Planning a successful cultural alignment in an M&A project

Although aligning culture to business strategy plays such an important role in creating value from an M&A deal, many companies do not have an approach to implement and monitor culture in their M&A projects. Companies can get the most out of their investment by identifying an approach for successfully planning cultural integration in their M&A projects.

The purpose of all M&A activity is to create additional value

The number of M&A deals involving German companies has steadily increased over the last decade. In 2015, approximately 1,500 deals involving German companies were closed (see fig. 1). As deal volumes continue to rise, M&A transactions involving German companies have also become more international due to an increase in cross-border transactions.

Based on a survey of 7,000 business and HR leaders in 30 countries, Deloitte's 2016 Global Human Capital Trends report revealed that 87% of leaders believe that culture is important to achieving business success. However, only one third of leaders think that they truly understand their company culture. This can explain why deriving the desired value out of a deal can be challenging. Furthermore, a global study on culture in M&A found that 30% of companies surveyed identified culture as one of the most influential factors behind failed integrations. Why? Culture defines how people work together to achieve business goals. Cultural misalignment can disrupt the established way of working in an organization and it can also hamper the decision-making processes of leaders. This can lead to loss of productivity, loss of key talent, a decrease in employee engagement, delayed integration and even failure to achieve the desired synergies from a deal. Although culture plays such an important role in creating value, more than half of companies surveyed did not have an approach to implement and monitor cultural alignment in their M&A projects.

How can you successfully plan cultural integration in M&A?

Companies can get the most out of their investment by identifying an approach for successfully planning cultural integration in their M&A projects. A high level approach for planning cultural change in an M&A deal begins with four essential steps: (1) assessing culture, (2) identifying all relevant stakeholders, (3) defining the desired culture and (4) designing a detailed change and communication concept. Such a structured approach can remove a lot of the mystery surrounding culture and it can help the project team mitigate risks that usually derail organizations from their course during the implementation phase (see fig. 2).

When planning for cultural change, we recommend taking some important factors into account: (1) assessing the cultural compatibility between both companies during due diligence, (2) defining the desired culture that will fit the business strategy, (3) establishing ownership through dedicated resources and (4) involving management on both sides throughout the change process.

Fig. 1 – The number of M&A deals involving German companies has steadily increased over the last decade

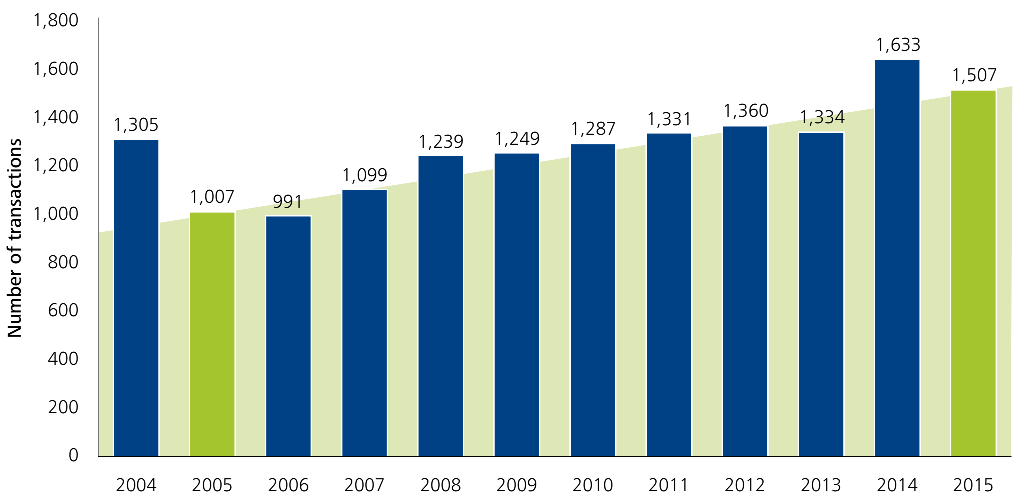
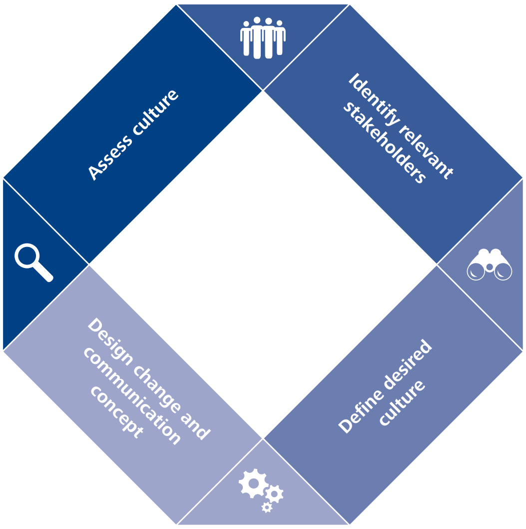


Fig. 2 – Sustainable cultural change in M&A



Assess the cultural compatibility between both companies

It is often difficult to assess one's own culture. Completing a cultural assessment of both companies based on available information can provide initial insight into the fabric of both company cultures and the cultural gaps that could present roadblocks in the future. During the due diligence phase, valuable information can be collected by analyzing public data or by holding interviews with focus groups. Cultural differences, such as the existence of centralized versus decentralized decision making in an organization, will not only be established in business processes. This information will provide an indication of the future effort required to align both cultures, which should be considered during deal negotiations. Later on, during the implementation phase, collecting further information will be helpful for steering change management and communication activities.

Define the desired culture that will fit the business strategy

Different deal outcomes entail different types of cultural alignment. Consider what the desired business model will be after the deal and how this will impact people and processes. Will both companies remain separate entities maintaining their already existing company cultures or will one company dominate and absorb the other? Or will a new company culture be necessary for driving the new business strategy forward in a newly merged entity? Once defined, the desired culture can be translated into concrete behavioral anchors that will be communicated and integrated into business processes. This will help people in the affected organization(s) to understand what is expected of them and how to align their behavior in the new business context.

Establish ownership for cultural change through dedicated resources

Responsibility for implementing cultural change should be allocated to representatives from both companies involved in the deal in order to ensure ownership. As part of a dedicated integration team, they plan change management and communication activities while taking into account the specific organizational contexts and the steps needed to achieve the desired culture. Such a heterogeneous team is better equipped to handle unexpected events that threaten the change process. They are also responsible for demystifying cultural change by providing progress reports based on measurable business outcomes in project steering committee meetings on a regular basis. Measurable business outcomes could be reporting the number of employees reached through communication initiatives and training or through the integration of the new cultural values in the employee lifecycle (e.g. recruitment and onboarding).

Involve management from both sides throughout the change process

Involving management of both companies ensures their buy-in early on as architects of the new business strategy. As role models and decision-makers in the organization, leaders define the culture of an organization. Change inevitably starts with them because they understand how people and processes work in the organization. Given their knowledge and their degree of influence in the organization, having their commitment and active involvement in the cultural change initiative is vital for effective and sustainable change.

Executive Summary

M&A deals aim to create value through the implementation of strategic goals resulting from a deal. Business strategy will only be as effective as the people who are implementing it. Company culture defines how people get things done in an organization and, in this way, culture should be considered when negotiating and implementing M&A deals. Culture is easier to grasp if time is taken to assess it, define the desired future state and design a detailed concept for reaching this objective. At Deloitte, our expertise in cultural assessment and solutions helps our clients gain insights into their organizations and actively define an effective approach to reach their business goals.

Ihr Ansprechpartner

Dr. Cora Luckner
Manager | Total Rewards Human Capital Advisory Services
Deloitte
cluckner@deloitte.de

Für weitere Informationen besuchen Sie unsere Webseite auf www.deloitte.com/de

Stand 5/2016