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Protecting your cultural assets through an integration

If you are looking for clues as to the likely success of any merger or acquisition, then take a look at the integration plan. Research has shown time and time again that the quality of the integration planning, particularly around the softer people, cultural and communication issues, is a reliable predictor of future shareholder value.

Ironically the M&A process tends to be weighted towards the front end; think of all the energy and attention that goes into target identification, due diligence and the deal negotiations. Post deal planning; by contrast, can seem like a secondary consideration. As the A team steps back from the excitement of delivering the deal, so the integration work can feel like it falls to a B team who are late to the party and can struggle to hit the ground running.

Organisations may be quick to execute the basic operational, financial, IT or market changes that are necessary to unite two businesses. But many seem content to hope for a 'cultural fit' or believe that time will iron out thornier cultural, values or people issues. This is foolhardy given the wealth of data that highlights the integration period as the point at which shareholder value is most likely to be destroyed. The soft integration issues are where merging organisations are most likely to flounder. This failure to manage cultural difference can transform a market focused business into a narcissistic one.

How do you know if your integration plan is set up for success?

Leaving aside the technical integration issues, for which there tend to be more tried and tested solutions, there are six questions any integration plan needs to answer if it is to address the cultural integration conundrum.

1. What is the strategic value we believe we can create through this deal?
2. What are the true measures of success for this integration?
3. What form of integration approach will best deliver these strategic outcomes?
4. What cultural assets and risks need to be managed?
5. What plans and resources will shape the culture the business needs?
6. Where does the buck stop for making our culture work for the business, its employees and shareholders?

1. What is the strategic value we believe we can create through this deal?

Mergers or acquisitions should be built on a clear statement of the business outcomes that become possible through the deal, but that neither party could achieve independently. These outcomes may be to deliver new products or services, to benefit from economies of scale, to rejuvenate a mature company by injecting new thinking or talent, to increase market share or access new markets. This original strategic rationale for the deal needs to be the focal point for all subsequent integration decisions, plans and measures. M&A stalwarts rightly judge that 60-80% of a deal's value is won or lost in the first 12 months. In the many cases where the shareholder value is destroyed, businesses have often lost sight of the underlying strategic rationale in all the upheaval of the integration.

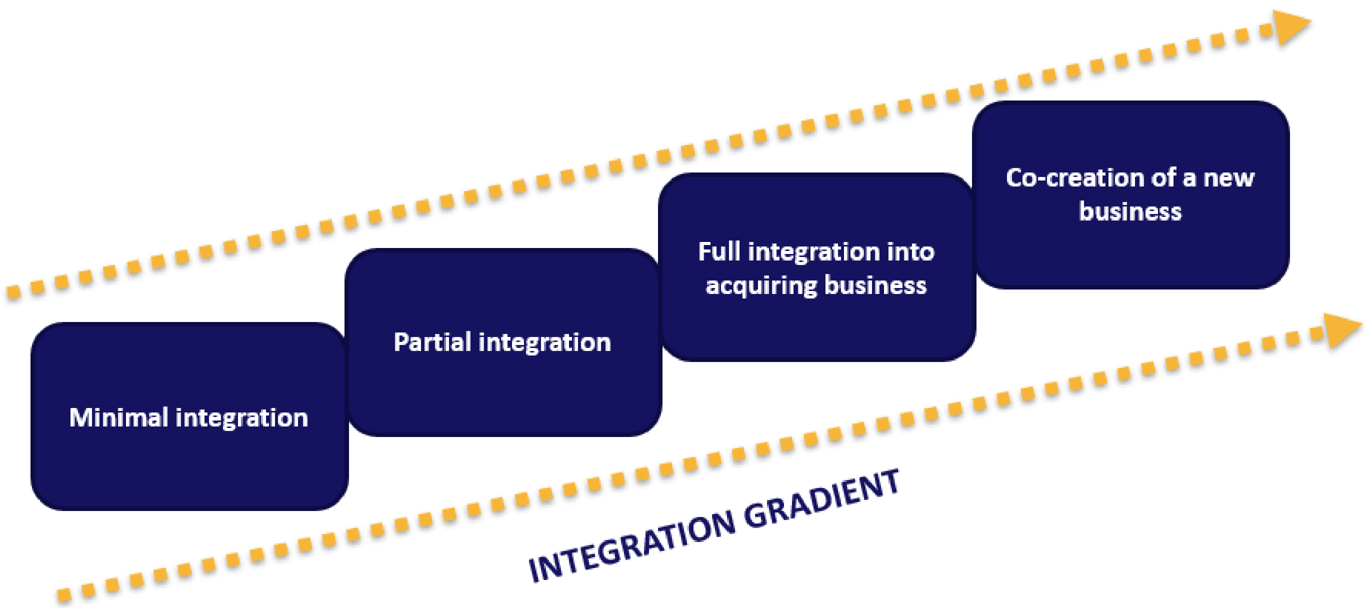
2. What are the true measures of success for this integration?

Therefore, be sure you have a clear statement of the ultimate strategic value that the merged organisation needs to deliver and translate this into concrete performance measures for the integration team and executive team.

A published dashboard of operational, customer, people, cultural and financial metrics will help keep an integration team honest. It is possible to track many integration aspects such as operating efficiencies, productivity, customer retention, service disruption, talent retention, employee trust, speed of implementation and brand loyalty. The key is to identify those that are most closely tied to the strategic rationale and devise an integration scorecard that keeps the integrated organisation clear eyes about the new strategic value it is there to deliver.

3. What form of integration approach will best deliver these outcomes?

Integration can be compared to organisational surgery; painful, unpredictable and not to be undertaken unless absolutely necessary. Integration teams must draw distinct boundaries around how and where the two organisations need to come together and where there is benefit in remaining apart. The golden rule is 'Integrate only where it serves to add value or reduce friction'. The assumption that the full integration i.e. integrating all the processes, teams, locations cultures and structures is always better, is a common mistake. A more studied approach is to consider the different forms and levels of integration possible, the pros and cons of each and how they support the deal rationale. It is more helpful to think of integration choices in terms of a gradient and the varying integration activity required for each level.



There may be real benefit, for example, in maintaining a stand-alone entity and brand, if the acquiring partner is unknown in the acquiree's market. In this the integration may be limited to joint financial and legal reporting structures. Other situations can call for a partial integration around a particular function or operating process.

When full integration is the appropriate option, be clear about who is leading the process. For the sake of appearances, leaders can fall into the trap of giving false assurances about the integration being an opportunity to co-create entirely new working practices and take the 'best from both'. In practice, it is hard to dispassionately judge whose processes or people are best when working at speed. The harsh reality is often that the acquiring company's norms and practices will be the blueprint for the new organisation with select modifications. While the organisation should take the opportunity to learn and improve from their new colleagues, few businesses have the time or justification to start again with a blank piece of paper.

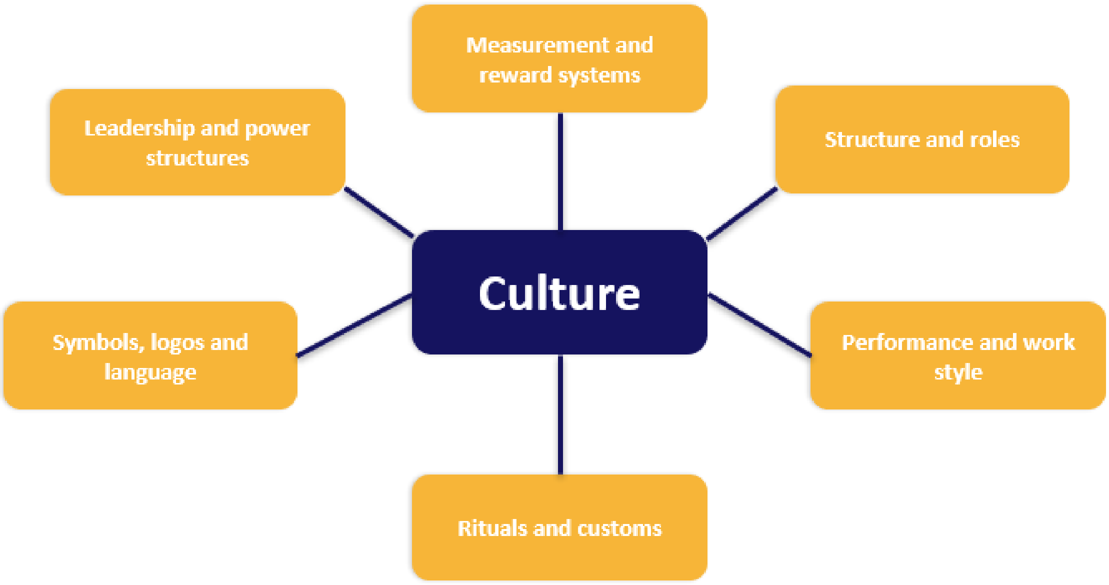
4. What cultural assets and risks need to be managed?

The due diligence process can be woefully deficient in identifying those softer assets you hope to acquire or create through the deal. This is a serious oversight. Integration teams need to be rigorous in assessing what cultural, people or reputational assets they must preserve, sustain and build into the new organisation. Many an acquirer has discovered to their cost that cultural assets they believed to be integral to the value of the target organisation can quickly diminish if not identified and managed from the start. This is especially true when large mature organisations use their financial muscle to buy an edgier market brand or an alternative talent pool. Once again, being explicit about the strategic rationale for the deal helps an integration team to focus on the cultural assets or risks they need to preserve and manage from day one.

5. What plans and resources will shape the culture the business needs?

There will be cultural surprises during the integration process. Experienced integration teams recognise this, but also know the importance of going into play with a clear point of view about the type of culture the new business needs to thrive and a working plan to put this into place. Being ready and able to move quickly on cultural issues is important because like nature, an organisation, abhors a vacuum. In the absence of clear cultural values and a definite leadership narrative, alternative norms can and will emerge. These can be shaped accidently by unplanned events or the actions of key individuals and can prove difficult to shake. For example, two years after their integration one client is still refuting the unofficial (and racist) selection criteria that a leader joked about in an unguarded moment. Inadvertently, these have become part of their cultural folk law.

There are a number of models and tools on the market for assessing the current cultures and helping create some shared expectations and language about the cultural differences. However, there is no 'silver bullet' or definitive cultural methodology. The real value is in how the integration team uses the data to plan and influence the softer integration issues. Even using a straightforward model such as Johnson and Scholes, to map the current and future culture provides integration teams with a framework for understanding where the two existing cultures are naturally aligned and where there are likely to be issues.



The team can then develop a systemic approach that combines hard tactics (organisation structure, compensation incentives, and a shared decision-making system) and soft tactics (symbolic actions, leadership communication, employee involvement, people development) to demonstrate to employees what the expected behaviours, assumptions and values are of the joint organisation and then to reinforce and embed them over time. It is also possible to track cultural alignment over time and pinpoint problem areas that need more support.

6. Where does the buck stop for making our culture work for the business, its employees and shareholders?

The best laid integration plan will not be effective if it is working without the full support and cooperation of the senior leaders in the business. Leadership behaviour is the single most powerful and visible force for shaping the future culture of a business. In the heightened emotions that follows a deal, what leaders pay attention to, reward and role model is disproportionately important, as well as how they react to critical decisions or events. One misplaced comment or action from a leader can send a contradictory cultural message that will reverberate around the business. Senior leaders must recognise that they are a key ingredient to the future culture, stick to an agreed narrative and be guided by their integration team on their role in the integration process.

Conclusion

Anyone who doubts whether 'culture' matters need only take a ring-side seat at a poorly orchestrated integration to see the cost soft integration issues can inflict on a business. Culture can work as an asset or liability for any organisation, but during integration, managing your softer business assets is critical to delivering the strategic rationale and the promised shareholder value.

KLI Consulting helps clients to deliver lasting change. With 15 years in organisational consulting, the author Kate Lye, is an expert in tackling leadership, cultural and organisational development issues. She has advised on major FTSE 500 mergers and acquisitions in Europe and the US. For further information see www.kliconsult.com

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