WP Advisory

Insights

Cultural Integration – The Challenge and Making it Work

WP Advisory provides best-in-class merger integration consulting services and related solutions. We are a small team of senior executives with significant industry experience.

Focus

We are merger integration specialists. We've chosen to do one thing and we aspire to do it better than anyone else.

Team

We are a team of executives who come from varied and diverse industries who have led our organizations through integrations large and small.

Size

Our boutique size gives you access to our entire team and highly personalized service built on relationships.

Cultural Integration – The Challenge and Making it Work

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One of the primary reasons mergers are not successful is differences in culture between the acquiring and acquired organizations. We hear similar feedback frequently when we are called to fix an integration such as: “we can’t work together,” “their MO is so different from ours,” or “we were entrepreneurial and able to make decisions independently and now we are stifled by their bureaucracy.”

As part of merger integration, the acquirer will often make organizational changes to the target, but changing how people work at the target company without understanding its culture can lead to resentment and failure to meet the desired goals.

Why at the onset of a merger are the cultural aspects of what makes an organization function not factored into the merger plans? There are many reasons: culture is vague and hard to define; management is preoccupied with the financial aspects of the merger; the focus is on securing top spots in the new organization; people issues are not considered important until after the deal is closed; and most frequently, there is an attitude that culture will simply work itself out and it is not a priority.

“changing how people work at the target company without understanding its culture can lead to resentment and failure”

Organizational culture is the DNA of the firm. It represents the behaviors of the collective organization, the way of working, such as:

- How people interact and communicate which each other - use of jargon and acronyms, open door policy, meeting style, working remotely vs. face-to-face, etc.
- How people dress – formal vs. informal
- How people are rewarded – what is important beyond merely job performance
- How we deal with clients and other external parties
- Organizational structure e.g. meritocracy, democracy, dictatorship
- Openness to challenge and feedback
- Association with and loyalty to the company brand
- History of the organization

Smaller organizations tend to have closely knit cultures because they often have been shaped by a strong entrepreneur and people are promoted from within the organization. As companies get larger through acquisitions, culture becomes diluted and fragmented so that organizations have pockets of legacy cultures.

Strong cultured organizations which "row in the same direction" have been proven to be more effective because there is less infighting.

Any time two organizations are being merged, there will be cultural conflicts that need to be managed. Left unattended, this will give rise to discourse and infighting. People will cling to their legacy company identity and never truly combine. Culture takes a long time to shape and is very difficult to change. Unless there is an impetus to change, culture will continue as is, unimpeded. Even if the new management gets along, that does not mean that the rest of the organization is working in harmony.

Left unattended [cultural conflicts] will give rise to discourse and infighting.

People do not like change as it creates discomfort and uncertainty. They resist change unless it becomes clear what the benefits are for them to embrace it. Culture is re-enforced by policies, reward mechanisms, and role models. We all carry a "mental map" of how to navigate within an organization and we feel comfortable operating in familiar territory. Mergers disrupt this.

There is no silver bullet to solving cultural conflicts and we would not advocate wholesale culture change without outside assistance to facilitate change. However, there are some actions that you can take to mitigate the disruption from cultural conflicts.

There is no silver bullet to solving culture conflicts

1. Understand your own culture – what behaviors you value, the mechanisms you use to re-enforce those behaviors, what you would look for in a partner firm that would complement the existing culture.
2. Conduct due diligence on the culture of the firm you want to acquire – talk to staff, customers, and suppliers to understand how the organization operates, how it treats all related parties. Don't limit these conversations to the top of the organization, although secrecy may be a hinderance, look for avenues to explore widely so there are no surprises.
3. Determine where there are going to be significant cultural differences that need to be bridged and how these can be overcome.
4. Identify specific actions that need to be taken to resolve cultural issues up-front.

5. Take a systematic approach to how cultural integration is going to proceed:
    - Assimilation – forced adoption of acquiring company ways of doing things
    - Reverse assimilation – adopt acquired company culture and rules
    - Hybrid – pick and choose aspects from both organizations
    - Start fresh – redesign the culture
6. Factor corporate culture into the integration plan and determine how to measure success; devise a culture plan.
7. Develop policies, processes, and reward systems that re-enforce the desired behavior.
8. Have leaders be the "standard bearers" of the cultural values you want the organization to adopt; people who aren't assigned active responsibility to help shape a new culture will continue to perpetuate the old one.
9. Remove people who do not support the new culture. It is better to eliminate resistors early especially if they are in a position to influence others. This shows people you are serious about cultural change.
10. Measure the success of cultural changes as you would with synergy targets. ❖

determine how to measure success; devise a culture plan

About the Author

Andrew is a leader in the firm's merger integration practice and has extensive and diverse experience spanning 25+ years across capital markets, insurance, technology, and aerospace. He is a leading authority on delivering "change" across large scale, international organizations.

His expertise is in business and finance transformation, operating model design, risk management, and process optimization. Andrew has extensive international experience of operating in global organizations, across cultures, and business functions. He has lived and worked in Europe, Asia, and the US.

Previously he held executive positions at AIG, HSBC, Credit Suisse, and Goldman Sachs managing large scale transformations associated with finance re-engineering, business performance improvement, regulatory change, and control enhancements.

Andrew holds a D.Phil from Oxford University, M.Sc/DIC in Control Systems from Imperial College, and a B.Sc in Mathematics from Manchester University.

He is also a Finance Risk Manager (FRM), Certified Change Management Professional (CCMP), Prince 2 project management practitioner, and Black Belt in Lean Six Sigma.

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