M&A Integration: Bridging the Culture Divide

In recent years, issues related to corporate culture have surfaced as one of the biggest challenges during a merger and acquisition ("M&A") integration. Yet organizations have done little to overcome obstacles to culture integration. During the 1980s and 90s, it was a widespread practice to impose the acquiring company's culture on the target; after 2000 it was more common to leave the target's culture intact. Neither approach is optimal in all situations. In this article, we will explore a better approach to M&A culture integration and the ingredients for its success.

Our Perspective on Culture

Financial Acquirer is Not Always the Cultural Acquirer. The company providing acquisition currency (the financial acquirer) should not necessarily impose their culture on the target. At times, an acquisition is driven by importing the target's culture, or "way of doing things," such as in situations when the target has innovative products/services or "know-how." In these cases, the target becomes the cultural acquirer.

Culture Must Support the Business Strategy and Vice Versa. For instance, if a business strategy is built upon innovation, the culture must be aligned across all enablers (i.e. processes, systems, structure) and oriented toward instilling such an environment by encouraging and embracing creativity and invention.

Not an Overnight Process. Once similarities and differences in culture are identified, aspects of these cultures to be preserved and enhanced must be identified. Culture will need to be shaped gradually.

Culture is an Outcome, Not an Input. Organization culture is an outcome of good, or poor, integration. Relentless focus on business performance backed by the right processes, systems and incentives will create a sustainable culture. One does not have to change culture as a pre-condition to integration.

Culture is Not "Good" or "Bad" — It Just Is. An entrepreneurial culture is "loose" for some and "undisciplined" for others. Focusing on leveraging cultural strengths to improve business performance will ultimately create a stronger culture.

Sub-Cultures Matter. Culture can prevail differently in different parts of the organization. Sub-cultures exist based on function, demographic and/or geographic differences, but may be most pronounced in organizations with an aggressive acquisition history. To affect change, sub-cultures must be recognized and addressed separately yet kept in alignment with the broader organization.

Starts at The Top. Culture is a reflection of the behaviors and attitudes exhibited by the organization's leaders, their adherence to the strategy and their decision making. From our experience, the higher up you go in the organization, the clearer the distinction of cultural differences.

M&A Culture Integration: Counter-Intuitive Moves

M&A integration is a time of tremendous flux and rapid execution, and trying to impose a culture change initiative can be disruptive. In our experience, there are differences in culture change (or integration) when organizations are in a steady environment versus an M&A integration environment. In fact, steps taken within an M&A integration environment are often counter-intuitive to those taken during a steady environment, making execution more challenging.

Culture integration is about aligning the right behaviors with the desired results, and there is no better way to do this than having a relentless focus on delivering M&A value, enhancing business performance and rewarding enabling behaviors. A successful M&A integration that puts the right leadership, processes, systems, metrics and incentives in place creates culture as an outcome. A common misconception during M&A integration is that in order to integrate well, one needs to address or "fix" the culture.

EXHIBIT 1:

Culture Change (Steady Environment)	**Culture Integration (M&A Integration Environment)**
Focus mainly on morale	Focus on business performance
Promise business as usual	Promise and commit to change
Be slow and methodical	Create a sense of urgency
Be patient	Make the hard decisions early on
Enforce and reward a common culture	Leverage strengths, reward behaviors
Navigate uncertainty and ambiguity	Deliver synergies, create shareholder value
Gradually shape cultures	Drive desired behaviors in rapid waves

Right Levers to Drive the Right Behaviors

Pulling the right levers at the right time are key to maximizing value from an M&A transaction and creating an impactful and enduring culture.

Changing culture necessitates changing behavior. Behavior change can be implemented through the use of six key levers (as indicated in Exhibit 2) where change can be continuously influenced and reinforced to have lasting impact.

When applying these levers, adequate consideration must be given to the timing, degree of impact, dependencies and risks. For example if leadership messaging is focused on improved customer relationships, management will not be in alignment with incentives focused on product innovation.

Timing is also a critical factor. Many levers should be implemented at least three to six months before behavior change is expected. Levers enforcing the same behavior should also be implemented at the same time to drive maximum effect and minimize conflicts.

EXHIBIT 2:

Levers for aligning behaviors with desired results

Executing Culture Alignment by the Transaction Type

EXHIBIT 3:

Aligning execution to transaction types

	CONSOLIDATION	ADJACENCY	TUCK-IN	NEW BUSINESS MODEL
Strategic Rationale	Gain economies of scale and increase market share through consolidation with a similar entity's organization	Deliver growth opportunities by expanding with product/service adjacencies, including filling technology product gaps	Merge an acquired entity into the "operational platform" of a larger entity to drive efficiency and to scale it to meet market demand	Reduce the risk and time to entry into a new business model by acquiring an already established business
Synergy Focus	Operate in similar markets with very similar operating models. Expected cost and reciprocal synergies	Some similarities in go-to-market operating models in similar markets. Opportunities for cost, revenue and reciprocal synergies	New product with an ability to be sold as a standalone or as a bundle. Expected to deliver revenue and reciprocal synergies	New products in new markets with a different business and operating model. Expected to deliver revenue synergies
Culture Alignment Approach	Strive for a similar culture if possible; can be a fast-paced, disruptive integration	Initially maintain separate cultures to minimize disruption and preserve key component, then reassess behaviors requiring alignment	Strive for a similar culture in general, with sub-cultures for specific functions/geographies	Maintain separate culture of the acquisition for functions that are unique to the business model
Team Structure	Human resources ("HR") lead, integration management office ("IMO") and business unit facilitated; culture activity is usually embedded within each functional work stream	Business unit led and facilitated by HR and IMO. Culture can be an independent work stream under the IMO structure	IMO led and business unit facilitated; culture activities embedded within HR work stream	Business led, HR facilitated and culture as a work stream embedded within IMO

EXHIBIT 4:

Driving right behaviors by aligning cultures

ACQUISITION SCENARIO	BEHAVIORS DRIVEN	LEVERS PULLED	OUTCOME ACHIEVED
Maintaining customer connection while growing the business through M&A	Delegate authority, accountability and responsibility down the chain	Business Processes Rewards and Incentives	Migration from prescriptive orders down to collaborative and independent workforce
Rapid integration of equally sizable player during industry headwinds	Engage and connect with employees, empower, enable and advocate listening skills	Organization Structure People Rewards and Incentives	Transition from a "us vs. them" culture to a culture of loyalty and trust between employees and management
Managing complex and diverse product portfolio with varying customer needs	Articulate clear vision, goals, metrics, behaviors and provide enabling infrastructure	Business Processes Information and Systems Organization Structure Strategy	Transition from product centric to customer centric organization

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1."Harvard Business Review, April 2016 – Culture is not the culprit"

Approaches to Culture Change: Alignment vs. Integration

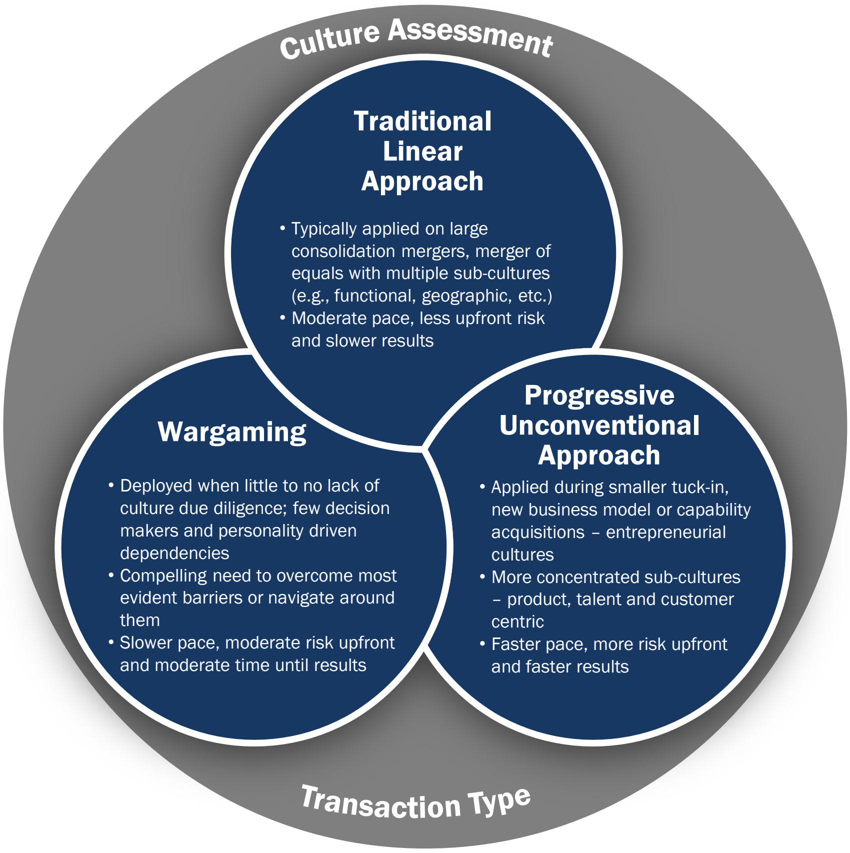
As M&A Integration evolves as a discipline, cultures need to be aligned rather than fully integrated. There are multiple approaches applied during integration. They vary by situation and transaction type, so it is important to understand key steps involved in each approach, when to apply them and how to minimize risks by maximizing transaction value.

Traditional Linear Approach. Considered the classical and conventional approach towards homogenizing cultures, generally the acquirer's culture tends to assimilate the target. Typical steps include upfront culture assessment or diligence documenting cultural similarities and differences, ensuring clear understanding of what aspects of culture need to be preserved and enhanced while securing commitment from leaders to enable the right behaviors. Critical success factors include designing key levers, targeting change interventions, sequencing activities and equipping leaders and managers with tools. Tracking, monitoring and reporting progress occurs through the integration management office.

Wargaming. Wargaming is typically deployed in transactions with a higher degree of uncertainty around culture, limited to no culture due diligence performed upfront by developing plans around "what if" scenarios. Strengths, weaknesses and opportunities are determined by uncovering blind spots and instilling a spirit of transparency. Scenarios are designed in a game-like manner, uncovering business impact attributed to certain behaviors and creating buy-in for change and stress test assumptions. This approach is deployed when transactions are driven by revenue synergies, tech/talent or strong personalities in either organization. There is a heavy emphasis on navigating cultural barriers versus fighting them.

Progressive, Unconventional Approach. This approach focuses on creating a "new way" together. Typically it is delivered by energizing leaders and managers through offsite summits by brainstorming the future state rather than assessment of each others cultures. Critical success factors include strengths-based teamwork, developing relationships, genuine connections, sparking ideas and driving ownership. The approach is gaining more adoption and faster delivery of results in M&A integration, with more focus on culture alignment than homogenizing.

EXHIBIT 5:



Leading Practices

Over the years, several leading practices have evolved to aid in the implementation of culture integration. When they are performed in conjunction with the previously discussed levers and approaches, they do portend a greater likelihood of success.

Rigorous Analysis. Examine culture with the same rigor as financial, operational and legal issues during due diligence. The more you sweat upstream in the transaction, the less you bleed downstream. Although very few culture attributes are critical to transaction success, it does heavily influence operating results.

Intense Focus. Culture is ingrained, stable and deep; it is hard to change overnight. Focus on behaviors required to be demonstrated and address them with surgical precision. Stay the course and maintain consistency of execution.

Anticipate Reasons for Resistance. Resistance to change is a well-established fact of organizational life, and it finds its way into M&A integration. Change always involves uncertainty and invariably it involves more work. We have all learned by experience that change doesn't always work out for the better. It is best to understand the reasons for resistance and design a plan to navigate around them.

Enable Subcultures. Subcultures are a positive, they provide adaptability and diversity where it is needed. Nurture them for the right reasons, specifically when certain pockets help drive or spark the desired organizational objectives.

Language is Powerful. Language matters. Watch potential "us vs. them" language and tacit messaging. After closing, recast terminology to shift away from using the legacy company name (e.g., acquirer campus, legacy resources or target product) to one of common resonance.

Value in The Objective. Align cultures based on what creates value. Be courageous in aligning what and where value can be created, but recognize that there are differing non-essentials, especially among distinctive sub-cultures.

Leverage Strengths. Begin by identifying what is positive and reinforcing it. Build further culture change on these strengths, and then connect to them in ways that heighten the energy and vision for change.

Identify The Correct Levers. Focus on assessing leadership styles, communication speed, decision rights, delegation of authority, level of collaboration, similarities and differences in incentives, level of innovation, work life balance, diversity/inclusion, tenures etc. Preserve and protect what matters and enhance where it is required.

Culture is the Outcome. Experience has taught us that culture is often not the critical input to integration but an outcome of the integration effort. Strong leadership, exceptional people and business focus, robust systems, processes and incentives during integration will result in the desired culture with lasting impact.

2. "Advanced M&A Integration" – Nitin Kumar

Nitin Kumar
Senior Managing Director
+1 408 915 8627
nitin.kumar@fticonsulting.com

Aidan Searwar
Managing Director
+1 415 283 4202
aidan.searwar@fticonsulting.com

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