

Measuring Cultures in Mergers



Measuring Cultures in Mergers

by Peter Lysell

How to make a Merger successful? It is often stated that most mergers and acquisitions fail to meet their overall business target.

Due diligences are made and the companies are turned upside down and inside out firstly to ensure that everything needed to be known is known and secondly that the businesses to be merged or acquired will be a nice complement or add value with a target that 1 plus 1 should at least equal 3.

So what is the problem, why don't most mergers succeed to meet their targets?

WHERE DO YOU FOCUS?

According to my experience, the main focus during the merger is to build a clear strategy, draw out a new organizational structure and ensure that we have the right systems in place. What we call the logic agenda. In other words we tend to focus on the things we can control and the areas where we have the knowledge. However it is suggested that the key reason to why most mergers and acquisitions fail is related to company cultures.



Thus meaning that if we should succeed with a merger we need to include management styles and competencies during the due diligence process - A culture due diligence.

Doing a culture due diligence will get us information what cultures we are dealing with and the core capabilities and behaviors of the management we have at hand to run the merger. If we know this we can estimate the true cost, time and investment needed.

The reasons that; we tend to focus on things we can control and things that we have knowledge about. Leaves us with 2 questions?

01

CAN WE CONTROL CULTURE?

02

DO WE HAVE THE KNOWLEDGE OF HOW TO IDENTIFY, MEASURE AND DEAL WITH DIFFERENT CULTURES?

If we can define the culture we want, we can also measure it. We can of course then get a picture of our current and future state. What are the current states of the companies we are merging with or acquiring? What culture do we want? The same culture that one of the existing companies or a completely new culture with behaviours that we are missing today?



The Implementation Process

According to my experience, the main focus during the merger is **to build a clear strategy**, draw out a **new organizational structure** and ensure that we have **the right systems in place**. What we call **the logic agenda**. In other words we tend to focus on the things we can control and the areas where we have the knowledge.

However it is suggested that the key reason to why most mergers and acquisitions fail is related to company cultures.

Thus meaning that if we should succeed with a merger we need to include **management styles and competencies** during the due diligence process - **A culture due diligence.**

Doing a culture due diligence will get us information **what cultures we are dealing with** and the **core capabilities and behaviors of the management** we have at hand to run the merger. If we know this we can estimate the **true cost, time and investment needed.**

Cultural Gap

Consequences of a cultural gap

What will happen if we have a big gap and we don't do anything about it:

- 01 People will leave during the process - cost for recruitment and loss of competencies
- 02 People will be frustrated during the process – loss of work hours – negative focus covering an extended period
- 03 People will not understand the “new way of working” - old and new working methods will coexist - no value added
- 04 People will not understand the “new way of working” – with the best of intent people will work to keep the old just because they want things to work



If we know the gap we can foresee these obstacles – if we can foresee them we can evaluate them and estimate the total cost for the transaction, for instance:

- 01 Activities to keep key people motivated
- 02 Cost for recruiting new people
- 03 Development for managers
- 04 Development for core competencies needed to run the new company
- 05 Realistic time frame – unrealistic time frames lead to stress and stressed people tend to have higher resistance to take onboard new ways of working

And the most important part we can communicate to people what they can expect from the process and manage those expectations.



Management Competencies & Style

The definition I like to use when defining organizational culture is “**the sum of the behaviours of the most dominate people defines the culture**” .

So who are the most dominant people?

- **The leaders**
- **The informal leaders**
- **The heroes** – the people that others tend to look up to and are visible on intranet, internal magazines , blogs etc.

Therefore if you can define those behaviours you can define the culture. If you can define your culture you can measure it, if you can measure it you can manage it.

It is also important to bring in management competencies in this part and the looking at the skills and competencies needed to run the merged companies in the way we are aiming for in the business plan. For instance the company might be twice as big as before, how many of the leaders are equipped to handle that (or to grow in to that level)?

The new company might need to be more innovative and market oriented than before, What will happen then if the managers in the old companies are just moved in to existing positions in the new company?

Management Competencies & Style

So part of the cultural change process will include moving managers not only from a past experience record to new positions but also looking at future capabilities (ability to learn and grow).

It will be as important also to look at the management style so in the new organisation you set people not only with the right competencies and a good track record but also have the right management style from the beginning.

For instance, a manager with 25 year experience running a hierarchical line organization successfully will have huge difficulties to run a matrix organization (even bigger if he/she does not get the right level of support to understand the behavioral transformation he/she needs to do)

Running the merger process with the culture you want

Very often companies use external consultancies to help them in the transformation process not thinking of one of the most important part.

You need to run the merger process with the style of the culture you want.

This means that you need to choose support that are supporting you in the way you need to establish the new culture otherwise you might end up with a clash between the consultancies way of doing things and your desired new culture.

Finally

From my experience if you help your managers get some insight in to these areas it will change their way of running change process and will significantly change the business impact.