

MERCER



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

The impact of culture on M&A

Doing something about it

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The impact of culture on M&A

Preface

Say the word “culture” around people familiar with M&A deals and you will likely get two types of reactions; they will acknowledge how important culture is to the success of the deal and they will give you a harrowing example of the consequences of a cultural misalignment that they witnessed or experienced.

Despite these anecdotes, most acquisitive organisations have not yet developed a structured process to effectively diagnose, manage and integrate organisational cultures – even in light of the fact that almost 75 percent regard culture as a key component in creating deal value.¹

Why is this? It’s because “culture” is a highly problematic concept: It is multifaceted, “soft,” elusive, complex and difficult to measure, let alone define. To read the volumes of research devoted to the subject, it seems that there are as many definitions of culture as there are organisational psychologists who study it. One study found 164 definitions of culture – and that was 55 years ago!

Culture is also challenging to address because changing it requires the visible and active support and engagement of business leaders. And often, only those who have been burned by it truly understand the value of investing time and money in cultural integration and change. As former IBM CEO Louis Gerstner wrote in his book, *Who Says Elephants Can’t Dance?*, “I came to see, in my time at IBM, that culture isn’t just one aspect of the game – it is the game.” Note that Mr. Gerstner says he “came to see,” suggesting that the importance of cultural integration was not apparent to him until he had been burned – and probably more than once.

Most often, business leaders and deal teams are more focused on getting the deal closed. Integration teams tend to be more focused on getting the structures, systems and processes integrated. Beyond this, there is often not enough focus on how to actually make the deal work – and the key to making it work is about effectively integrating two (or more) cultures.

The negative impact when cultures are misaligned

It is apparent that failed cultural integrations are often at the heart of merger difficulties. For example, in a 2004 transatlantic study of executives involved in M&A deals, 75 percent of them cited “harmonising culture and communicating with employees” as the most important factors for successful post-merger integration.² A 2006 white paper from the Economist Intelligence Unit revealed that 67 percent of survey respondents pointed to cultural integration as both the most important people issue and the most critical success factor in an M&A deal. More recently, a report from the Economist Intelligence Unit titled *M&A Beyond Borders: Opportunities and Risk*, in conjunction with Mercer, found that organisational culture differences and human capital integration issues ranked as the two most significant challenges faced by respondents in recent transactions.³

“Organisational culture differences ranked as one of the most significant challenges.”

Critical success factors

In fact, when reflecting on the reported top 10 critical success factors (CSFs) for M&A deals (see Figure 1), it is interesting to note that each one can be undermined by the cultural attributes of an organisation or by highly differentiated cultures. For example, an organisation that typically does not place a great deal of value on communicating, and communicates infrequently or ineffectively, will be less inclined to take the time to clearly articulate and share the real context of the deal beyond what goes to the market or the press (CSF #1). The same organisation is unlikely to communicate governance issues well (CSF #6) or be able to successfully win the hearts and minds of stakeholder groups through engaging communications (CSF #7). Without a culture of open and regular communication, the organisation is less able to connect well with employee groups to gain their buy-in and support for what is required for success in the newly combined organisation (CSF #8). In this way, one cultural attribute can have a significant impact on several elements that drive deal success.

Figure 1: Critical success factors and sample indicators

Critical success factor (CSF)	Sample indicators
1 Well-defined, articulated business strategy exists	<ul style="list-style-type: none"> ■ The reasons for the deal are explained ■ The degree of integration is defined ■ The context for the deal is understood
2 Clear "product" road map exists	<ul style="list-style-type: none"> ■ Offerings are clearly communicated to the marketplace ■ Internal efforts are aligned ■ A clear branding strategy is in place
3 There is an unyielding focus on customers	<ul style="list-style-type: none"> ■ Points of contact are clear ■ Attention and support are uninterrupted ■ Partnership and channel relationships are maintained
4 Organisation is ready on Day 1	<ul style="list-style-type: none"> ■ Plans are in place for all functions, businesses and locations ■ There is an effective transition from planning to execution
5 Synergies are clearly identified	<ul style="list-style-type: none"> ■ Cost and revenue are included ■ Clear metrics/targets are assigned at the project level ■ Strong project management is in place
6 Governance is clearly communicated	<ul style="list-style-type: none"> ■ The board/executive roles are agreed ■ The organisation's structure is defined ■ Line management roles are determined
7 Effective communication to stakeholders exists	<ul style="list-style-type: none"> ■ Communication takes place early and often ■ All stakeholders are considered and reached ■ Messages are clear, honest and consistent
8 There is an unyielding focus on employees and appropriate retention	<ul style="list-style-type: none"> ■ Key employees are identified and targeted ■ Employee morale issues are addressed ■ Incentives are utilised where appropriate
9 Divergent operating principles are addressed	<ul style="list-style-type: none"> ■ Differences are identified ■ Proactive steps are taken to bridge gaps ■ "Rules of the road" for interaction are defined
10 Organisation acts quickly and decisively	<ul style="list-style-type: none"> ■ Periods of uncertainty are minimised ■ Planning is completed before close ■ Synergies are aggressively pursued from Day 1

Another example is an organisation that has a strong hierarchical or "command-and-control" approach to getting work done. Such an organisation is likely to find it difficult to accept or appreciate ideas from "outsiders" – that is, the organisation

being acquired (CSF #9) – or to think about an organisation that has a predominately collaborative culture; it will have a difficult time making tough decisions with the speed required to quickly create value (CSF #10).

"In any given transaction, the key is to identify and reinforce those critical behaviour patterns that have the greatest positive impact on success while discouraging those that will erode value."

All this is not to say that one cultural attribute is better or worse than another. What it does suggest, however, is that some behavioural characteristics may be incompatible with what is required for deal success, while others may be well aligned. In any given transaction, the key is to identify and reinforce those critical behaviour patterns that have the greatest positive impact on success while discouraging those that will erode value.

Culture and value

Another way of looking at how culture impacts the value of a deal is by examining the value curve (see Figure 2).

What happens to the productive value of the organisations when the deal is announced? In almost every case, it goes down. At best, it goes down while everyone stops to talk about the deal, then goes back up when everyone goes back to work. But more often, the productive value of an organisation will significantly lag – potentially for a long time – as employees try to figure out what the deal means to them. This lag will happen across the board, including corporate functions, IT functions, sales forces, customer-facing staff and even executive leadership.

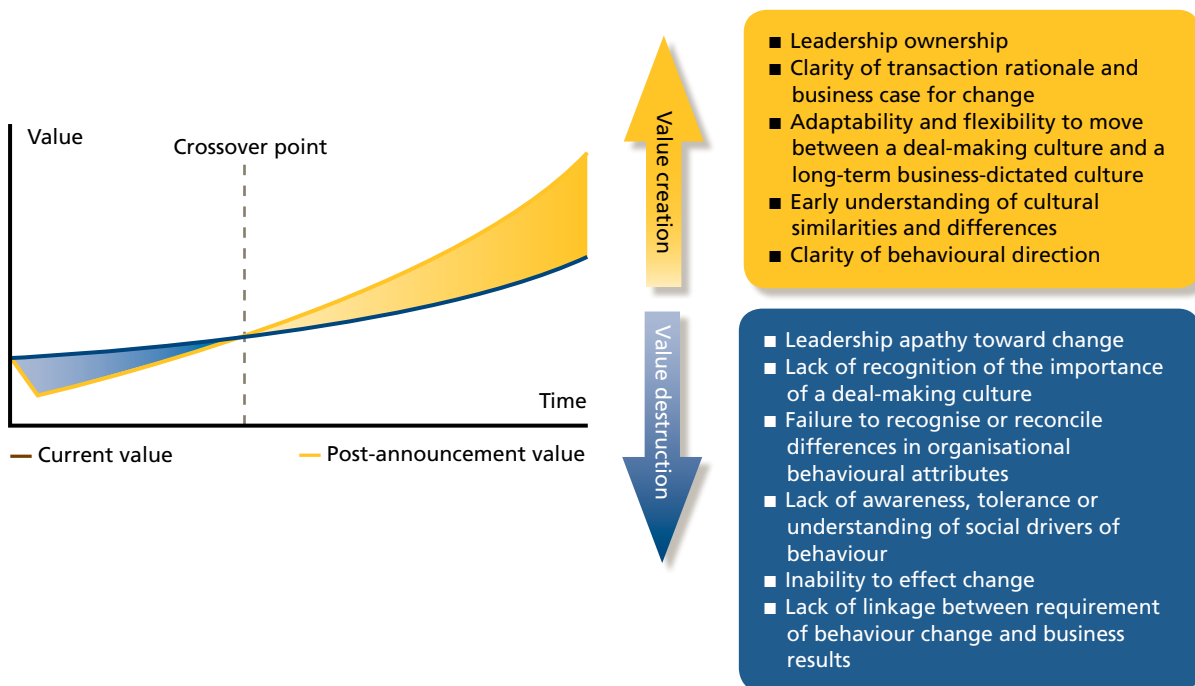
However, if the deal is successful, value generation should start to increase and, at some point in the future, deliver greater value than the two organisations would separately have done – the rationale behind M&A transactions.

If, however, the deal is not successful – that is, people behave in ways that destroy value or slow value creation – then the two lines may never cross, as has been the case with several high-profile transactions, such as that of DaimlerChrysler (see “A case in point”).

Even the professionals responsible for managing the financial side of the deals are recognising the impact that culture has on the bottom line of the deal. *The Journal of Corporate Accounting and Finance* has acknowledged the critical role of culture: “The primary reason that cultural differences, if not uncovered and addressed, can affect the value of the deal is that cultural differences often spell decreased productivity, which leads to lower revenues and income, and hence the combined entity may be worth less than expected.”⁵

“...cultural differences often spell decreased productivity, which leads to lower revenues and income, and hence the combined entity may be worth less than expected.”

Figure 2: Culture and the value curve



What does it take to deliver success?

How can you determine if a transaction is “successful”? Success occurs when the anticipated deal outcomes are achieved as a result of people behaving in ways that create – not destroy – value. This includes:

- Making the right decisions in a timely manner
- Aligning leaders around the deal rationale and reinforcing the key behaviours required for success
- Designing and implementing systems and programmes in a way that reinforces those behaviours
- Ensuring that employees understand, support and are capable of executing in new ways

A case in point: The DaimlerChrysler merger

When the German prestige car manufacturer Daimler-Benz merged with US-based Chrysler Corporation in 1998, the deal was acclaimed by analysts as a strategic win-win. Described as a “merger of equals,” the combined entity had revenues of \$155.3 billion and sold more than 4 million cars and trucks. It ranked third in the world in terms of revenues, market capitalisation and earnings, after GM and Ford. But two short years later, DaimlerChrysler reported quarter-on-quarter losses of more than half a billion dollars. In 2001, 26,000 job cuts were announced at its Chrysler division. And in 2006, the combined organisation reported a loss of 12 million euros. In May 2007, Daimler sold Chrysler for £3.74 billion to private equity firm Cerberus Capital. Without Chrysler, Daimler AG reported profits in its fourth-quarter results for 2007.

What happened to erode value so significantly? Why was the promised value never created in this transaction? It is well-documented that misaligned cultures and management styles obstructed the realisation of synergies. At the leadership level, there were issues of transparency and follow-through. Daimler-Benz’s CEO, Jurgen Schrempp, initially proclaimed the merger as a “merger of equals.” In 2000, however, he was quoted in the financial press as saying, “The merger of equals statement was necessary to earn the support of Chrysler’s workers and the American public, but it was never reality.” (“DaimlerChrysler will seine Autos günstiger verkaufen,” *Handelsblatt*. Frankfurt, Germany, 10/30/00, p. 3.)

At the level of organisational practices and “ways of getting work done,” the two organisations were fundamentally different. Daimler-Benz was known for its methodical, centralised decision making and high regard for tradition and hierarchy; its philosophy was “quality at any cost.” Chrysler, by contrast, reputedly had a risk-taking, assertive “cowboy” style that encouraged creativity, flexibility and adaptability, and valued efficiency, equality and empowerment; its philosophy was about producing cost-efficient and well-priced vehicles. These differences, as well as key leadership losses at Chrysler and the installation of a German management team in late 2000, accelerated the destruction of value and fuelled the organisation’s losses.

Extracted from “The DaimlerChrysler Merger,” Tuck School of Business at Dartmouth, number 1-0071.



Defining ‘culture’

While there are many definitions of “culture,” in the M&A world it helps to view culture practically by seeing it as three intertwined elements:

- The individual and organisational behaviours themselves (Behaviours)
- The business outcomes they produce (Outcomes)
- Those factors that influence patterns of behaviours (Drivers)

Behaviours

In describing an organisation’s culture, terms such as “paternalistic,” “collaborative,” “hierarchical,” “conservative” and “entrepreneurial” are often used. These may accurately describe a group characteristic, but the underlying question is: What do people actually do in a “consensus” culture or a “hierarchical” culture? What behaviours would be observed in a “consensus” culture and how would they differ from the behaviours observed in a “command-and-control” culture?

Presumably, in a consensus culture, people meet frequently, share opinions with one another, have a tendency for broad inclusion and seek to gain agreement across stakeholders. In a command-and-control culture, these behaviours likely are replaced with tightly controlled decision making and top-down communication, where discussion is focused on delivering directives and following up on execution.

Examples of behaviours		
Lean & mean		Cutthroat
Risk-taking	Conservative	Sense of urgency
Entrepreneurial	Paternalistic	Quality driven
Hierarchical	Fun	Consensus building
Empowered	Collaborative	Innovative
Competitive	Process driven	Sales driven
Cost driven	Family friendly	

These behaviour patterns describe how people operate at work. Thinking of it this way, an organisation’s culture can be seen in the aggregation of those individual behaviours that make up how work gets done. Put another way, if different business results are required, then the behavioural patterns that make up the current culture must change.

“Organisation culture is defined by the aggregation of individual behaviours that make up how work gets done in an organisation.”

Outcomes

Of course, when viewed in isolation, culture – or the way people tend to behave – is of little relevance.

Only when culture is put in context does it become relevant. The environment within which a culture exists, and the outcomes that result from the behaviours that define it, determine whether a culture is “good” or “bad.” Logically, a culture is considered good if it produces the desired outcomes, and it is considered bad if the desired outcomes aren’t achieved.

Examples of outcomes	
■ Growth	■ Quality
■ Profitability	■ Competence
■ Presence	■ Reputation

Let us look again at a consensus culture: One possible result of the behaviour of “seeking to gain agreement” may be slow, deliberate, well-thought-out decision making with broad ownership. In a situation where the consequences of making the wrong decision create significant risk, this would be a very desirable attribute. On the other hand, if this were a high-growth, speed-to-market sales situation, the delays in decision making might be disastrous to the business. Therefore, the culture would not be considered optimal.

Drivers

In addition to behaviours and outcomes, the third element in understanding culture comprises those factors that influence behaviour. Within an organisation, each behaviour is a result of specific drivers, which are both internal and external to the organisation.

There are four basic types of drivers of behaviour: **personal, social, organisational** and **models**. Two of these – organisational and models – can be used to change the underlying behaviours of a given culture, and two – personal and social – generally need to be understood and “worked with” rather than managed. Recognising this fundamental difference in how and where an organisation can influence behavioural change is the first step in developing and executing a practical approach to cultural integration.

Types of drivers
<ul style="list-style-type: none"> ■ Personal – individual characteristics associated with the person ■ Social – contextual influences on behaviour ■ Organisational – employer programmes and processes (for example, mission/values, rewards and benefits, communication, etc.) ■ Models – the behaviour of others, including leaders and colleagues

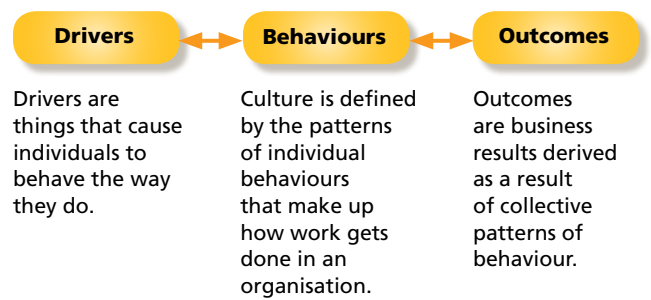
It is difficult, if not impossible, and perhaps inappropriate, for corporations to attempt to change personal (for example, personality, genetics, gender, ethnicity) and social (for example, national origin, religion, local customs) drivers of behaviour. However, it is appropriate and necessary to help individuals and organisations understand those drivers and be skilled at acknowledging and resolving the natural paradoxes that exist within the context of these differences.

When organisations have tried to impose their own behaviours resulting from personal and social drivers on acquired organisations, failure in some form has almost always been the consequence. Said another way, if the behaviours of acquired or merged companies resulting from personal and social drivers are incompatible with the business model necessary to drive results, failure is almost guaranteed before you start.

However, organisations can and should proactively manage the other two drivers: organisational and models. Organisational drivers include vision, values, programmes, policies, workforce strategies and the work environment. Model drivers represent the behaviours of others – whether peers, leaders, coaches, opinion leaders or role models. In fact, the most powerful models reflect the behaviours of both organisational leadership and peer groups.

Putting these three elements into a picture gives us this simple systematic graphic (see Figure 3).

Figure 3: Mercer's drivers, behaviours, outcomes model



This graphic illustrates the three elements in a simple form of systems thinking: Drivers influence behaviour patterns, and the aggregation of those behaviour patterns produces business outcomes. So, if an organisation desires a different set of outcomes, individual and collective behaviours have to change. And if individual behaviours need to change, then different drivers must be in place to cause different behaviours.

The thinking also works the other way; achieving certain outcomes (for example, higher revenues or greater market share) will require people to behave in new and different ways, and will also result in the redesign of various organisational programmes and systems, such as how performance is managed and rewarded and/or how markets are managed and results are reported.





The M&A change event

What happens when a change event such as an acquisition, joint venture or divestiture occurs?

Almost by definition, the parties to the deal expect a different set of outcomes (such as greater revenue, cost savings or market share). Achieving these new outcomes requires some level of behaviour change and therefore some change in behavioural drivers. Even without considering outcomes or behaviours, in almost every transaction, the drivers of behaviour change as new leaders move into place, systems get harmonised, and new business strategies and objectives are shaped.

“Managing culture change is the process by which the drivers used to change behaviours are implemented, and new or modified behaviours are created.”

In effect, the three elements – drivers, behaviours and outcomes – are inextricably intertwined. No single element can be changed without impacting the other two. Successfully dealing with a change

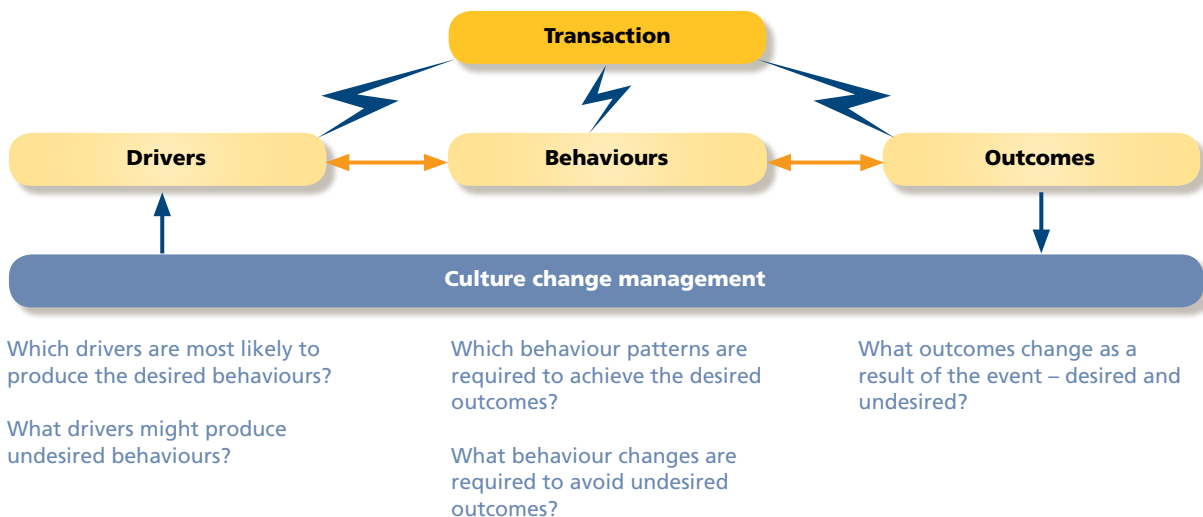
event such as an M&A transaction requires not only consideration of the behaviours, but also equal consideration of the outcomes and drivers of behaviour, as well as how to manage the change (see Figure 4).

In the culture change management process, all aspects of integration decisions are drivers of organisational behaviour, including business design and work processes, leadership and organisational design, people practices, and the way the organisation is engaged. Each will influence behaviour, which, in turn, will influence deal outcomes.

To be successful in the short and long term, the process of cultural integration must ensure that:

- Outcomes are well-defined and understood in the context of the deal.
- Behaviours are clear in terms of the cultures of each of the parties involved in the deal, and the going-forward culture necessary to deliver the outcomes has been identified.
- Drivers of the desired behaviours are well-understood, prioritised and designed in such a way to influence the desired behaviour patterns.
- An effective change management process is planned and executed.

Figure 4: The M&A change event





The cultural integration process

Mercer's *eight-step cultural integration process* provides a framework for developing an executable process to increase the chances of successful cultural integration.

Step 1 is about building a clear view of the transaction context and rationale. It ensures that all parties have a full and comprehensive understanding of the context of the deal and the outcomes that need to be achieved.

Step 2 determines the degree of integration in two parts. First, it translates understanding of the deal thesis into a statement of the degree of operational integration at the organisational level, as well as by geography, by function and even by programme. Second, it is about determining the extent of cultural integration required to achieve those outcomes.

Clearly, these two elements are linked. For example, if organisational integration is low – that is, the target will be kept as a stand-alone – then cultural integration is also likely to be low. If the strategy is about adapting the “best of both,” then the requirement for cultural integration will be high.

Step 3 clarifies the specific behaviours required to run the combined business and includes a behavioural assessment of each organisations and an assessment of their combined future state.

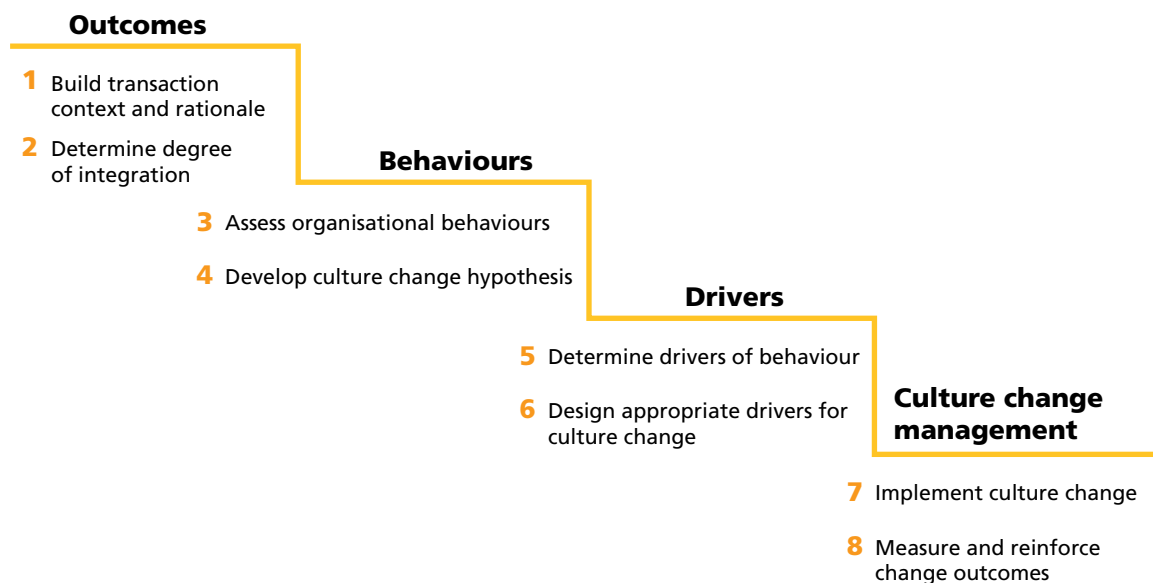
Step 4 is about proposing the culture change hypothesis – specifically, what changes in behaviours must take place to successfully run the post-deal business.

Step 5 identifies the drivers needed to influence those behaviours. **Step 6** involves designing the drivers, and **Step 7** is about implementing those drivers through an effective change management process. **Step 8** calls for the appropriate measurement and reinforcement of those cultural changes.

Effective culture integration can be long and challenging, which may be another reason why it is thought of as unmanageable. The simplicity and practicality of the eight-step cultural integration process provides a way to deal with the impact of culture (see Figure 5). It shows that the murky topic of culture change can be clarified into specific process steps that will lead to improved business outcomes. However, each of the steps must embody a degree of rigour and forethought if they are to work.

While the eight-steps are described as a linear process, the realities of applying them in a particular transaction will likely dictate that they be done out of this sequence and, in many cases, our experience shows that the steps are iterative.

Figure 5: Mercer's eight-step cultural integration process



Executing the cultural integration process

Outcomes – Steps 1 & 2

The first, and arguably the most critical, of the eight-steps is to articulate a clear view of the context of the transaction. By context we mean understanding the deal from five perspectives:

- External environment
- Business strategy
- Business results anticipated if the deal is successful
- Barriers that create risk
- Actions that need to be taken to deliver the strategy

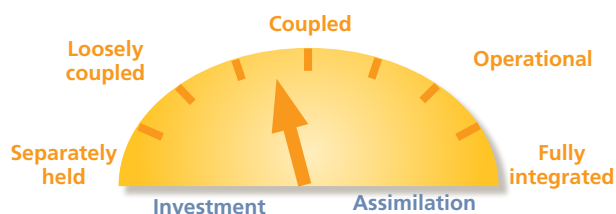
Most important are the anticipated business results – that is, what do we want out of this new enterprise and what does winning look like? Desirable results are both qualitative and quantitative and could include access to new markets, increased market share, increased revenue, cost reductions, improved efficiencies, increased buying power through economies of scale, additional technologies, intellectual capital, specific talent and so on. Having a clear vision of what we want out of the deal provides the basis for creating common understanding, consistent communication and a shared direction.

With executive-level agreement about the business context of the deal, the focus can shift to determining the degree of integration required to achieve the desired new outcomes. Keeping in mind that the desired outcomes of the enterprise dictate the new organisational structure (in effect, where decisions get made), the required degree of integration is an outcome of that design. Just as organisational structure may vary below the enterprise level – for example, at the strategic business unit, country, division or department level – so, too, will the degree of integration.

Degrees of integration range from minimal integration, where the interests of the buyer and seller may be only financial (such as in a portfolio holding company), to total integration, where the acquired company is completely assimilated into the acquirer. The further along this spectrum toward assimilation, the more work is involved to

make the integration successful. For example, in a purely financial relationship, little work may be required to reassess drivers and develop new ones. But with a complete assimilation, significant work, including more robust change management and communication programmes, will be necessary (see Figure 6).

Figure 6: Spectrum of organisational integration



When the degree of integration is identified, the following types of questions can be answered to provide the foundation for a coordinated integration plan. Key questions often are:

- WHO will be retained in the new enterprise?
- WHAT processes will be continued into or modified in the new enterprise?
- WHEN will the integration process start and end?

Behaviours – Steps 3 & 4

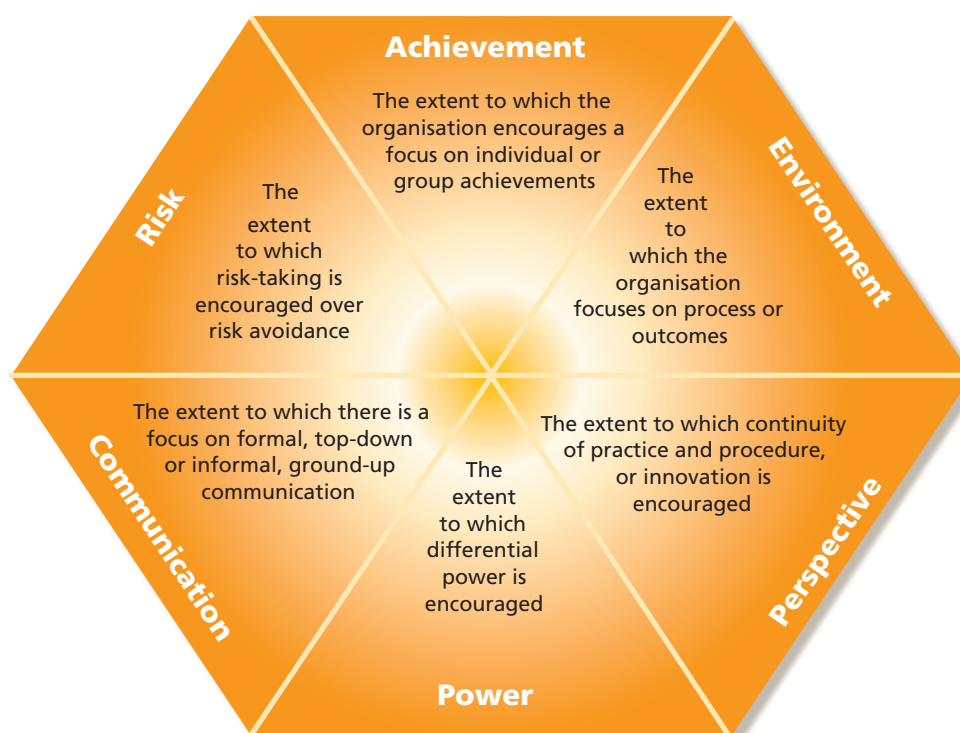
This brings us to the behaviours necessary to achieve the new outcomes. To assess behaviour patterns in an actionable way, it is necessary to have a framework for examining and understanding organisational behaviours. Mercer's approach is based on six practical dimensions of culture that were derived from a comprehensive review of the culture literature and our own research (see Figure 7).

With this framework, we are able to quickly assess perceptions of behavioural attributes on three fronts:

- My current organisation
- The “other” organisation
- The resulting “new” organisation

One benefit of this approach is its flexibility, as it can even be applied well before a deal is on the table. For example, it can be applied at the pre-announcement phase with a small group of executives; as a part of due diligence with different groups to generate insight into integration challenges; and with larger groups of employees post-close. This flexibility allows one or both parties involved to increase their understanding of themselves, of each other and of the new company as the deal progresses. The

Figure 7: Mercer's cultural dimensions



more that is known about behavioural alignment (or misalignment) between the organisations in a deal – and the alignment (or misalignment) with the new enterprise – the more likely it is that the organisation will be able to identify where change needs to occur or not, and to what degree.

With information about the outcomes required, the ideal culture needed to achieve these outcomes, and an understanding of the gap between the current and ideal cultures, a culture change hypothesis can be developed. That is, how far does each organisation need to shift its behavioural patterns?

Drivers – Steps 5 & 6

Given the culture change hypothesis, the next step is to determine systematically what changes to existing drivers and what new drivers are necessary to influence the desired behaviours.

As described earlier, the behaviours that an organisation has the greatest opportunity to change are those influenced by organisational drivers and models. Models, of course, are the behaviours of others, so no matter what approach is taken, it needs to recognise that key individuals or groups – such as senior leaders, managers, supervisors and peers – must “get” and reinforce the new behaviour in order for it to become part of the new way of working.

There are likely to be several organisational drivers. For example, if one of the desired new behaviours is compliance with safety regulations with no exceptions, what drivers could be developed to encourage that behaviour? They might include management oversight and review, communication, discipline policies, training programmes, work rule policies, rewards, hiring and staffing practices, severance policies, and/or how work is organised. How these drivers are designed and implemented will determine the degree to which role models – and, consequently, individuals – accept them.

If a key behaviour pattern for the success of the new organisation is fast decision making and accountability, then drivers would include devolving authority levels; building trust; removing layers of process and approvals; training managers in setting clear expectations and holding others accountable; creating a performance management system that rewards results achieved; etc. All of this requires changes in systems and processes, and integration provides a perfect opportunity to implement these changes in a way that makes business sense.

“Behavioural change almost always requires a combination of drivers repeated over time.”

A case in point

To provide a practical example of one approach to using this cultural assessment, we can share the example of two companies that were destined to be fully integrated. Prior to close, two work teams were set up: one to clarify current patterns of misalignment and determine those patterns that were critical to short-term objectives, and the other to look at the desired future culture and develop longer-term strategies and initiatives, referencing the necessary drivers.

The two teams then came together to agree upon the extent of cultural alignment and the future state and to develop a culture change hypothesis. Essentially, this meant answering the question: What behaviours are necessary for the organisation to achieve the business results in the short and long term, as required by the business context?

For example, on the risk dimension, the question became: Where on the risk continuum should the new business be, and what specific behaviours are necessary for achieving business results? From this, a clear picture of expected behaviours was developed, ranging from compliance-related behaviours (for example, all employees will comply with applicable safety regulations with no exceptions) to marketing-related behaviours (for example, advertising should be “on the edge”).

As with all behavioural change, rarely will any single driver cause a sustainable change in behaviour. Behavioural change almost always requires a combination of drivers repeated over time.

The drivers that influence employee behaviour vary from individual to individual. However, the integrated effect of a focused and coordinated set of drivers leads to desired behaviour change at the individual level and the collective level. For example, rather than simply changing an incentive programme, you are much more likely to see sustainable behaviour change when you blend that incentive programme with other drivers, such as the right leadership and management “models,” and support it with the right communication programme.

Once the appropriate drivers are determined, it is then a matter of designing and developing the specific programmes most likely to drive the desired behaviours. In our example, if a training programme is an important driver of compliance, then the right training has to be designed, implemented and measured for effectiveness. We also need to link into the “carrot and stick” role of the rewards programme. For example:

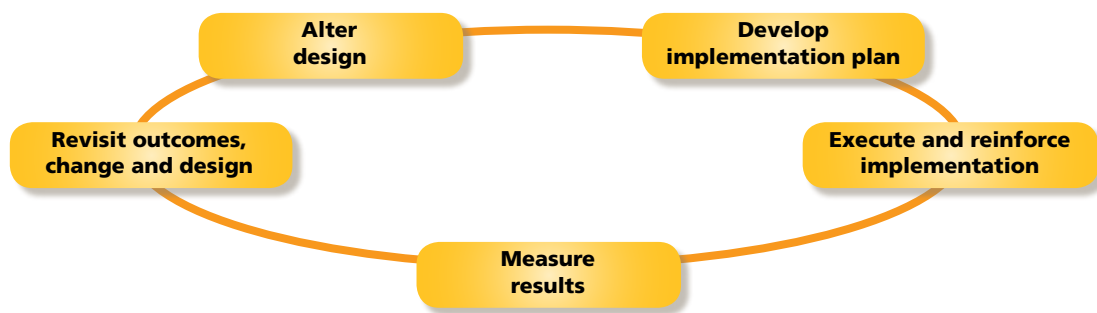
- Are there benefits that will be provided (a bonus? a day off? training in an exotic place?) for taking or passing the programme?
- Will there be penalties (termination? lack of advancement?) for not taking the programme?
- Will the rewards (or penalties) apply only during the start-up and then be phased out when the programme becomes inculcated, or will they be enduring?

It goes without saying that compensation and benefits programmes and policies influence behaviour at every level in an organisation. It is, therefore, vitally important that appropriate reward-related elements be considered part of the design of virtually every organisational driver. This is also true for the role of leadership, communication and the way work is designed. All are critical drivers of behaviour that need to be leveraged in combination.

Change management – Steps 7 & 8

Like the word “culture,” change management has many different definitions. Given the words in the phrase, it is hard to argue with any definition that implies managing the process of moving from one state to another. For our purposes, we are narrowly and practically defining change management as the process by which drivers of behaviour change are implemented to achieve new business outcomes.

Figure 8: Change management is a circular, repeating process



Considering the complexity of the changes typically sought in transactions, change management must be viewed as a circular, repeating process containing the following steps: design an implementation plan; execute the plan; test to see if the desired results were produced and, if not, determine why; revisit the premise (the outcomes, behaviours and drivers); make the appropriate changes; and develop a new implementation plan. In effect, change management is a closed system – at least until another transaction occurs (see Figure 8).

What complicates change management is the number of moving parts. In major organisational change, there are a number of stakeholders engaged, because either they are impacted by it or they are the agents of the change or, more likely, both. Communication to/from stakeholders is necessary every step of the way, and content and delivery are crucial. Implementation, measurement and reinforcement must be active parts of the process and are predicated on having effectively developed the business outcomes, identified the desired behavioural change and designed the drivers expected to deliver the change.

Of course, effective project management must underpin the process if the moving parts are to move in the same direction and at the right pace. Project management is far more than project plans and issue logs. Effective project management involves a mind-set that increases the likelihood of project

success. It incorporates a focus on outcomes, effective governance, leadership in decision making, risk identification and management, measurement and tracking, and robust communication protocols. It is a mind-set that everyone on the project must share; it cannot be the domain of just the person designated as the project manager. When looked at this way, project plans and issue logs become useful tools in an overall project approach that improves the chances of success.

Engaging stakeholders

In any transaction, there are essentially three perspectives – that of employees, that of the companies they work for and that of the shareholders. In an M&A situation, the employees' focus is almost always on how they are personally affected. They begin with **My Deal** questions about whether they will still have a job and what will change for them. They then need answers to questions relating to **My Work** – what will my new work be like and to whom will I report, directly and indirectly. Finally, they have questions about **My Company** and ask where the company is headed and how it will get there (see Figure 9).

Figure 9: My deal, my company, my work



“Transition planning and execution benefit enormously from good project management skills.” Tom Galvin, Numonyx HR Director (Joint Venture between US-based Intel and Switzerland’s ST Microelectronics NV)

By contrast, companies generally start with *My Company*, often because leaders have already moved past *My Deal* and *My Work* issues for themselves as individuals and are excited to share their vision to get employees on board. In addition, particularly in a deal context, the answers to *My Deal* and *My Work* questions may take some time to develop. Ideally, the company covers all three areas, but in many cases they never do, so they never help employees establish a line of sight across what they do, how they are paid and how their company creates shareholder value. Mapping this line of sight is crucial to getting the right behaviours from the workforce.

In fact, failing to create this line of sight for employees fails to meet the needs of the third set of stakeholders – company shareholders – as well. Their interest is almost always purely financial, and the negative impact on business outcomes that results from employees not seeing a clear line of sight will impact shareholder interests directly.

With the exception of shareholders, every stakeholder is also an employee. Everyone from the C-suite down is first and foremost an employee. The CFO, for example, while intimately involved in company policy and direction, also views everything through the lens of an employee and, as such, must be considered as a stakeholder for employee engagement purposes.

Ultimately, the success of an organisation’s implementation of drivers to change behaviours will depend on three factors (see Figure 10):

1. How well individual stakeholders understand the change and the need for the change – that is, do they “Get It”?
2. Whether the stakeholders buy into it and embrace it – that is, do they “Support It”?
3. The degree to which the stakeholders actually do something different – that is, do they “Do It”?

Change communication is a critical factor in creating, managing and delivering the messages at each stage that ultimately result in sustained behaviour change. The focus needs to be on moving employees from awareness and understanding about why the deal is happening and what it means for them, to building new skills, capabilities and behaviours that will bring value, and beyond – to maintaining and sustaining these behaviour patterns over time.

In the end, the culture change management process must deploy a variety of tools, approaches and initiatives to get the key messages across consistently and repeatedly. What we know for certain is that aggregations of behaviours become culture by persisting over time. To change them, the methods used must be equally persistent, as well as consistent and motivational.

Figure 10: Leaders are key – they can accelerate or derail change by what they say and do

To help employees:	Leaders should:	Keeping in mind these realities of change:
Get It I see the problems and the opportunities	Present the straight story about what’s changing, why and what may happen	<ul style="list-style-type: none"> ■ Employees must let go of the old to embrace the new ■ Expect resistance and negotiation ■ Not all answers will be known; the change story will evolve; tell employees about possible outcomes
Support It I believe we need to respond in this way	Recruit supervisors as opinion leaders and equip them to communicate	<ul style="list-style-type: none"> ■ Supervisors will need help and direction; not all will be up to the task ■ Supervisors will be challenged to create hope when they feel fear ■ Employees will look to their supervisors as the most credible information source for interpretation and direction
Do It I will do my part to help execute the change	Clarify and model the behaviours and actions needed, reward the right behaviours, and address non-compliance	<ul style="list-style-type: none"> ■ Everyone will watch for signals of success or failure ■ People will need knowledge and skill training to achieve "performance lift" ■ Mistakes will be made and the course will change; manage expectations ■ Change will be ongoing and iterative; employees will need help dealing with the ambiguity of change



Conclusion

The reality of M&A transactions in today's global business world is that they are always complex and made more difficult by the fact that each party has unique behavioural patterns that define its culture.

For a business transaction to achieve the outcomes expected, it is necessary to acknowledge the impact that behaviour patterns have on the probability of the transaction's success – but this is only the starting point. Mitigating the negative impact of culture on a deal, or accelerating the development of the culture necessary for success, requires adhering to a structured process. This process must include clarifying the context of the deal and the desired outcomes, identifying the right behaviours, pulling the right levers to drive those behaviours, and managing the culture change required.





About the authors

Bob Bundy is the global leader of Mercer's Global Mergers and Acquisitions business and can be reached at bob.bundy@mercer.com.

Elisa Hukins is the global leader of cultural integration with Mercer's Global Mergers and Acquisitions business. Elisa can be reached at elisa.hukins@mercer.com.



Note from the authors

In developing this approach to culture change/integration in M&A, we have undertaken a considerable review of available literature on the subject. While in many respects this approach represents a blending of ideas, one published work seemed to best capture our culture experience in the M&A world. The book *Corporate Culture and Performance*, published in 1992 and written by professors John P. Kotter and James L. Heskett, in our view best articulates a reasonable and practical definition of culture in an organisational context, despite the elusive and circular nature of defining culture. The authors also acknowledge a close relationship of their definition to the definition of culture in Edgar Schein's 1985 book, *Organizational Culture and Leadership*.

We subscribe to Kotter and Heskett's view that organisational cultures exist at two levels. At the more visible level, culture represents the behaviour patterns or style of an organisation that new employees are encouraged to follow by their fellow employees. At the less visible level, they refer to culture as "values that are shared by the people in a group and that tend to persist over time even when the group membership changes." However, they also note that each level "has a natural tendency to influence the other," acknowledging that causality can flow in both directions; that is, that shared values influence a group's behaviour and that behaviours and practices influence values.

Arguing the circuitous nature of which came first, the chicken or the egg, or, in this case, whether corporate values drive organisational behaviour or, conversely, organisational behaviours drive corporate values, doesn't add significantly to dealing with the challenge of culture change. The reality is that each influences the other. This, among other research, led to our behavioural definition and two of the four types of drivers of behaviour – organisational and models.

The other two types of drivers, personal and social, were developed based on the reality that some individual behaviours result from drivers that are unlikely to be changed in an organisational context (including some values-driven behaviours, as described above). Our belief that an organisation must see these drivers of behaviour as distinct from organisational and model drivers is influenced by the cross-national and cross-organisational studies done by Geert Hofstede, where he posits "that national culture and organisational culture are phenomena of different orders, arguing that the use of the same term is actually misleading."

One final note is to acknowledge the contribution of Olufunmilayo Ogbue, whose dissertation, submitted to the University of Manchester (UK) for the degree of MSC in Organisational Change and Development, entitled "Managing Organisational Culture during Mergers and Acquisitions," formed the basis of our research of available literature. The dissertation was partly funded by Mercer.



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Endnotes

- 1 Mercer's Cultural Integration Snapshot Survey 2007, 2008).
- 2 Mercer Transatlantic Survey, 2004.
- 3 M&A Beyond Borders: Opportunities and Risks, March 2008, in cooperation with the Economist Intelligence Unit.
- 4 Adapted from a number of sources, including published works by McKinsey, the Harvard Business Review and Hewlett-Packard.
- 5 Journal of Corporate Accounting and Finance, January – February 2006.



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For further information, please
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Mercer
Tower Place
London
EC3R 5BU
Tel +44 (0)20 7626 6000
Fax +44 (0)20 7929 7445



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