foundation is absolutely vital, and we believe plays the largest role in boosting M&A success, it is important to note that culture work requires focused activation. A new workplace culture needs continual support, re-evaluation, and intentional management to be successful.

As we like to say, by way of encouragement to our clients, to unleash the power of your culture, you must “manage culture, or it will manage you.”

CULTURE PARTNERS

Culture matters. Without it, you can't get where you could be. However, with the right tools, you'll inspire your team to swim in the same direction, ensuring a smoother road to success that impacts everyone, inside and outside your organization.

Unleash the power of your culture.

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Data sources:

[1] http://pwc.com/gx/en/services/deals/trends.html

[2] http://www.ijias. issr-journals.org/abstract.php?article=IJIAS-15-135-02

[3] https://hbr.org/2018/10/one-reason-mergers-fail-the-two-cultures-arent-compatible