THE FUEL FOR BUSINESS

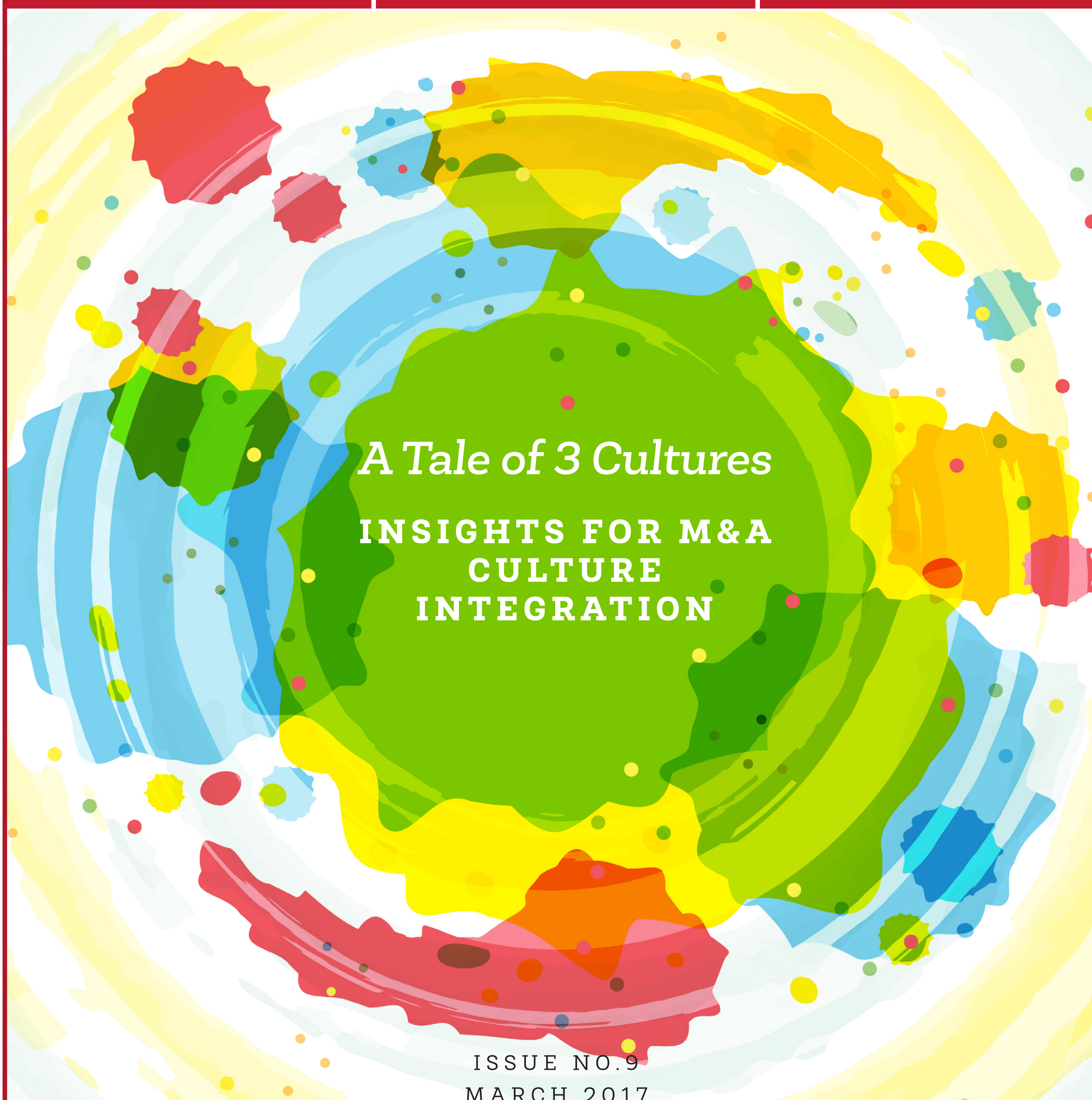
spark

MAGAZINE

THE PERFECT ACCOUNTING FIRM

AUSTRALIA'S WORSENING TRANSPERANCY RATING

THE KEYS TO YOUR BBG SUCCESS



A Tale of 3 Cultures

INSIGHTS FOR M&A CULTURE INTEGRATION

ISSUE NO.9
MARCH 2017

A TALE OF 3 CULTURES

Insights for M&A Culture Integration

by Linley Watson

What is culture and why is it important in mergers?

Culture can be described as the shared values, beliefs and behaviours that determine how people do things in an organisation.

According to a recent study by Aon Hewitt, although culture integration is cited as a top priority during merger and acquisition (M&A) activity, most organisations do not have a clearly defined approach to addressing culture. Often culture issues are shied away from by the advisors and leaders as too hard, or the area they least understand. It's a topic that "numbers people" can be uncomfortable with.

Culture is hard to change, so when companies merge culture conflict can be the biggest barrier to successful integration. Gaining cultural insight, ideally during due diligence, does not have to be overly complex, expensive or time consuming and the payback is immense. Just asking the right questions to understand "how things are done around here," can guide decision making, speed up the integration process and reduce the risk of joining the long list of M&A failures.

Here are three different examples of how a Cultural Values Assessment (CVA) helped clients understand culture and manage complexities in an M&A context:

CASE STUDY 1: Demerging Company

This ASX listed entity is a global leader in its industry and was born from a challenging demerger. There were significant legacy systems, process and people issues that had to be resolved on the way to forging its own identity and culture. A new, first time CEO and executive team was in place and new values and behaviours had been decided upon and promoted by them.

A year into the demerger, management wanted a baseline view of culture so they could see if the espoused values and behaviours were becoming embedded, and if there was a clear vision of the future. They wanted to pinpoint where to focus resources and a way to measure progress.

An extensive CVA was conducted across four international regions, in three languages, and in online and paper formats, so people working in the field with limited computer access could also participate. More than 2,000 team members completed the assessment.

Crises

It was clear from the assessment that this was an organisation in crisis. The size of the leadership team had doubled and the transition to a new matrix structure had taken too long and not gone well. Prevalent values including cost reduction, bureaucracy, confusion, long hours and low morale were limiting progress and negatively impacting results.

The survey showed that lowering costs was perceived as the driving force behind the business. Employees were worried about their jobs and the lack of access to resources and knowledge to empower their efforts. There was no clear direction to guide decisions, and staff felt overworked navigating rigid systems and processes to meet immediate needs. Team members were exhausted and said they were deflated in the face of constant change, hypocrisy and condemnation.

People acknowledged the current values - acting profitably, continuous improvement, teamwork and being an agent of change, were on the right track. In order to become a high performing organisation they also called for open communication, customer focus, balance (home/work), positive attitude, adaptability, and employee recognition.

From insights to action

The survey was just the start of the culture conversation. After sharing the results the organisational development (OD) manager conducted numerous focus groups or 'listening sessions' to better understand the behaviours that demonstrated current and desired values. Based on this feedback the company chose to focus on a few key themes that impacted the whole company: Communicate, Celebrate and Simplify.

There was a commercial group already tasked with simplifying systems and re-engineering processes. A comprehensive communications plan was relentlessly actioned and a working group established to improve reward and recognition.

To lift morale and productivity, a highly visible and engaging program that celebrated and rewarded performance while demonstrating the organisation's values and behaviours was implemented globally.

Round Two

To track progress, the survey was repeated a year later. The overall level of dysfunction had subsided from a crisis situation to one still requiring attention. It showed that employee recognition had become successfully embedded but there was still a lot of work to be done.

This time the company decided to 'slice and dice' the data to drill even further down into specific demographics such as location, business unit, role, level and brand. The 91 data cuts provided deeper insight into the many sub cultures that existed and enabled leaders to take more accountability for their results and the actions required.

Leaders make the difference

One executive was unconvinced of the culture survey's value, so the OD manager presented him with a colour coded, one pager ranking of the scores for each of the areas he was responsible for. He soon realised the impact leadership has on culture and commented that if he hadn't seen the survey results and had to rank the strength of his leaders, he would have come up with the same list.

The executive was able to use the data to identify the key issues for each area and work with individual leaders to come up with plans of action.

This organisation started to make good progress culturally, but continued to struggle with the massive shifts required. Arguably demergers are even more difficult than mergers. It was interesting to note that the values of the entire Executive team were concentrated at the individual level, not at the relationship or organisational level. This was always going to make working collaboratively and focusing on people a challenge

The consequences

The culture survey stressed the dire situation and pinpointed the urgent issues to address. However, change did not come soon enough for the Board. The original CEO departed, making way for further leadership changes and staff redundancies. The appetite for culture development diminished and the organisational development function was disestablished. Five years on, the company is happy it has stabilised both the culture and financial results. It is now moving to a focus on activities around stability and sustainability.

CASE STUDY 2:
Merging Two Competitors

This case study concerns the merger of two fierce competitors - leaders in a relatively small niche sector. The CEO of the acquirer wanted to understand what his company was buying and speed up the integration process on an ambitious path to an ASX listing.

The acquirer did a cultural values assessment of itself, ***prior*** to announcing the merger, to give an objective baseline measure that could be used to compare both cultures. It also spent time reviewing HR policies and procedures of the acquisition target to access and ensure people and culture aspects were carefully considered in the due diligence process. A culture survey of the acquisition was also conducted a couple of months ***after*** the merger.

A healthy result

The results indicated similar values and healthy cultures with few underlying cultural issues. People across both groups shared eight of the same personal values, showing a significant degree of similarity and resonance. Both organisations emphasised working together to exceed customer expectations and people feeling appreciated. There was significant alignment in how both groups wanted to move forward, citing teamwork, customer service excellence, continuous improvement, employee engagement and accountability as their desired values to drive high performance.

In this case, the leaders chose to keep the espoused values of the acquiring company and to focus on the call for more employee participation and development. The potential danger in this strategy though is that assuming values mean the same things to all people.

From competitor to colleagues

People within the acquiring company were excited by the growth opportunity, those in the acquired company, not so much.

Despite the cultural similarities, the challenge of moving from competitor to colleague should not be underestimated. Any M&A brings structural and operational changes that cause instability for both parties. It stretches the capabilities of leaders at all levels.

In case study two, senior leaders who had cultivated strong loyalty, departed the acquired company, egos were bruised, and issues of trust and fairness inevitably emerged. Operational differences led to business development and customer service issues.

On the positive side, several new roles have been created, some to provide career pathways. All roles were advertised internally and many filled from the acquired company. There has also been significant investment in training and development. Leaders were empowered and are expected and supported to have difficult conversations about performance behaviours that are contrary to the company's values.

Listing

This organisation was listed on the ASX according to plan.

Often cultural issues covertly contribute to a decline in business performance post merger, and this may be the outcome of these companies. One year after the merger, the opportunity is to reassess the health of the combined entity, looking at the relevant demographics. Holding leaders accountable, and measuring and monitoring their culture to reinforce what is working well and to stay on top of any issues that are brewing will maximise their chance of successful and sustainable business growth.

Combining multiple entities

Over the past two years, this company has acquired several small manufacturing businesses that make some of Australia and New Zealand's most well-known brands. It is part of a global group owned by a U.S. based listed corporation, that is on the acquisition trail.

There is a dominant culture that sometimes manifests as "us and them". To cultivate their one team ethos they have moved head office staff to new premises. Restructuring involved rationalising their distribution centres, losing some people and recruiting others for new roles.

Giving everyone a voice

The acquirer CEO wanted new, shared values, for the combined entity. The challenge was that each acquired business had a proud heritage and culture of its own. The initial intent was to determine these values at the leadership group, and then roll them out to all staff in the combined entity. The company opted instead to conduct a CVA to understand the current cultures and give everyone a say in the future culture of the business.

Despite significant change, the results showed a relatively healthy culture with some issues requiring careful monitoring such as cost reduction, confusion about strategy, and long hours. People lacked clear direction and communication had been hampered by blurred reporting lines. Some felt over stretched and disempowered. Spending restrictions may have impeded progress. Top desired values were teamwork, coaching/mentoring and accountability.

The organisation had been externally focused and while there was support for this approach, there was a call for stronger leadership, employee engagement, fulfilment and recognition. This implied an imbalance in internal vs external focus that could potentially cause problems if not addressed. Verbatim responses to open ended questions gave further useful insights.

Looking to the future

After ensuring that equitable HR policies and practices had been implemented, the priority is now to continue the culture dialogue, choose three to five core values that connect people with the strategy and clarify the associated behaviours.

An action plan is required to bring the values to life and make them pervasive to underpin the long term success of the organisation. Using this survey process will enable this organisation to quickly see the cultural fit of any new acquisitions and where to focus their attention. It can potentially be adopted on a global scale to help align the group.

Conclusion – do it well, on purpose!

Leaders may be good at articulating the why, what and who in an M&A transaction but they can be challenged with the how.

Culture integration is ultimately about defining how people work together to create more value. It can be done poorly and left to chance, or it can be done well, on purpose.

Doing it well involves identifying the cultural health of the organisations involved. A cultural values assessment measures the current culture, gives everyone a say on the desired culture, and the results provide a roadmap for change.

About the author

Linley Watson is Managing Director of Peak Performance International and an authority on M&A culture integration.

www.peakperformance.com.au