CASE STUDY

CORPORATE CULTURE IN MERGERS AND ACQUISITIONS

IN PLANNING A MERGER OR ACQUISITION, MOST OF THE RESEARCH AND PLANNING TENDS TO FOCUS ON THE FINANCIAL, REGULATORY AND STRUCTURAL ASPECTS OF THE ORGANISATION. BUT WHAT ABOUT THE CULTURAL ELEMENT, ASKS KEVAN HALL, CEO OF GLOBAL INTEGRATION.

We know that failure to build a shared corporate culture and way of working is one of the top three reasons that mergers and acquisitions fail to deliver the value expected, but the cultural element is rarely taken into account formally in the planning or integration processes.

Using the five areas where corporate culture most often differ we can create a gap analysis of the legacy (pre-merger) corporate cultures to predict where the corporate cultures may match or cause conflict. This helps structure a discussion amongst members of the planning team and gives a common language for describing corporate cultural differences. Where the transaction is international, it is important to also recognise national cultural differences.

"Its strategy was to protect the company and retain its innovative people. What actually happened was that the central functions kept interfering"

Once the merger or acquisition has been competed, the focus tends to move on to integration. Depending on the strategy of the dominant partner, there are three main options:

1. **Assimilate** – where the dominant partner takes over the less dominant and replaces its systems and identity. If you are buying a competitor to take it out of the market or acquiring for a specific technology this may be a reasonable strategy.
2. **Protect** – where some elements of the legacy organisations are 'ring fenced' or protected. Often large organisations will acquire smaller, nimbler companies with good people and relationships and try to protect this from the big company systems and approach of the partner.
3. **Synergy** – where the new organisation tries to pick and choose the best from each legacy organisation or to create new 'third ways' of working by combining the two.

"People usually have a lot of loyalty to their previous corporate cultures and it is common for the new partners even to have been competitors in the past"

The biggest mistake is to announce one strategy and then actually implement another by mistake. We worked with a small, innovative software company that was bought by a large, bureaucratic competitor. Its strategy was to protect the company and retain its innovative people. What actually happened was that the central functions kept interfering, introducing a common grading system, expenses claim methods, even decorating the building in the parent company colours.

None of these individually were big things, but collectively it felt like the old culture was being destroyed. Nobody in the parent company made this decision actively, but nor did they actively protect the old culture. In six months the best of the small company people had left, they never wanted to be part of a bureaucratic organisation. People usually have a lot of loyalty to their previous corporate cultures and it is common for the new partners even to have been competitors in the past and hold unflattering stereotypes of each other that need to be broken down. It is important to create an opportunity to honour the legacy corporate cultures before we move on.

HR have a critical role in preventing corporate culture issues from derailing expensive mergers and acquisitions. To do this we need:

1. To make a corporate culture analysis part of the due diligence (planning) process and train members of the planning team how to do this.
2. To introduce an explicit process for managing the integration of the new organisation culture.

If we do this then we are in a position to learn from the legacy corporate cultures, let go of the past and create a culture of 'best of both' in the new organisation.

Kevan Hall
CEO
www.global-integration.com
www.lifeinamatrix.com