Change Leadership Thought Topics

Increasing the Success of Merger's and Acquisitions: Dealing with Cultural Differences, Part I

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Mergers and Acquisitions (M&As) are a common business practice for achieving business growth and diversification. In the past five years in the USA alone, trillions of dollars have been invested in thousands of mergers. Yet, studies show that over 50% of M&As fail and over 80% achieve less than satisfactory goal attainment. Studies also show that one of the major reasons for this poor success record is underestimating the impact of organizational culture and human dynamics. The Wall Street Journal reported that 57% of mergers had financial returns below their industry averages three years after the transaction. The leading cause of failure was cultural incompatibility.

Companies considering M&As routinely conduct extensive due diligence activities regarding the technical, operational, and financial systems of the merging companies. Surprisingly, little is done to:

- Obtain an objective assessment of the cultures of the two organizations
- Evaluate the impact of cultural differences on post-merger success
- Help managers gain the understanding and skills needed to integrate different cultures fast

A Common M&A Scenario

Beta, a large high tech company acquired Epsilon, a small firm of about 70 people. Epsilon had developed a unique product line. Beta had the distribution channels. To both companies, the merger seemed like a win/win proposition. However, within six months of the merger, people from Epsilon, who were key to the development and perfection of the product line, found other jobs. The people from Epsilon who remained at Beta were demoralized. The energy, vitality, and creativity that made Epsilon a desirable target in the first place was lost and the merger failed.

Beta mangers found Epsilon people disrespectful, difficult to work with, and definitely not team players. Epsilon people found Beta managers arrogant, dictatorial, slow to move, and withholding of information. Judgments on both sides were made without any understanding of the cultural operatives that determined the differences in behavior. Beta was a well established corporation with a clear-cut reporting structure, a 9-5 work day, and many rules that were often implied, but not always clearly stated. Employees' access to the CEO was at occasional round tables where rotating groups of people were invited to attend. At Epsilon employees had the flexibility and creative license to focus on whatever they needed to get the job done. They made their own hours and were free to walk into the CEO's office without an invitation, whenever they needed information. Epsilon employees also expected that what got rewarded at Epsilon would be considered valuable at Beta. Instead they found they were always bumping into the rules and what they couldn't do.

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Why Culture Is Important

The Beta/Epsilon merger was a merger between a freight train and a race car. It didn't work because people from both companies did not understand and were not prepared to deal with culturally determined behaviors that were different from their own.

Culture is a set of shared beliefs that shape expectations and behaviors. On a day to day basis, people are not aware of the cultural determinants of their behavior because culture is learned and operates at a subconscious level. Every organization has its own culturally dependent customs and regulations. Like Beta, some companies have strict expectations about work day and work hours. Companies similar to Epsilon encourage flex time and are less structured. shapes decision making, customer relations, selling practices, uses of technology, communication, management style, reward systems, and so many other areas that determine competitiveness in today's fast paced global marketplace. Simply stated, culture affects how people act, which in turn affects productivity and profitability. Trying to integrate two organizations without understanding their cultural differences and what to do about them leads to:

- Loss of key personnel
- Increasingly poor attendance
- Poor performance
- Reduced profitability
- Failure of the merger

Differences in Culture Do Not Have To Be a Problem

Differences in culture should be leveraged to spur innovation and build an agile new entity that will produce the accelerated growth expected from the merger. Instead, current strategies for dealing with cultural differences typically include ignoring the difficulties and hoping they will disappear; sending out revised vision statements; and holding large group meetings where the message is we all are so lucky to be working for such a spectacular organization. When these approaches fail, confusion and conflict result.

The Keys to Successful Cultural Integration

Successful cultural integration depends on helping people change their behaviors. People can and do change behaviors, but they need insight into what needs to be changed and why. All employees of a newly merged company should understand the actions needed to establish the organization they hope to build and recognize behaviors that help and hinder this endeavor. Ultimately, the best way to help employees change their behaviors is for managers to change theirs and act as role models for what's needed to create a successful new entity.

Developing cultural snapshots; and determining how cultural differences might operate in the new entity will be addressed in Increasing the Success of M&As: Dealing with Cultural Differences, Part II. We will also focus on what managers need to know and do to successfully facilitate the process of cultural integration.

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