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M&As: Making the marriage last - October 2007

The corporate world is littered with M&As that have crashed and burned for failing to consider one crucial element: corporate culture. Iain Hopkins investigates why this eternal intangible is so important

Despite countless organisations spruiking the motto, 'our people are the key to our success', it's interesting to note that when it comes to major corporate upheavals such as M&As, the people are often neglected. It's assumed everyone will simply go along for the ride, wherever that ride may be heading.

According to research by A.T Kearney, organisations neglecting this aspect of their due diligence are destined for failure. Of 115 global M&A deals researched, failed merger integration was not due to poor operational, financial or commercial planning. Instead, one of the top reasons for failed mergers, cited by 35% of respondents, was cultural differences and how they were addressed in the integration process.

What can go wrong?

Simon Mezger, vice president, strategy practice at A.T Kearney, notes that there are three major pitfalls that organisations fall into when it comes to M&As. Firstly, he says that in the lead-up to Day 1, there is a huge focus on business continuity, which tends to be independent of culture.

Much like a bride and groom in the lead-up to the big day, despite some underlying tensions, both organisations will likely be on their best behaviour, so cultural clashes are not immediately apparent. "Cultural differences take time to become apparent. It's only after the organisations are seeking to influence the way things are done - which is typically well after Day 1 - that variances become apparent. Also, the acquiring organisation tends to assume that their way will prevail and so from their perspective there's no problem," says Mezger.

Finally, unless the acquiring corporate is a serial acquirer, there's a general disbelief that such 'soft issues' as culture can really influence the integration outcome and that people will just adapt. "It's only when major synergies or the core revenue base is under threat, for example, failed attempts at sales force integration - as seen in Fosters/Southcorp - or the incidence of elevated employee turnover, that management realise that culture matters," Mezger notes.

The human element

For Jeremy Nichols, director of Australia consulting, Mettle Group, an M&A is essentially about change - in processes, practices, culture, the 'way things are done' - and change needs to be negotiated delicately. "When people go through an emotional shift it creates a whole range of responses, which in turn can lead to thinking, 'my way is better than your way'.

You've got a clash straightaway, and when it comes to M&As, often organisations spend time on the wedding and not enough time on the marriage - it's all about the event, rather than about building the basic values for lasting success," he says.

"As humans we're tribal - and you either fit in or you exit yourself because you don't want to adapt. The interesting thing is where you get the people in between where they don't want to fit in and don't want to leave for fear of something new. You get this tension, and that's where you've got to either emotionally make that transition in or make that emotional transition out - and deal with that with as much efficiency and empathy as possible," he adds.

Handling the culture transition

Mezger notes that the key to successful M&As is to include the issue of culture as a distinct and well resourced work stream, and as part of a broader integration program.

"In successful mergers, the management team is very disciplined in identifying those behaviours and practices that will have a material impact on the combined organisations to achieve their combined revenue/cost targets and deliver on the synergies communicated to the board and the market," he says.

The process of working out what matters and what can be left alone requires the integration team to identify what Mezger refers to as 'pain points', and then quantifying the impact on business value. This means looking at three areas:

1. **Key functions** - eg sales, finance, HR
2. **Key business processes** - eg account management, product development
3. **Key enablers** - eg decision making, benefits, incentives

Next there is a need to classify the magnitude and impact of these cultural integration 'pain points' on business performance - eg erosion of customer satisfaction, increased costs, delay in time to market. Finally, there is a need to prioritise which 'pain points' have the biggest potential business impact and which interventions will be most useful in relieving the cultural stress. "All of this takes discipline, focus and persistence - qualities that are hard to find in a merger environment," Mezger warns.

During the transitional phase - the time between merger announcement and Day 1 - there is much that can be done to ease people into the change. For example, joint working teams, organisational announcements that genuinely have 'best of breed' and do not automatically default to the acquiring organisation. Much progress can be made by setting up means for the two organisations to share information, experiences and practices. The organisations need to be empowered to interact and break down any earlier barriers that can fuelled by rumour

Measuring intangibles

The real issue with culture is not what it is prior to the acquisition but more about the gaps between the two organisations post-merger and how they are going to be dealt with. "Culture can be measured and there are multiple cultural diagnostic tools that are available to do that," says Mezger. "These diagnostic tools can be interview-based or more frequently web-based to help ensure honesty of response and to preserve employee confidentiality."

Nichols firmly believes that culture can be measured, especially if it is tied to a clear corporate strategy, or the 'cultural drivers' (for example, an innovation culture, an achievement culture, or an external care culture with a focus on customers and the community). The organisation must understand what they want to achieve with their culture and clearly align it to strategy. "Be clear about where you are - the good, the bad and the ugly. If you had to concentrate on a few areas to get things right, what would they be? Would it be a focus on the customer? A focus on people? Then how do you communicate that, how do you pull the right levers, such as leadership, markets, behaviours, systems, structures, symbols, to enable that to occur?" Nichols asks.

Mettle Group has developed the Mettle Culture Gauge, which combines quantitative data with qualitative information. "The real value comes when you can enrich data with stories of what people are thinking. It brings the quantitative data to life beyond 45 graphs," Nichols adds.

In practice

Melanie Laing, HR director at Unisys Asia Pacific, is well aware of the complex nature of corporate culture. She is mindful that the 12 markets she works across with Unisys represent workers across a broad spectrum of cultural backgrounds. "I think corporate culture involves a really clear understanding that a one size fits all approach rarely works, especially if that organisation is working across borders or across cultures. At Unisys we're very aware that each market has a different set of expectations," she says.

Laing also believes there are differences in motivations across age groups, and a failure to understand these motivations can lead to a disengaged workforce. "Put simply, in the current climate, workers have more choice, so you've really got to build the things that work for the population you have in your organisation. Then you must align those with the performance outcomes you're looking for from a commercial and financial perspective. At the end of the day you've got to understand your working population," she says.

Laing cites one example which, although not a full-fledged M&A, shared many of the same principles of an M&A. It occurred when RAMS Home Loans decided to outsource their mortgage processing to Unisys. It involved an outsourcing transition program whereby people were transitioned from one culture to essentially do the same work within the culture, and on the premises, of another organisation. The process involved open and honest communication from both organisations about the benefits of moving across.

Unisys worked with RAMS to develop and implement a structured transition model, clearly outlining areas like the reward and recognition programs and how success would be measured under the new arrangement - with the aim of allaying fears of change.

"We talked through things like the opportunities of joining a large multinational organisation in one-on-one and group discussions, and outlined why was an attraction to come over, what was going to change, what it meant for the individual," says Laing. "You've got to be very constructive and positive around the true elements that you can offer - no spin - just the truth of what you can do. We have many former RAMS people who have since moved on to other functions within Unisys. By getting the transition right, the HR team delivered a business result that contributed to making the RAMS/Unisys partnership a success. We've got all sorts of commercial numbers around that, but the most critical thing from the human perspective is everyone came across and the performance of the organisation didn't suffer."

Selling the plan

Good communication is also vital to a successful M&A, as well as an in-depth understanding of why the two parties are coming together. Why is the buyer buying and why is the seller selling? "You need to understand the reason because that can give you direction around strategy - what is it you want to achieve by creating that third party together? Having defined that, it's then saying that both parties bring certain qualities towards achieving that end goal, so let's look at those and also look at what's missing. From there you can create a culture direction that may not cover everything, but really will focus on a few of those qualities. Then you must communicate that strongly," Nichols says.

Some M&As can feel like a whale swallowing a minnow, and purely from a position of scale and leverage of resources, it's likely the dominant culture will prevail.

This doesn't have to be the case. For example, it could be that one of the goals is for the larger organisation to recapture the responsiveness, creativity, innovation, and speed to market that they used to have when they were smaller. "It's possible to pick and choose elements from both but it does require a very strong hand from the top of the organisation to avoid the sheer weight of numbers taking over. The principle of harnessing best of breed needs to be given more than just lip service, and there must be a genuine belief that bigger is not always better," Mezger says.

Leadership from the top

Cultural change must come from the top, and it is action rather than words which make a difference. Employees are extremely sensitive to any integrity gap between what leaders say and do.

Liam Ovenden, MD of rpo group cites Colliers International as an organisation where culture is driven by the CEO, John Kenny. "The Colliers culture is overwhelmingly one of high-performance and professionalism. It's no coincidence that John Kenny is the epitome of professionalism, and he lives and breathes the high-performance ideals.

All of his communication is about high performance, the initiatives that he personally sponsors support high-performance goals, he leaves the product directors and middle management in no doubt about what he expects them to deliver. The communication is strong, clear and constant, and the CEO walks the talk.

"Anything less than a passionate commitment to a clear, simple and realistic message from the CEO, a message that they themselves live and breathe, is unlikely to produce a positive culture. A culture will certainly form - it just may not be what the CEO intended."

Some leaders will be better suited to this than others - transformational or inspirational leaders, for example, have the ability to create the broad picture that tells a compelling future. It inspires people to say, 'I want to be a part of that'. These leaders will also likely surround themselves with a leadership team who will also drive and embrace that vision.

HR's role

There will inevitably be some fallout from an M&A. Some people will resist, some may even sabotage - a range of human behaviours will emerge which are normal human responses to change. It could be likened to a grieving process. Given the right forums, leadership and tools, people can move through that grieving process and get on with it. HR plays a crucial role.

The HR director needs to be challenging leaders, keeping them on track, reminding everyone that culture changes over time. They essentially become the keepers or guardians of the culture flame.

HR needs to play a central role in the cultural assessment and be the 'independent' party that facilitates the review, compiles the results and then works with the business owners to develop a suite of initiatives to address those pain points causing the most negative business impact.

"HR needs to be supportive of the business units, however, be mindful not to step in too early to try and resolve tensions that need to be worked out at a working level. Clearly, HR play a central role in managing any change program in areas such as the leadership selection, performance evaluation system, benefit and remuneration programs," Mezger concludes.

One thing is clear: when it comes to M&As, it is those organisations that spend significant amounts of time on the human elements that are successful. "There's been a very critical strategic commercial decision about why an organisation wants to buy something or why they'll merge, but then the value of the transition gets lost because it's the people who will drive this and if they're not onboard there's a huge risk of failure," Laing notes.