Managing culture change within the context of mergers and acquisitions

The generic term "mergers & acquisitions (M&A)" appeared for the first time at the end of the 19th century in the United States. In times of increased global competition, M&A activities have reached all regions of the world and are not solely concerning large enterprises. However, with many M&A projects never reaching the synergy effects that were expected of them, the successful integration of one company into another remains a challenge.

By Chantal Bialek

Thousands of research projects and surveys have been conducted in order to analyze the M&A phenomenon. Many experiences have been reported, recommendations have been made. Still, one question remains: Why is only a small minority of companies able to make it work and to receive the results that they had hoped for?

M&A, particularly those that involve different national cultures, belong to the most complex organizational change processes in a global environment. Before we see what contributes to the success, I will shortly present a way of understanding M&A and introduce an approach for how to integrate combined entities. We will then focus on the impact of communication in managing the merger syndrome and conclude answering the above question.

From a legal point of view there are many different forms of M&A transactions. Basically a merger means that two companies join their forces to create a new organization. In the case of an acquisition the company which acquires the other one gains control of it. From a business point of view what really counts is not so much the label but how the agreement will be implemented after it has been signed.

How an M&A transaction is defined and implemented – the process of combining the two entities – mainly depends on the strategic intent and the desired organization and culture for the new entity.

WHAT IS THE STRATEGIC PURPOSE?

There are many reasons why an M&A activity may be attractive: Increasing market shares, expanding the geographical position, keeping up with competition, and leveraging competencies and knowledge are just a few of them. Synergies in terms of reducing costs are also among the benefits often mentioned. It is a common mistake to forget to focus on synergies in terms of resources and profits, for example in the field of human resources. Another mistake, usually identified as one of the major reasons for failure, is the lack of common strategy and goals that the two sides want to achieve together.

After having specifically defined why you want to merge or acquire you should decide how you want to achieve these goals.

WHAT KIND OF ORGANIZATION DO YOU WISH TO ESTABLISH?

Knowing what kind of organization and culture are needed for the new entity and how much change will be required within both companies in order to form this organization, can contribute to the success. Marks and Mirvis describe five possible ways of combining two entities (see figure below).

The "best of both" approach – also known as "merger of equals" – may sound desirable for reasons of good intentions or public relations. However, such mergers are rare. Trying to achieve a "50/50" deal is very difficult in practice. Besides, adding and keeping the existing cultures as they are, is not necessarily the best solution for the business.

"Reverse mergers" don't happen very often. Sometimes, when the acquired company is organized more efficiently to meet business expectations, it may make sense for the acquirer to adopt the acquired company's working culture.

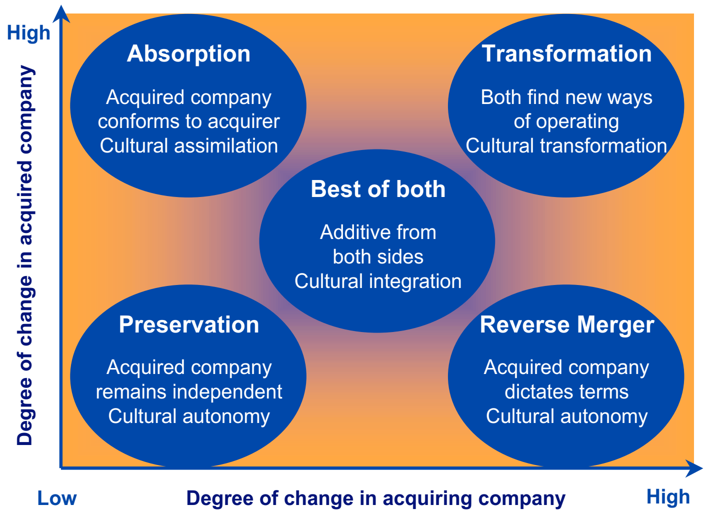
In the opposite case of "absorption" the acquired company has to conform to the acquirer. Reasons for this can be strategic decisions, a strong result orientation or simply the satisfaction of corporate egos.

A situation of "preservation", where both entities remain independent and culturally autonom, is usually temporary as it is quite impossible to avoid any cultural change when two entities come together to reach common business goals. Another - quite complex - alternative is, to use the M&A transaction to clearly break with the past and to create something new. An example for "transformation" is Evonik Industries, formerly RAG, which led to a new name, a new strategy and the fact that it is now operating in different businesses like chemicals (previously Degussa), energy (previously Steag) and real estate.

Whatever kind of M&A is desired, all of them contain chances and risks and thus require different implementation approaches in order to seize the opportunities and avoid failure. As seen in the figure the degree of cultural integration (autonomy, assimilation, integration and transformation) depends on the degree of change that is desired in the combined entity. In any case post-merger integration needs to meet certain common conditions in order to succeed.

WHAT CONTRIBUTES TO A SUCCESSFUL POST-MERGER INTEGRATION?

Merger integration is a change process and needs to be managed as such. This means paying great



Source: "Managing the Merger: Making it work" (P.M. Mirvis and M.L. Marks)

attention to cultural and human issues, which are a well-known causes for failure if not recognized and managed properly.

But even if the transaction has been well prepared, the "merger syndrome" will unavoidably appear after the deal has been announced. As in reality "mergers of equals" are very rare, you will usually find "winners" and "losers", who will go through a typical transition process characterized by stress, anxiety and lack of motivation. Increasing costs and painful loss of talented people are only some of the consequences.

Successfully merged companies have a strong vision about where they want the new organization to go. A clear strategy, common goals, distinct corporate values and principles translated into consistent actions are essential for success. As in every change process, the purpose and the common vision need to be well defined. When people know why changes happen, it will be easier to motivate them to accept the change. A strong management team with global leadership competencies is needed. Support in form of training or coaching may be necessary, as these management skills cannot be taken for granted.

Whether it is by default or design, the process of integration will take a long time since there is a human resistance to change. Nevertheless, an important success factor is to move with speed. Quick results are motivating and help to avoid uncertainty. Don't forget your customers by spending too much time on yourselves! Certainly you do need to spend a lot of energy in the integration of people and cultures. The challenge is to do it quickly while giving it time.

Top management needs to set an example during the entire process of the post merger integration. An experienced integration team with a clear mandate and strict guidelines, will help to speed up the process and to ensure efficient communication. Such a team should also include a human ressources specialist.

THE IMPACT OF COMMUNICATION

As in any organizational change process the need for communication is very strong. This is a key factor, especially in cross-border M&A. The biggest strength of communication is building bridges between people by providing transparent, consistent, coherent and honest information.

Effective communication during the integration is a two-way process, from the management to the employees and from the employees back to top management. Possible media are newsletters, merger papers, hotlines, websites, meetings, feedback interviews, etc.

According to Marks and Mirvis, the following aspects are necessary to manage the merger syndrome: Insight, Information, Involvement and Inspiration. Communication is an essential part of all of those.

Insight means respecting employees' emotions and helping them to acknowledge that stress is part of a wealthy change process. Don't pretend that nothing will change.

Information means conveying the big picture to the small unit establishing focus and urgency. What often happens is that the management team in the acquiring firm doesn't want to provide any information until all the details on the implementation plan have been defined. A communication plan provides constructive information at all levels of the organization. Communicating what is known and being clear about what is unknown helps to cross the discomfort zone.

Inspiration means starting at the earliest stage to build positive expectations and to give people something constructive to talk about. Simply informing about a new vision and strategy is not enough. We all tend to look toward the future as a distant goal. It is important to internalize future goals and convince employees that they are part of this future, which is not far away. This allows retaining talents.

Finally involvement implies a direct contact in order to break down stereotypes of "them and us" (winner-loser syndrome). An efficient communication campaign celebrates successes and creates "win-win" conditions. People need to be involved both rationally and emotionally.

WHY ARE ONLY FEW M&A SUCCESSFUL?

Managing M&A means managing cultural change. This is inevitably complex and very difficult to get right. A solid preparation including a due diligence is mandatory. Skipping it for the sake of the deal is surely not the best start. Failures are mainly linked to problems in post-merger integration. Successfully merged companies don't underestimate the impact of critical aspects regarding people and culture. They establish a professional human resources management including effective communication. They don't confuse intercultural issues with poor management. Successful M&A needs good people management. Specific skills are required and need to be consistently developed.

Finally M&A success tends to increase with experience. Best performers accumulate experience and learn from mistakes. Companies with a large pool of experiences in managing change also tend to be good in managing M&A and vice versa.

Further reading:

- "The global challenge: Framework for international Human Resource Management" by Evans, Pucik and Barsoux
- "Changing the way we change" by Pascale, Millemann and Gioja (Harvard Business Review)

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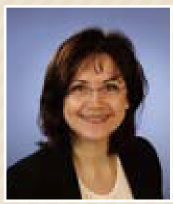

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