Beating the M&A Odds

With sustained focus, mergers and acquisitions can produce companies whose combined value exceeds the value of their parts

By Tim Larson

Today's Environment

After several quiet years, mergers and acquisitions have powered back onto the front pages of many business publications.

Despite the excitement, 70 to 90 percent of those deals typically fail to deliver on their expected value, the *Harvard Business Review* reports. Underestimating the impact of culture differences between the organizations involved can be one of the primary reasons. Integrating cultures can be particularly challenging for the small- and medium-sized business mergers seen most.

Cultural considerations are less concrete than financial statements, but they are critical to post-merger integrations. Recall the merger between US West and Qwest, for example. As one of the old Baby Bells, US West had a heavily unionized, process- and quality-driven culture. A slow pace was fine if it produced the right result through the right process. Qwest was from another world. Its competitive start-up culture emphasized speed and productivity over order. Following their unhappy marriage, the turmoil produced by their cultural differences contributed to the decline in shareholder value.

To beat the odds and achieve a better outcome, senior executives must assess culture fit as part of the due diligence process and develop a culture integration plan. Here are several key considerations:

Realize that culture is not just about countries. When multinational deals are on the table, culture is typically one of the factors considered. Culture encompasses far more than languages and monetary systems, however. From an organizational perspective, culture includes the basic assumptions, values, norms and behaviors of the people within the business. In practical terms, culture governs how people communicate, make decisions, embrace or avoid change, treat customers and structure work.

Weight culture according to the people value. The importance of culture integration is directly related to the value of the people for the acquisition. If the value lies in the intellectual capital, skills or networks of the people, then culture should be one of the deciding factors during due diligence. The merger between Tyco International and Johnson Controls is an example. If a poor fit between the two organizations caused key leaders at Tyco to leave, Johnson Controls would gain little from the deal. The people value is often important for small- and medium-sized businesses as well. Those companies derive significant worth from the reputations, networks and knowledge of their leaders. But culture is not critical in every instance. If an acquisition is being considered to gain access to financial capital or facilities, for example, then culture may not matter.

Know yourself. Know your partner. Assessing culture typically starts with a survey that measures foundational elements of organizational culture. The survey should be supplemented with focus groups and observation. The acquiring company should include itself in this process as well as the company being considered for purchase. The goal is to evaluate both culture traits and the relative importance each organization places on them. For example, a mature organization that prides itself on personal, long-standing customer relationships is unlikely to embrace a high-pressure, high-volume sales approach. The change is too great and involves a shift in values, mindset and behavior. Another change, such as incorporating more structured processes into various aspects of the business, might be achievable, however.

Focus on the vital few. After the assessment is completed, both companies should evaluate the similarities and differences between them. A key question to consider is how the culture traits of the organizations contributed to their current success. One culture isn't better than another, but some cultures are more compatible or supportive of the business that would be created from the merger. In the best cases, the merged company reflects the cultural strengths of both organizations. The two leadership teams should discuss the shared culture they want to develop and identify the vital few traits that need to change to create that culture. If they agree the changes are unlikely to succeed or would alienate vital talent, they should walk away from the deal.

Engage, commit and recommit. If the merger is desirable, assemble an executive team to plan and execute the culture integration. At this point, the team needs to shine a light on the barriers that block the changes that need to be made. The team should establish specific goals around dismantling those barriers and develop communication plans and incentives to encourage change. Communication with line staff is absolutely critical, as employees need to know that their leadership understands—and has a plan to address—friction points. Each member of the executive team needs to own a part of the process and understand that it will take sustained effort to reach the desired results. Culture change is a slow process, and it requires ongoing conversation, feedback and recommitment.

The Bottom Line

If this process sounds like a significant investment of time and executive resources, it is. Many executives underestimate what successful integration requires and allocate too little time and leadership to it. It doesn't have to be that way, however. With sustained focus, mergers and acquisitions can produce companies whose combined value exceeds the value of their parts.

One plus one can equal three.