

# **CULTURAL INTEGRATION PROCESS FOR MERGERS AND ACQUISITIONS**

## **Introduction**

Whether it's Forbes, The Globe & Mail, The Wall Street Journal or Harvard Business Review, one can't help but notice that most accounts of business mergers are about what went wrong! In fact, over 70% of all mergers and acquisitions fail to achieve original financial expectations. That's a sobering statistic.

Why do they fail? According to a recent UK survey, 85% of executives in failed mergers cited differences in corporate culture as the major cause. Note: it was differences in corporate culture, not poor financial analysis, strategy or sudden changes in economic conditions.

Rather than dealing with the messy issues of conflicting corporate cultures up-front, many executive teams just hope that they will just go away. Over time they often do, or at least the people do, with post-merger voluntary attrition increasing anywhere from 10-70% if cultural issues are not addressed early in the process. Some staff who remain, but do not effectively adjust, may act out their displeasure, or may take it underground with passive aggressive behaviour. Furthermore, with so many people distracted by uncertainty and concern for their own situation, the first 3-6 months after a merger often produce poor operating results.

## **The Impacts of Behaviour and Culture**

Analysis has identified behavioural factors as the major cause for these outcomes, i.e. the failure of the merged entities to function effectively together, even though the stated strategies for the mergers/acquisitions are sound. In other words, it's the "soft issues", not so much the hard, rational factors, that most impact the success or failure of a merger or acquisition.

One of the first factors to affect organizational performance is that of uncertainty and its effect on people. When

employees don't know the impact of a major change process and don't feel that they have any control over their own situation, their performance suffers. Many deal with this stress by leaving their organizations.

By not addressing specific integration actions immediately, organizations risk reduced productivity and increased attrition. Furthermore, people support decisions better where they have had input and influence, i.e., they "own" the outcome. A transition process focused on cultural integration enables people to understand what's happening, why, what it's about, and, most importantly, enables them to participate and influence the outcome. It reduces the uncertainty and the stress. It allows people get on with their work and their careers, rather than worry when the next shoe will fall.

Employing cultural assessment as an integral part of the due diligence decision-making process not only assists in making better acquisition/merger decisions, it also helps leaders determine who stays and who goes, based on people's potential fit with and contribution to the go-forward organization. It is an excellent predictor of success. People with common values and culture work together more effectively and perform at a higher level: they row in the same direction. The sooner informed decisions can be made on who goes, who stays, and who can contribute where in the new organization, the sooner people can and will focus on the tasks at hand, instead of non-productive conjecture and worry.

On the other hand, failure to understand, deal with and effectively integrate the cultures of the merging organizations will most certainly have a negative (not even a neutral) impact on the integration process. Why? Because people are "tribal": social beings who relate and belong to groups for the purpose of survival and success. They must be recruited and included in the new entity or they will band together to protect themselves from the effects and influence of the acquirer. How many times does one

hear “If you didn’t know that “Newco” bought “Oldco”, you’d think it was the other way around!” or “Who bought whom?”

### **Cultural Artefacts and Integration**

An acid test to assess the effectiveness of post-acquisition integration is to walk about the premises of the acquired organization six months after closing and observe what the employees are wearing and displaying. Are they still wearing Oldco golf shirts, displaying Oldco paraphernalia, drinking from Oldco mugs, sending email with Oldco headers and posting Oldco Vision & Value plaques? Are they looking for ways to cooperate/integrate their business processes and systems, or rationalizing why they need to remain separate?

There are reasons that organizations such as Cisco, Microsoft and GE Capital not only put integration teams in place early on in the due diligence process, but that on day one of acquisition the integration of systems, processes, organizations, people, and branding of products/services are visible and unambiguous. They leave no room for interpretation regarding the new organization or to whom the people now belong, but they also make them feel as welcome and valued members, rather than people on trial and display. They replace uncertainty with a clear picture: integration is a tangible process that is laid out and prescribed.

### **Success Factors**

Organizations that have a track record of successfully managing acquisitions seem to have several major processes in common that differentiate them from the rest of the pack:

- The assessment of organization culture and people are critical components of the identification, selection and due diligence processes;
- A “transition team” dedicated to the success of the merger/acquisition is appointed prior to the merger, and is active in managing the post merger integration period;

- The development and delivery procedure for integration includes clear, coherent communications before, during and after transition; and
- A celebration of the legacy left by the acquired/merged entities, followed swiftly by a resolute and unapologetic focus on the vision and values of the new entity.

### **Mergers versus Acquisitions**

The act of acquiring entails a “purchaser” and an “acquiree”, an owner and its acquisition, *not* an equal partnership. A merger, on the other hand indicates a “partnership” or coming together of equal parties, a very different scenario with a very different intent. Of course, the manner in which the parties behave and perform may often blur the outcome (some acquired companies’ cultures have in incredible capacity to dominate the purchaser’s culture, regardless of size, and some partnerships are anything but equal...).

It should be further noted that an acquisition of a significant size (to use Cisco’s measure, an organization that is 25% or more of the size of the acquiring organization) will have a material impact on the culture of the acquiring organization, whether or not it is intended. This must be taken into account during the due diligence and integration processes (many of the characteristics of a successful *merger* will apply to these situations).

### **Making Mergers and Acquisitions Work**

In addition to the four aforementioned common success factors, successful mergers and acquisitions tend to have many of the following ten “traits” in common:

1. Exclusive appointment to the integration team of competent leaders that are trusted at all levels of each organization;
2. Employment of transparent criteria to assess executives and managers based on their “fit” (values, skills, commitment) as well as their ability to sustain performance;

3. Clarity and transparency of process going forward (what's going to happen, who is affected and how, etc.);
4. Extensive/"excessive" communication (repetitive, frequent, direct and open) with all stakeholders, beginning with employees, customers and suppliers;
5. Implementation of the "new organization" immediately following the closing, including rapid systems/process integration;
6. For acquisitions, affirmation and implementation of key elements of the acquiring organization's culture;
7. For mergers and significant acquisitions, a strategically designed new corporate culture that uses the strengths from each current/previous culture that will best serve the new organization;
8. Processes to engage all employees in achieving the "common purpose" of the new entity;
9. In a meaningful way, holding one another accountable for the future success of the whole organization;
10. Rewarding and recognizing people according to the acquirer's or "Newco's" stated purpose, vision and values.

### **Conclusion**

In closing, the final two points of the aforementioned "traits" are worth further discussion.

First, how leaders reward and hold people accountable will drive outcomes. Simply stated, people **do** what they're rewarded for doing. Failing to adjust the reward and recognition system to reflect new/changing priorities/goals will likely result in a reversal of behaviour to reflect previous or prevailing priorities/goals.

Often, unwittingly, performance incentives provided to executives of acquired organizations are based on the continued success of the acquired company "in isolation" from the new entity. This actually encourages behaviour that acts in conflict with integration, although its intention is simply to protect the acquiring company's investment. If synergy is sought in an acquisition or merger (*and when is it not?*) then performance incentives should reflect

this, and be based on the collective success of the merged entities.

For those situations where a merger or acquisition is the best solution from an operational or strategic perspective, decision-makers must take the time to do it right: to focus on the whole picture, beyond the numbers, the business case and the management team. With the same rigour, they should study and evaluate the people, the organizations and especially the organizational cultures for fit and suitability. Then, they must put at least as much effort into the post-acquisition process, in integrating the organizational cultures, as was put into the identification, selection and due diligence processes combined.

Cultural integration isn't just a devious Human Resources plot to encourage everyone to get along. It's the recognition that for lasting success, everyone must be pulling for the same team, body and soul!

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