Deloitte.

Culture in MnA

June 2021

MAKING AN IMPACT THAT MATTERS since 1845

Why culture and M&A should go together on every CEO agenda: Insights from Switzerland

Over 60% of M&A transactions and investment activities fail to deliver their anticipated business case value (Boe, 2019) as growth and synergy targets do not materialise as intended. Research and executive feedback consistently point out an important cause of this: the failure to make different corporate cultures work together.

So what is culture? It is often stated that an organisation's greatest asset is its people. We suggest elaborating on this to say that an organisation's greatest asset is its people who share a common goal and collaborate, enabled by corporate culture. That's why at Deloitte, we define culture as a company's shared values, beliefs, and behaviours that influence how work gets done (Rich et al., 2020).

Based on our experience with complex cross-border M&A transactions, this short article shares our insights about how executives and M&A professionals can use corporate culture to drive deal value.

The impact of Culture on M&A and corporate value creation

Research shows the direct impact of culture on corporate performance. Organisations 'with a soul' significantly outperform the S&P 400 not only in terms of greater employee engagement and retention rates but also regarding long-term financial profitability and returns.4 This also applies to M&A: Deloitte's 2020 CFO survey found that cultural changes are seen as highly important by 31% of CFOs in Switzerland when it comes to M&A execution (Lagassé et al., 2020).5

Swiss SME leaders understand this. Roman Řezníček, Chairman of the Board of Directors of Suntel Group, recognizes that "people are the most important asset that a business can have". He considered an acquisition as a success when "we reach an understanding of [a company's] Culture, employees and values". In his experience, "one of the main reasons why mergers and acquisitions fail is that buyers underestimate the corporate Culture and what it takes to integrate the business"[5].

BlueOrchard's Peter Fanconi has similar views sharing in Deloitte's 2020 survey on M&A activity in the Swiss SME sector that he beliefs that "**Culture** and [a] **shared vision for the future**"[5] are **key factors** when it comes to successful M&A deals in the asset management.

Roberto Micelli from Deloitte Switzerland's M&A Integration & Separation team shares a recent outside-in experience: "A Swiss Private Bank **struggled** to get their client facing front-office team and the enabling back-office staff to collaborate well. Both teams just did not feel that they were sitting in the same boat. I believe that **different behaviours** were caused by objectives and incentives which were clearly not aligned. And this was amplified by the **different physical locations and languages** of the two teams across Switzerland. In the context of the bank's strategic ambition to serve clients better and faster, this was a challenge."

Now, how can executives leverage culture to achieve their value ambitions from M&A?

Five steps to leverage culture and create value from M&A

1. **Make culture a priority for your executive team.** Appoint an executive sponsor who owns this issue during the due diligence and integration process.

2. **Clearly define the strategic, business and value creation objectives of the new business:** Examples include 'focused innovation', 'manufacturing excellence' and 'growth through partnerships'".

3. **Identify the specific values, beliefs and organizational behaviors,** which are critical to enable the strategic and business objectives. Examples include 'clarity of objectives', 'customer centricity' and 'fast decision making'. Leadership interviews and surveys can be used as tools for collecting views which can then be aligned amongst the leadership team.

4. **Establish the organizational baseline: Where do the buyer and seller organizations stand today in terms of similarities and differences** relating to the enabling values and behaviors which are so critical for deal success? This should be assessed down to leadership levels N-2/N-3.

5. **Build a culture change plan with tangible and measurable actions:** Which behaviors need to evolve or change? What needs to be reinforced? Define specific change actions and articulate the positive impact. Define how success will be measured. Nominate a business sponsor. Set a timeline.

6. **Activate culture change by creating momentum!** Focus on three or four high impact change actions and move forward quickly. Then activate the rest of your culture change plan.

   - Communicate with your people in the combined organization. Be very specific about why you are doing what you are doing, what will change for the people affected, and how they can become part of it. Well informed employees will engage more, create value and stay around longer.
   - Take time for informal discussions/check-ins with employees to listen and explain.

Monitoring the success of cultural changes: adapt and reinforce

Making culture a priority in your executive agenda and appointing an executive sponsor to lead the way will be critical to achieving your strategic and business objectives

Appropriate KPIs (key performance indicators) can help to measure, track and assess the impact of the identified cultural change actions and initiatives. KPIs will also enable you to reinforce the desired culture by integrating them consistently into leadership's assessment (annual goals, performance reviews and rewards linked to behaviors).

Qualitative feedback from employees or through employee surveys over a longer time period will enable you to identify specific areas that require adjustment or reinforcement.

Use insights and feedback to adapt your culture change actions and reinforce the importance and impact of cultural change through consistent (and clear) leadership messages and symbols.

'Culture ambassadors' from your own organization will help reinforce your communication, counter negativity, provide feedback on employee concerns and minimize risks to your brand during the change journey.

Conclusion

Culture is a crucial enabler for value creation from M&A. The strategic and business objectives of a combined company only materialise if people from both organisations collaborate constructively because their beliefs, values and behaviours are aligned and fit to common objectives.

The importance of culture makes it an imperative for every executive agenda – during a deal and after deal completion.

Authors and contacts

Roberto Micelli
Partner, Financial Advisory
rmicelli@deloitte.ch

Martina Risco
Consultant, Financial Advisory
martinarisco@deloitte.ch