

RESEARCH INSIGHTS: M&A – THE CASE FOR CULTURE

In 2015 a global Fortune 100 company asked us to conduct research to determine if a more rigorous approach to culture assessment as part of M&A due diligence and/or integration would be a worthwhile investment. Interviews were conducted with seven of its leaders involved in both large and small acquisitions in five regions of the world. We probed to find out what was working and not working in recent acquisitions and what support or tools would provide value. The research findings led to development of a set of culture tools to support leaders, HR/OD and integration team members in understanding, exploring and planning during M&A which we discuss later in this paper.

The research findings clearly indicate the need for a consistent, practical approach to culture assessment that can be used by leaders, HR/OD and integration team members. The following summarizes the key findings from this research.

IS PAYING ATTENTION TO CULTURE A WORTHWHILE INVESTMENT?

The research revealed that without a disciplined approach to culture assessment, the company faced rapid erosion of the value of its acquisitions. Loss of critical talent, lagging productivity, compliance and risk management issues and delayed integration were just some of the issues described by leaders when culture was not on the agenda as part of their M&A due diligence and integration planning.

Understanding Cultural Differences affects the Success of M&As

The degree of effort invested in understanding cultural differences affected the success of the acquisition. While some acquisitions moved slowly and carefully in order to ‘not break what is working’, others followed an aggressive timeline. The less attention given to culture, the higher the risk of problems during integration such as:

- The acquired company was not prepared for the level of compliance and metrics that the company demanded and almost lost all of their key employees in the first 3-6 months.
- Serious compliance issues were experienced due to a difference in beliefs regarding the need to follow rules.
- Unclear communications and high volume of integration related activities disrupted work and put the retention of top talent at risk.
- Misalignment in what people were told to expect and what actually happened resulted in 50% of staff at one acquisition, the best people, leaving the company.

Where People are Key to Success, a Culture Assessment is Essential

Leaders said a culture assessment was essential for all acquisitions where people are key to success.

- Some leaders couldn't think of a case when it isn't needed while others thought that it is vital where human capital is key to value.
- There was some agreement that where product lines or contracts are the purchased asset, culture only needs to be monitored and a quick scan approach could be sufficient.
- For companies that are founder-led and start-ups where culture shock can quickly impact productivity and retention of employees and customers, leaders believe a culture assessment process is vital to success.

A Culture Assessment Prevents Many M&A Pitfalls

Leaders indicated that a culture assessment could have helped avoid and/or be better prepared to address challenges often encountered during a merger or acquisition. Specifically, it could help them to:

- Identify non-negotiable areas that lead to No Go decisions earlier (i.e. lack of high ethical standards).
- Predict problems and avoid early missteps by better understanding the impact of decisions before implementing them.
- Develop a robust integration plan that prevents loss of asset value (key accounts, top talent).
 - Improved ability to sequence and phase integration to minimize disruption of work.
- Understand people's appetite for change and tailor change management and communications plans accordingly resulting in less angst, resistance and attrition.
 - Build communications that explain why and what will happen that connects with people and will be heard.
 - Manage expectations and set a pace of change to manage risk.
- Create opportunities to gain the buy-in and support of acquisition leaders and other critical resources thereby decreasing the risk of attrition.

M&A CULTURE ASSESSMENT KEYS TO SUCCESS

Identify Cultural Differences Early in the Acquisition Process

Leaders believe culture should be assessed, when possible, early in due diligence to no later than 30 days after close to get the maximum benefit.

- Pre-close was ideal to provide input to the decision to move forward with a deal.
- Post-changeover efforts are valuable inputs to integration plans.
- Even later in the process, culture tensions can be identified and addressed.

Sponsorship by Business Unit Executive makes a Difference

Leaders emphasized that active business unit sponsorship was very important to ensure players are aligned and doing what is needed for the acquisition to be successful. Examples were provided where direct intervention by the senior executive led to better decisions and prevented actions that were detrimental to the success of the acquisition. For example, senior executives:

- Slowed down integration activities that were disrupting the business and affecting acquisition ability to achieve financial results.
- Delayed implementing changes until there was a better understanding of the potential impact on the business.
- Acted as an advocate for the acquisition when decisions were being made by functions.

Involve Leaders of the Acquired Company Immediately After Close

It is critical to engage leaders in the acquired company as soon as possible after close, preferably on Day One or, at the latest, within the first 30 days. In addition to building trust and strengthening relationships, this helps the acquirer to learn why things are the way they are and understand the implications of potential changes. This would also allow for the timely communication of integration plans to employees, which is important to reduce anxiety and maintain productivity during the transition. Engaging leaders is most effective when the acquirer:

- Communicates more and engages leaders from both organizations in integration planning.
- Spends time with local leaders and their teams, not just senior leaders.

- Uses focus groups to engage employees and get their input to change plans.
- Provides clear communications about the rationale for the acquisition and plan.
- Engages department heads of both businesses in the culture dialogue.

THE OUTCOME – A SET OF CULTURE TOOLS FOR M&A

The outcome of this research was the development of a set of culture tools to support the M&A process.

- **Culture Due Diligence** process and tools that is used in the early stages of due diligence.
- **Culture Integration** process and tools for identifying cultural similarities and differences, including areas of synergy and tension.

Used pre- or post-changeover, the tools provide due diligence and integration team members, HR and top leaders with the kind of information needed to support decision making, communications and transition planning.

With a streamlined process and a small set of highly informative tools and processes, the client now has a M&A culture game plan for more effective integration planning that will protect the value of the asset.

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