THE CHALLENGES OF MERGING CORPORATE CULTURES [1]

Probably the most challenging change management initiative is the proper management of a successful merger between two organisations. While the actual steps and processes in themselves are not uniquely different or any more complex than any other business reorganisation, the cultural environment in which a merger takes place creates a very different situation.

Unlike any other change management engagement where disparate groups at least work under one singularly identifiable organisation, a merger brings together two totally unique groups with different core values and working environments that need to go through the same change and emerge united. Whereas the most dysfunctional company may have competing sub-cultures in different departments, at least the overall corporate culture regularly shares some common denominators. In a merger, while there are usually areas of "fit", it is unlikely that the deeper indicators of corporate culture such as corporate history and corporate experience will have any but the most remote of matches.

Mergers and acquisition transactions are usually entered into to gain advantages yet the vast majority of these transactions are done with scant thought on how best to maintain the strengths of both parties and indeed to use them to synthesise greater strengths. Accounting models are not the best indicators for merger success; in a merger 2 plus 2 rarely equals 4.

The prime objective of a merger therefore, is to make the sum of the parts greater than the whole, in as quick a time as commercially possible. To achieve this, both soft and hard systems need to be considered, new processes generated, others dismantled. A poorly planned merger, no matter how small or

[1] This article does not constitute "advice". Care should be taken when applying the principles espoused and should not be done without consulting your financial and legal advisers. It is important to realise that individual and specific circumstances will need to be taken into account and accordingly the writer is not to be held responsible for any actions taken as a result of this article.

simple ("let's get together and we'll work it out as it goes") will lead to an unmitigated disaster.

In a Harvard Business School "Working Knowledge" article, Adolph, Elrod and Neely identify that more than two-thirds of mergers fail at the execution stage. They cite the example of Daimler-Chrysler which neglected to establish at the outset a proper set of guiding principles based on the merger's strategic intent, and then continued poorly by failing to align leadership and integrate the cultures of the two different organisations.

Before we become disillusioned by the statistics of failure and in frustration decide to take an Attilla The Hun approach to mergers (slashing and conquering, which despite the attractions of simplicity seldom works), it is important to note that mergers can be successfully managed if some core principles are understood at the very beginning.

Hodge (1998) reported on a study of 270 mergers and acquisitions and identified core elements of successful mergers:-

- Effective planning and execution, including effective policies for the management of post-merger periods and strong integration plans;
- The existence of a compelling vision that is understood by managers, employees and stakeholders which over-arches any strategic objectives of a merger, and which becomes the fundamental theme to explain why the merger took place and around which all post-merger priorities and planning revolves;
- Effective alignment, quickly integrating structures, processes, procedures, systems, and cultures; and
- Fast and focused transition, not waiting for the dust to settle preparing in advance so that employees and customers are primed for change before it even takes place.

Whilst identification of the critical success factors of a merger and planning is fundamental, the merger needs to go beyond the financial efficacies of the transaction and even beyond the perceived advantages of a marriage, into the construction of a post-merger reality. In doing this the use of a merger integration team that includes all management and employee levels from both teams is critical.

In any merger, the discovery of a new corporate culture can evolve into one of three results being a balanced integration (rare), a dominant culture and system, or a dominant system with a balanced integrated culture. The planning for any successful merger must at least attempt to achieve either the first or the last, depending on the strengths of each party and in particular the efficiencies of their systems. Based on this objective the writer uses a four-stage process to achieve merger success, a methodology called FitQUICK ™:-

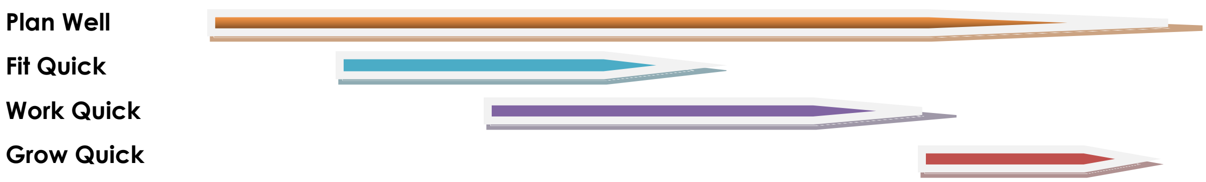
1. Plan Well
2. Fit Quick
3. Work Quick
4. Grow Quick

While we advise that these phases must be commenced strictly in order, the ending of one phase may overlap with the start of the next. However the start of a following phase must not commence until substantial advances have been achieved in the earlier phase. At no time, we believe, must the phases be started out of order. For example any Chief Executive under pressure to "make it work" is likely to attempt to run through the planning phase and launch into "Grow Quick" before "Fit Quick". We can only warn of the dire consequences that we have seen over and over again in real-time experience.

Despite our use of the term "Quick" in the titles of these phases, do not presume the illusion that these are "quick" phases – they may be, they may not – be prepared for the completion of the phase, not the speed of how it should be run.

We use the term “Quick” to indicate the desired speed of assimilation, not the pace of the implementation itself.

The diagram below shows the likely proceedings. The line representing “Plan Well” extends through the whole process, for obvious reasons. However, once the vision is sufficiently expanded and the cultural integration is substantially achieved, the planning may be led by the integration teams in greater and greater extent.



Plan Well

All planning needs to be led by leaders of the two organisations, the people who can explain why the merger is taking place, how it fits into the longer term strategy of the combined entity, and the compelling vision of the future that is to come.

Depending on the strength of leadership, this need not be a time-consuming initial phase but it does require a great deal of time to stay “in touch” and on top of the processes. The issue however, no matter how long it takes, is to plan well and plan in appropriate detail. Planning then needs to continue throughout the whole process, but as cultural integration is substantially received, more and more detailed planning can be handed over to the integration teams then eventually the functional teams and in time morph into normal strategic planning processes.

The areas that need attention during initial planning are:-

- An agreed compelling Vision

- The Fit Quick implementation Action Plan
- The Work Quick implementation Action Plan
- The Grow Quick implementation Action Plan

At no time can the leaders delegate this process!

However, once the strategy is established, and oversight systems are in place for the organisational leaders to essentially continue selling the vision, substantial parts of detailed planning can be carried out by integration teams and organisational leadership can then maintain vision alignment and other oversight matters.

<u>Fit Quick</u>

The theme of Fit Quick is to get both teams and cultures to integrate quickly and feel like one.

If the primary purpose of a merger is to create a greater organisation, then the greatest strengths of both teams need to fit together quickly. The greatest strengths of any organisation rarely lie in systems or even customer lists but usually in their people who are the source of efficiently working systems and the relationships behind the customers.

The Fit Quick phase needs to look at:-

- The new vision, brand and corporate culture including value systems and guiding principles (the "how we do it here" elements);
- Staff engagement with the new identity and entity, the one-team reflex (something as simple as weekly pays being converted to fortnightly pays could derail a merger);
- Teams and team structures – analysing and taking the most workable (not necessarily "the best") parts of both team structures;
- Functional responsibilities – creation of a new and/or blended organisation chart to identify roles, responsibilities and reporting lines in

order to clarify "the new way" as soon as possible ("nobody knew how to order supplies so we made up our own rules");
- Analysis of individuals and where they sit (physically and by responsibility) ensuring people are physically identifiable in discrete integrated groups and the best people to populate the new organisation chart from either party are identified;
- Detailed Human Resources issues such as legacy staff contracts, packages and benefits to equalise to a "norm".

<u>"Work Quick"</u>

Whether or not any one set of systems and procedures is more dominant than the other (more than likely) the integrated teams need to be able to work effectively within the new systems and procedures as soon as possible so as to recoup the costs of the merger, reduce inefficiencies and downtime, shorten transition periods, and start to take advantage of the previously identified strengths. The theme of the third phase "Work Quick" is therefore to get both teams knowledgeable about the new (or dominant) systems while integrating the best of the less dominant systems quickly so as to improve overall efficiency.

This phase is best dealt with by creating Merger Implementation Teams in appropriate areas comprised of people from both the merged organisations. These Merger Implementation Teams or MIT's need to look at each process, procedure and system and decide which to use, how to convert data and processes from one to the other, and then provide recommendations and detailed implementation plans to management. The MIT's also need to supervise and lead the actual implementation of the revised systems including training and re-training and data and process transfer.

It is likely that MIT's may have to face the decision to continue and phase out legacy systems, but the key is to then decide and implement the phase-out policies properly. In other words, there need to be policies and not some future "recognition" of when the time is right!

In many areas decision can be swiftly made, particularly where there are dominant systems. However where necessary it is important to take the time for some detailed analysis to ensure that the best of both are considered and integrated.

The systems that should be examined include (but are not exclusive to):-

- IT and data systems - software, hardware and procedures;
- Manufacturing and service delivery processes;
- Hard plant and equipment;
- Sales and marketing systems;
- HR and leadership procedures and functions;
- Physical location and service supplies;
- Communication systems, brand engagement policies and processes;
- Training, particularly in policies, procedures, internal control and documentation, software, hardware, plant and equipment.

As the MIT's recommended best practice systems may include parts of both the merged organisations, the Work Quick phase needs to identify local "experts" as points of referral to the "new people" who are new to the adopted systems. In this phase product experts need to be revered and supported.

Grow Quick

The fourth phase usually commences some time after the merger, allowing Fit Quick and Work Quick to establish some ground rules and identifiable results, and quite frankly, to allow some emotion to settle in what is likely to be a stressful period. Obviously, not too much time must pass since the primary purpose of any merger is to "be better, be larger, be more competitive".

The theme of Grow Quick is to leverage the merger to, firstly, keep the combined customer base, then to expand it, increase sales and grow profits, outcomes that will achieve the real advantages of the merger. This phase needs leadership at the highest levels of the integrated organisation, usually at senior executive level. This phase will require concentrated focus on the strategic objectives of the merger and the compelling vision of the new entity. For this reason, the senior executives who conceived of the merger, its advantages and the vision will need to lead from the front. Often, executive management identify the solid and real reasons to merge, but then expect the merged organisation to automatically realise what those often subtle advantages mean and follow through almost by accident.

As in all organisations striving for best practice, the people with the vision need to talk about it, communicate and explain what it means; bringing others along with them by the strength of the compelling vision.

Looking towards the immediate to medium term future in Grow Quick, the areas that need to be designed in congruence with the vision are:-

- Comparative selling prices and cost structures;
- Strategic marketing planning;
- Advertising and external branding;
- Vision and internal branding, the Unique Selling Proposition;
- Integration of divisions, sales teams and manufacturing teams and locations, where necessary physically moving people from both organisations around so that there is a mix of people servicing a mix of previously separate customer bases;
- Grow new service lines, products and service capabilities using the synergies of the merged organisation.

In working through the four phases, organisations are put well on their way to a successful merger. However two key steps need to be reiterated. The first is to ensure that there is an agreed Vision for the new entity, one that is compelling, engaging and sufficiently quantified to be the central pillar around all strategy and integration. The second key step is selecting the right person or people to lead the overall implementation and the Merger Implementation Teams, and to track the execution. The mergers that do best tend to have such leadership.

Clearly, with proper planning and the right people it is possible to avoid the pitfalls and close a successful merger initiative.