Unlocking the power of culture

5 steps to ensure effective M&As through cultural integration

Integration
Together, for the change you need

A common misconception among companies is that culture merely represents the "soft" side of the organization. What this perspective misses is that a consolidated and well-functioning culture serves an **essential basis for decision-making**, defining what your business priorities are and what elements are more marginal.

Culture is present during virtually all steps and critical moments:

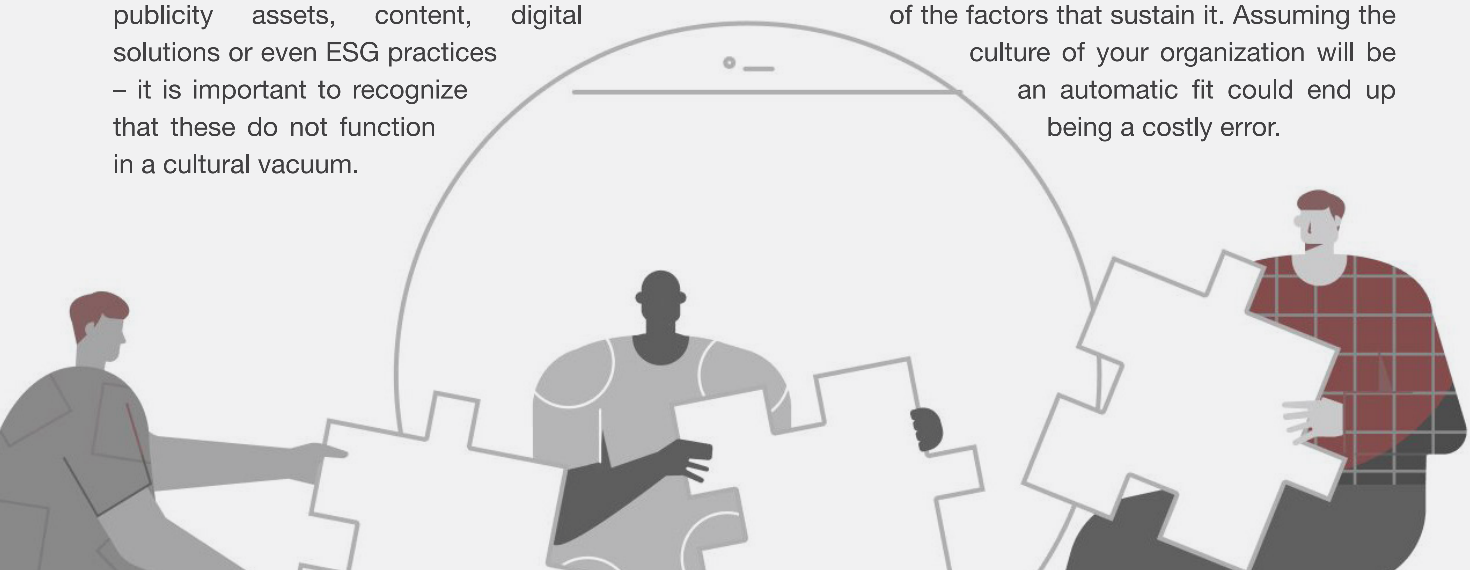
- When defining short-term plans
- Identifying long-term objectives
- Setting roles for professionals and
- Establishing how your business approaches its operations and strategy.

Among other benefits, a well-structured culture allows strategies to be put into action for quicky, as will be leaders are more aligned and prepared to execute it. An organization with a clear view of its business essence will also be **better equipped to make more effective decisions** due to less uncertainly surrounding questions such as the areas in which it wishes to invest and the challenges it will face once going through significant structural changes.

Doing your homework before merging

With a target acquisition in the crosshairs, it is vital for any organization to identify whether the qualities it seeks to acquire in the other company are dependent on a particular cultural context. To effectively acquire tangible attributes through a merger and acquisition (M&A), such as specific capacities, production lines or brands, culture is often not a sustaining factor or even required. If, however, the business thesis aims to obtain certain intangible attributes – such as creativity, innovation, agility, marketing expertise, publicity assets, content, digital solutions or even ESG practices – it is important to recognize that these do not function in a cultural vacuum.

Such capacities are often intricately tied to the cultural context of the company you are merging with or acquiring and will not lend themselves to a "plug-and-play" approach. We have seen M&As fail when companies overlook this connection: specific cultural setups are the fertile ground on which intangible attributes are able to thrive – replanting them in an alien environment can quickly cause them to wither. If your organization wants to maintain a certain acquired asset, it should be conscientious of the factors that sustain it. Assuming the culture of your organization will be an automatic fit could end up being a costly error.



Setting the stage for your M&A

Business leaders are increasingly realizing that a well-defined culture is much more than merely "nice to have" when pursuing an M&A. **Beyond merely capturing synergies, culture is essential for ensuring that the deal is set up for success**. It must be considered from the very outset, from outlining the M&A plan and proposition (the business thesis) to evaluating potential partners. The integration process itself will be much faster – and ultimately more effective – for a company that has categorically laid out its own culture and determined which aspects of the operation and business are negotiable and which are not.

While the business leaders we have worked with believe in the inherent value of culture as a dealmaker and actively seek to capture cultural synergies, many companies lose their way when attempting to define, structure and guide culture. One important point to note here is that there is no such thing as a "good" or a "bad" culture. Instead, we believe in the idea of a "needed" culture for the company – one that is aligned with the business model and the company's given reality. The key question to ask is: **What kind of culture is needed for the envisioned deal to succeed**? This means having a clear business thesis for the M&A defined in advance and identifying how the merger in question will contribute to this.

To prepare the organizations for the M&A, we recommend carrying out a **cultural due diligence** to identify and understand the "needed" culture and expose any misconceptions that could undermine the deal. Understanding the answers to a number of key questions will prepare your business for the culture-related challenges ahead, at both the practical as well as intangible levels. Once the leadership has made the decision to move forward despite the difficulties ahead, the business thesis should be used to orient your organization in establishing a clear structure for positioning the new culture. Now that expectations, objectives and cultural targets have been defined, we propose following a **five-step methodology for achieving effective alignment between culture/ values and the business goals** to set your M&A up for success.

Due diligence: the cultural checklist

How similar and complimentary are the values of the two companies?

What frictions may arise from integrating their cultures and what efforts will address these?

Are there any risk factors or uncertainties visible (e.g., losing certain professionals, the company's image vis-à-vis its clients, innovative capacities)?

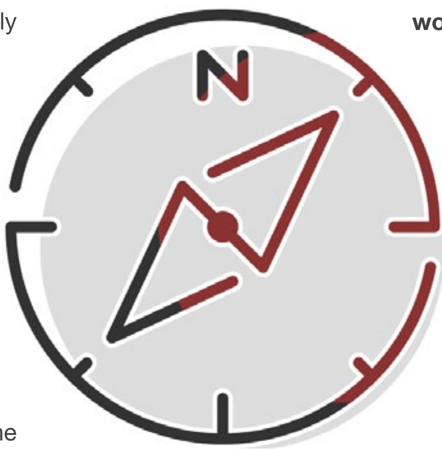
Is the C-level aligned and prepared to take decisions and act on the proposed strategy?

Step 1:
Set the Cultural Compass

Culture should be defined, iterated and planned based the objectives of the deal alone

The purpose of (re)shaping your culture is to ensure that it is in complete alignment with the business thesis and integration strategy. A "cultural compass" drawn from your business goals is an effective tool to guide your company when defining its needed culture.

- What are the objectives of this deal?
- What do we expect from it?
- Will the two companies be completely integrated, stand-alone or something in between?



The degree of cultural adaptation and change will vary greatly based on the reality at hand. The complete and immediate takeover of the target company may, for instance, not necessarily demand a deep understanding of its culture or a detailed cultural merger plan. If, on the other hand, the aim is to acquire capabilities such as innovation or commercial agility, with a one-year plan to fully merge operations, setting cultural milestones that are in line with and support such synergies will be essential.

For a company scheduling a go-live for combined manufacturing processes six month after making an acquisition, this will mean that strict new processes, compliance requirements, milestones related to enforcing target values, and ways of working should be planned accordingly. **Allowing the tenets of your cultural compass to guide you** will provide clarity, align expectations and, critically, define the velocity at which the organizations will complete the cultural integration process.

One important point to observe is that the aim is not to merely to leverage culture to capture "the best of both worlds" from the two existing entities. An M&A is not about adding 1 and 1 to achieve 2, but rather adding 1 and 1 to achieve 3 (4, 5, 6, 7 or more). In other words, the outcome of the investment must be greater than the sum of the parts involved. Furthermore, even if the vision is for one side to be mostly absorbed into the other, some change to the original structure should be expected and accepted. In order facilitate this process and leverage opportunities, we suggest starting with a fresh palette and **working backwards from the objectives of the deal** – rather than simply letting the cultural merger run its "natural" (and unpredictable) course. A number of considerations for your cultural compass can provide greater clarity and place the process on the right track:

- What do my business strategy and organizational objectives imply about my company's identity and culture – are we meticulous, innovative, aggressive etc.?
- What type of organizational structure will best support my business strategy?
- What key elements are important for making this transformation a success?

Throughout this process, we should bear in mind that t**he integration strategy and cultural plan are two sides of the same coin** – they complement one another. Finally, as the business context and reality are constantly in flux, remember to adjust your cultural and milestones in line with new information and developments, such as union (re) negotiations, client and supplier reactions, internal noise etc.

Step 2: **Understand the reality via a cultural diagnosis**

There is no right or wrong culture, only one that is more or less aligned with the milestones of your cultural compass.

Assessing your business and operational reality from a cultural perspective is key for setting the cultural end goal and identifying gaps standing in the way of your objectives. This can be done using a cultural diagnosis, something that most mergers require, often before the deal is closed. Just how deeply you dive into the diagnosis itself will depend on the type of deal at hand – even in the case of a pure takeover, a cultural diagnosis may be critical, for example, in assessing the level of resistance you could face.

One of the best practices we recommend is to **gather as much information as possible, face-to-face**, through site visits, interviews, focus groups and the like:

- What styles of interacting prevail?
- How formally do people tend to dress?
- How do people speak and address one another?
- What is the layout of the work space/environment?
- Do we have a more vertical or more horizontal structure?

This is a sensorial experience with results that must be observed firsthand, especially since the theory and practice of a company's culture can be quite far apart: culture is not what people say, it's the decisions they make. The more you are able to interview staff members, clients, service providers and other stakeholders, the greater your capacity will be to gain an accurate assessment of the respective culture. An aspect as simple as staff working in separate or closed offices is a profound reflection of a company's culture.

Effectively executing this cultural diagnosis and feeding the findings into your cultural compass requires two things of the leadership:

- the right mix of functional competencies (expertise in their respective operational areas) and
- the ability to openly and impartially listen to and absorb information.

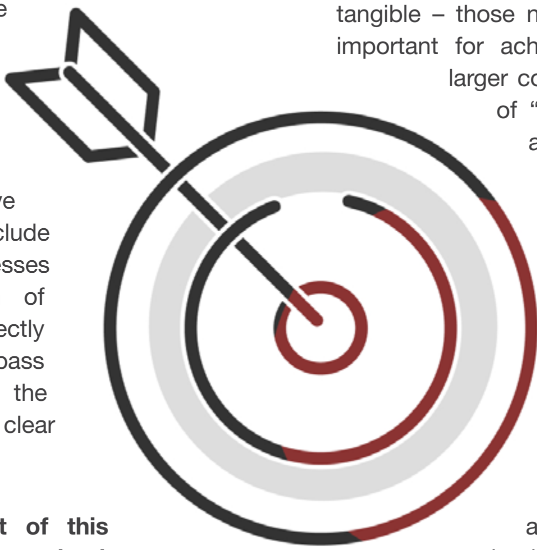
Though this may sound simple, it demands an ability to avoid bringing former experiences to bear on how things "should be" or "could be" inside the acquired business. If an interviewer creates the impression that one company is "bigger" or "better", this can cause concern and alarm among employees of the other. An effective approach here entails **listening to professionals, rather than questioning them**, and paying close attention to the subtleties of the environment. Levels of formality, the sense of trust among employees and hierarchies or even their body language can say a lot of the company culture. One way to go about this involves installing an impartial team or committee comprised of members representing different areas and needs of the companies to truly listen to and seek a deep understanding of the reality.

Once this cultural learning has advanced, we can start to map the efforts that will make the "future culture" concrete. **Those who will drive this change within the organization are its leaders**. When talking about leadership, there is admittedly an intangible quality to selecting leaders with the right openness to spearhead these efforts. Providing training sessions and incentive programs that align actions, synergies and cultural milestones is key. Maintaining existing targets, KPIs and remuneration models will cut it. Getting the involved professionals to identify cultural compatibilities, measure opportunities and risks and act to ensure effective integration rests on motivation or rationale. At the same time, guaranteeing the right environment and tools for long-term implementation is non-negotiable. These can include feedback mechanisms, qualitative and quantitative KPIs and a governance structure that dedicates specific moments to cultural progress and decisions.

Step 3:
Mind the Gaps, Take Concrete Actions

To move forward, it is imperative to define specific, complete action plans to ensure business objectives will be achieved.

The next step entails leveraging culture to tangibly communicate and demonstrate the milestones and synergies of the integration strategy. Again, this means **turning words into the actions that will serve as the foundation of the new culture**. For a business thesis seeking to change the organizational structure while maintaining the know-how of the acquired company, ensuring cultural alignment could be achieved by placing a member of the new company on the executive board of company pursuing the acquisition. If maintaining customer satisfaction across both companies is an objective, the respective remuneration plans could include an item that specifically addresses this cultural element. Each of these decisions should be directly influenced by the cultural compass and diagnosis, certifying that the needed culture is identifiable, clear and applicable.



The most challenging part of this journey is often related to communication. Getting this right requires leaders to ask four vital questions that may not be fully accounted for in the integration strategy:

- Which attributes are crucial and must be preserved?
- How transparent do you want your organization to be?
- How much risk are you willing to accept?
- How much time and effort is the company willing to invest in the cultural change process?

If full transparency is the goal, communication will look quite different and typically be shared much further in advance. At the same time, this may also imply a higher degree of contingency planning. Being up front about planned changes could pose the risk of losing a significant number of the affected professionals in response. On the contrary, a completely risk-adverse company seeking to protect its products, formulas etc. may close a distribution center without warning. This would call for a comprehensive day-of plan that accepts the trade-off of upset employees or media attention in favor of a high degree of security.

Leaders may also need to act on gaps that are less tangible – those not tied to specific targets but just as important for achieving objectives. For instance, if a larger company characterized by high degrees of “red tape” is seeking to absorb more agile capabilities by acquiring a smaller, founder-led business, shifts in access to information from leadership might represent uncomfortable changes within the new company. To ensure engagement and prevent risks tied to uncertainty, a channel could be opened to allow professionals direct access to their new CEO. The new chief executive could also arrange a day of the week to spend time in different operational areas and connect with employees. Company leaders are advised to **dedicate ample time to assess, reflect, formulate and exemplify the cultural objectives**.

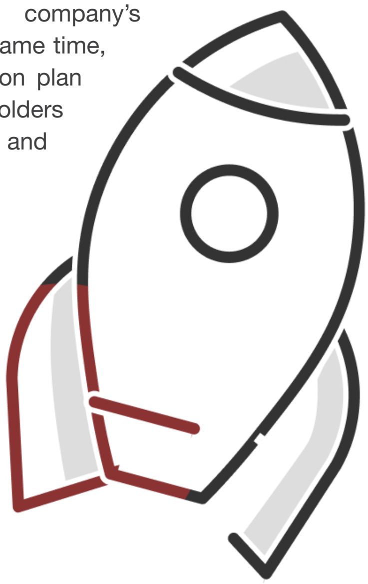
Once again, the cultural compass should set the orientation for choices. If values such as agility and transparency have been identified as integration objectives, then these elements must be clearly reflected in your actions when addressing cultural gaps and communicating. If a true focus on clients is one of the identified cultural principles, concrete actions could include a client visitation calendar or granting the responsible professionals flexibility to act should an issue arise. Such concrete actions will allow the new culture to take root beyond the integration phase and demonstrate to the new company how they should act and communicate. Use clear examples in your integration plan that demonstrate your intentions through concrete measures – proving that you are “acting” and not merely “talking”.

Step 4:
Show, Don't Tell

Lead culture in the day-to-day.

One of the most critical roles embodied in leaders is the visibility they provide the rest of the organization. While the steps taken pre-M&A are critical for tangibly bringing culture to life, **many decisions supporting the integration strategy will have to be made throughout the post-merger integration**. This offers leaders a myriad of opportunities for modeling culture in a replicable way by staff. Leaders must do more than plan or talk about culture – they must embody it each and every day. This includes giving the organization ample and concrete examples: how you communicate, interact with other professionals, write emails, provide feedback, make choices between competing priorities, maintain the company's governance rituals and more. At the same time, it is imperative that the communication plan considers all the different stakeholders across the company, including clients and business partners outside of it.

- Are the leaders exemplifying the new culture through their actions on daily basis?
- Do training resources exist for employees to learn more about the new culture and how they can apply it day-to-day?
- Are the things the company is preaching aligned with what everyone is doing?
- Is the HR team running campaigns to support and strengthen the cultural shift?



The more frequently that professionals in the new company are able to see values and culture brought to life, the more they will strive to incorporate these. Leaders may require specific support and training to effectively translate culture into practical actions. A culture that places value on collaboration, for instance, could very well benefit from cross-functional participation from HR, marketing, finance etc. during weekly meetings to tangibly promote exchange and integration. Planning the right types of training sessions, both technical and non-technical, can also be key to preparing your teams to work in new ways and is the first step in "guiding by example".

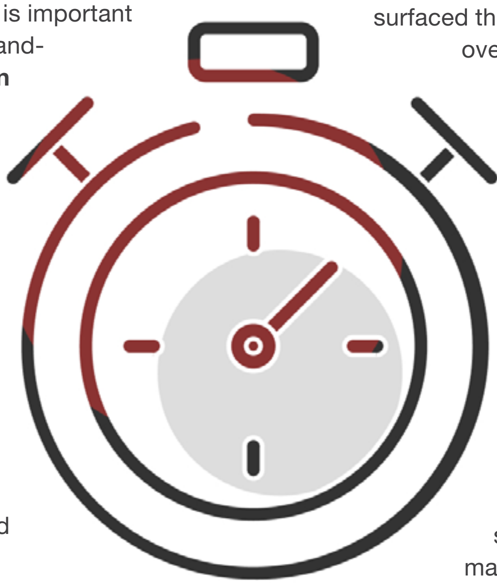
At the same time, being indecisive or failing to provide clear justifications for any targets you are changing can very well undermine the new culture and adherence to it. If, for example, a new target in the integration strategy involves boosting customer satisfaction, this objective must be aligned with others set out by the merger. Including another target that seeks to increase margins could easily appear out of line with the more general aim of customer centricity. If one the main goals of the merger is to expand market share, the plan must allow the respective business areas to develop new products and recognize professionals for achievements. Providing the right enablers to ensure alignment across the targets of the M&A is crucial for your professionals to know which direction they are headed.

Step 5:
Engage, Measure, Adjust & Repeat

Implement KPIs that allow your business to identify and effectively adjust to changes and developments.

Introducing cultural changes at one or both companies following an M&A is likely to reverberate throughout the staff, as well as among business partners and even clients. In our experience, three types of KPIs can be used to ensure the long-term viability of the deal. These will allow your business to identify and adjust its cultural compass as needed in line with the reality and dynamics of the situation.

1. Intangible KPIs: How are your stakeholders reacting to news of the deal? This is important to judge even when acquiring a stand-alone asset. **The market often perceives differences in the wake of M&A activity or new ownership**, despite whether or not changes have taken place. These feelings and perceptions need to be measured both internally and externally to keep your business in tune with reality. This aspect is best measured using questionnaires, but it can also be gauged based on the turnover of staff, service providers or clients when paired with exit interviews.



2. Implementation KPIs: Your implementation plan comprises the concrete actions that will help ensure compatibility of the two cultures and that the benefits you seek to acquire from the other company (be it innovation or a client network). Measuring the associated KPIs will provide clarity as to whether you are implementing the actions dictated by the objectives of the integration strategy. Have you developed an adequate communication plan? Is there a new compensation model in place? A new organizational structure? A new HR model?

3. Broad-result KPIs: These indicators are necessary to gauge whether the deal is achieving the desired results in genera. They indicate how effective implementation has been. Has the new business expanded market share? Are sales increasing? Is the new company climbing the ranking of “best places to work”?

While it may not be possible to draw a direct connection between culture and some of these indicators, if the new company is experiencing headwinds, checking whether culture is effectively being leveraged in the commercial strategy, for example, may reveal where adjustments are needed. Likewise, despite quantitative success, deviations in certain ways of working may have surfaced that require identification and correction over time.

With this information in hand, **installing a system of response governance and tracking the results of integration** will help your company consistently react to the insights provided by these KPIs. This can include specific rituals, dedicated teams and targeted decision-making forums. At the same time, all of this does imply organizing the corresponding layers of leadership and empowering them to execute specific types of decisions. To maximize effectiveness, each layer of governance should be granted the exclusive space to make decisions.

The purpose of these KPIs, ultimately, is to serve the objectives of your deal and business thesis. Depending on the level of agility you seek to achieve, work to establish the proper rituals that correspond and support the needed speed of change and implementation. Moreover, these KPIs should go beyond merely measuring concrete results and also consider the intangible elements of your business and culture that ultimately weave everything together.

Food for Thought

The point of cultural integration is to create and maintain coherence between two companies in any M&A deal. Making a concerted effort to define, reinforce and live the needed culture will help provide clarity regarding targets, actions and behaviors among leaders, especially in a new context that can leave stakeholders feeling unsure of what to do and of what is to come. Culture is not an immediate value-add – it takes time to bear results, requiring leaders to stay the course to ensure coherence and build unity while responding quickly to reality. Culture provides the consistent rationale along with a common, structured approach and principles that can be leveraged to turn the ambitions of an M&A into reality.

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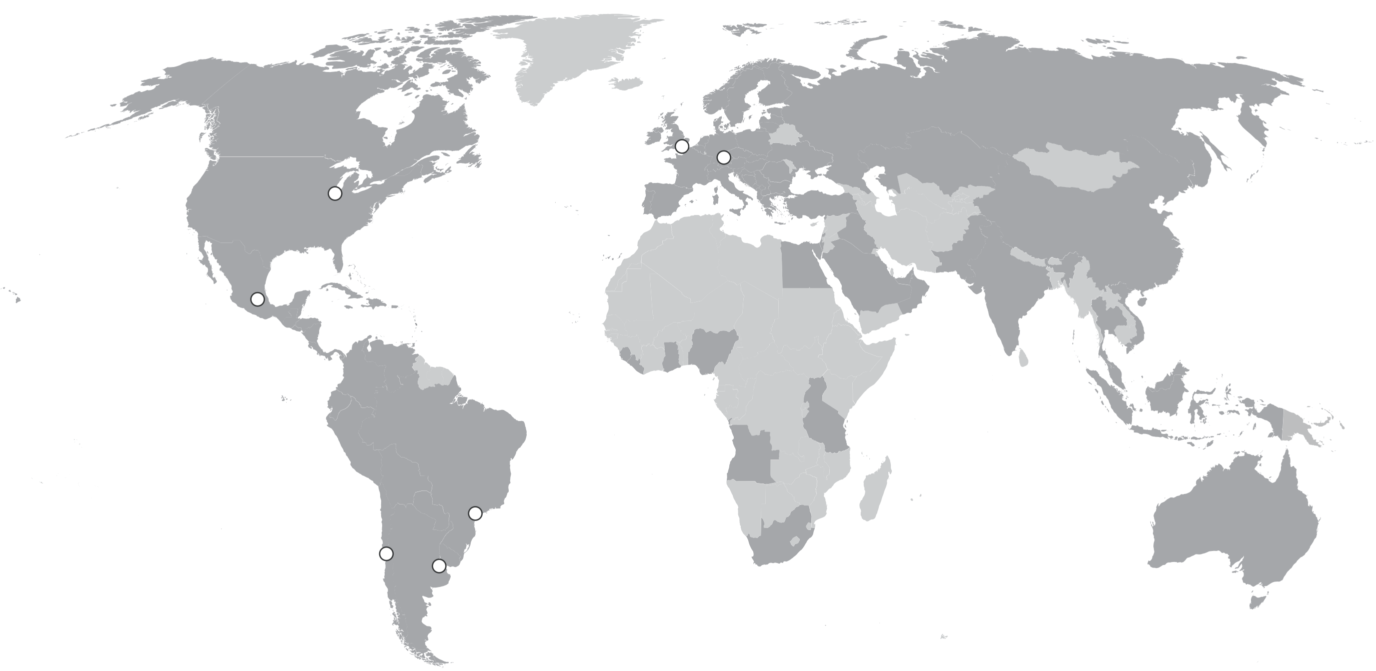

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clients
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projects
3630+

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85+
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