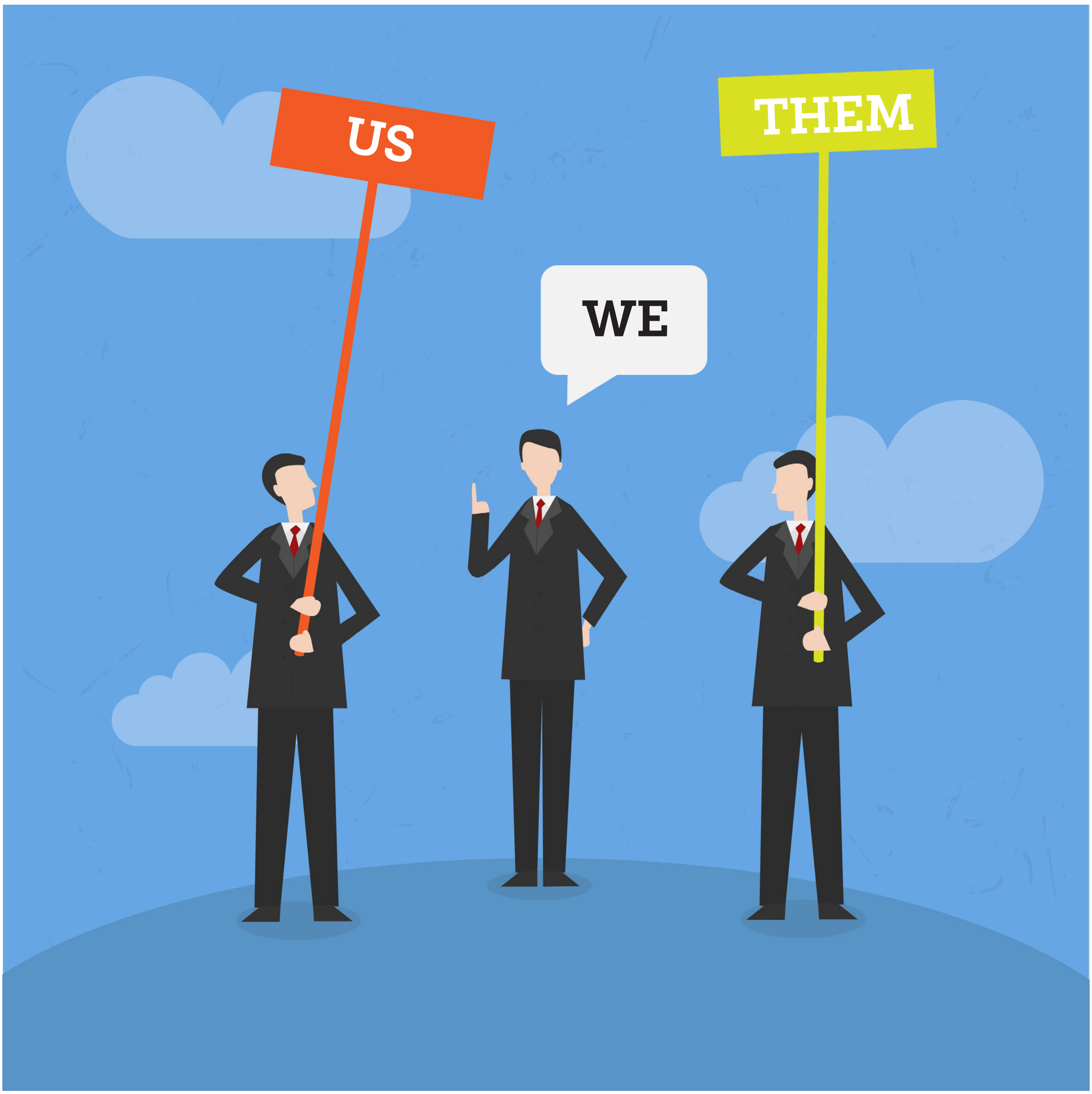
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Addressing Culture, Communication & Customer Integration Issues to Avoid M&A Failure

by Linley Watson

The challenge

Too often mergers and acquisitions fail to achieve the expected synergies or to deliver increased value to shareholders.

Recent research from leading US based M&A integration firm Price Pritchett found that more than 40% of corporate executives said that culture was the number one problem in merger integration. Other research by KPMG concludes that deals were 26% more likely to be successful if the dealmakers identified and resolved culture issues.

Whatever the numbers, anyone who has been involved in M&A knows that many, if not most deals don't live up to expectations and the impact of people and culture are largely underestimated

Reduce the unknowns with cultural insight

Merging disparate leadership and departmental or organisational cultures is a complex problem, often not well understood by the advisors and managers who drive the deal and integration processes. They sometimes only pay lip service to the importance of culture, despite being aware that it heavily influences the ultimate success (or failure) of the merger.

There is simply too much at stake to not manage culture integration well. It is a relatively straightforward exercise to professionally research and gain a 'snapshot' of the current culture and various

sub-cultures within an organisation.

This provides valuable, objective insights into why things are the way they are, highlighting potential pitfalls or problems that need to be addressed, and similarities and differences across the organisation.

Culture assessments improve M&A outcomes by providing useful comparisons of the buying and selling companies, highlighting differences in culture that may be the very reason to do the deal (or not), and identifying issues that will need to be dealt with urgently.

Today's tools can even provide a measure of the unproductive conflict, friction and frustration that exists within an organisation. Usually caused by leaders, this 'cultural entropy' may show up as excessive control and caution, blame and internal competition, confusion, and long hours. These are essential things to know.

Cultural insights can help guide decisions, shape the communication strategy and influence the desired future culture. This speeds up integration and reduces the risk of joining the long line of public M&A failures.

> *"Culture is one of the most precious things a company has, so you must work harder on it than anything else."*
> *Herb Kelleher, Founder & Chairman Emeritus, Southwest Airlines*

Communicate to reduce the fear factor

Another area often neglected throughout the integration process is communication, both internal and external.

M&A's inevitably bring about fear, uncertainty and doubt amongst employees at all levels, within both the buying and selling organisations. At the leadership level this can play out as clashing egos, power struggles, turf wars and potentially even sabotage. With poor communication the rumour mill runs wild, skepticism and lack of trust sets in.

As Price Pritchett comments: "Communication problems never seem to remain mere communication problems. They morph into bad morale, loss of talent, productivity decline, and slippage in profitability." And with social media the consequences can become a PR nightmare, literally within hours.

Why then do so many leaders fail to execute an effective integration communication strategy?

Rather than an ad hoc approach, or winging it – as many do – there

"The sale is a good outcome for the shareholders as they've worked really hard to turn things around but the new owners are forgetting that they're dealing with human beings, not just the numbers. Their disregard and lack of respect for our people and customers is shocking. Sadly, both will vote with their feet and what we've built up will be lost."
- Group Financial Controller, recently acquired IT company

should be a well thought out plan for each target audience. It doesn't need to be complicated. A simple table (who, why, what, when & how) or a checklist is a good start. Change is scary for most people. It is human nature to be concerned about "what will happen to me." Much of the fear and doubt and resulting negative behaviour can be reduced through honest, balanced communication that sets realistic expectations, informs, addresses concerns, focuses on the future and engages people throughout the transition and beyond.

It might not be easy but there is no excuse for inadequate communication with arguably the most valuable asset in the deal – the people.

Move from an internal to an external focus

While organisations are focused on bringing things together internally, deciding on who and what is in and out, managers can take their eye off running the existing business and lose sight of their customers. Integration usually takes longer than anticipated and internally focused operational decisions are often made with little consideration of their impact on customers.

When the organisation finally comes up for air they frequently find that the world has changed, customers don't like what they see and have made a choice to go elsewhere – if not now, as soon as their contract is up or it makes sense for them to do so.

Yes, key customers may have been visited or sent a letter and told about the changes, what products and services they can now buy and how good it will be for them. Yet how often does the internal cost saving brought about through integration translate to a better proposition for the customer? As well as benefiting customers, which ultimately benefits the business, experience has shown that focus on the customer can be the uniting force when staff are looking for direction post completion.

Addressing culture, communication and customer integration issues doesn't have to be complex and it doesn't have to be costly. But it does have to be done properly in a timely manner. The longer it takes to tackle these issues the harder it is to overcome them. Key people and customers leave, staff lack trust and resist change, inertia sets in, synergies are not realised and shareholders are left disappointed.

There is a big difference between making the deal and making the deal work! Attention to these 'soft' areas is a massive opportunity to create value for all stakeholders.

Linley Watson is the CEO of Peak Performance International that has partnered with business leaders in blue-chip organisations across Australia and New Zealand to develop peak performing people and customer-driven cultures.

linley@peakperformance.com.au
+61 403 149220