



Episode 1: The potential (and pitfalls) of cultural change in M&A

Transcript

Greg: Welcome to Deloitte M&A Views, a Deloitte podcast series exploring the latest trends and topics in mergers and acquisitions. I'm Greg Jarrett, and today we're talking about the integration of corporate cultures in mergers and acquisitions. Joining us today are Deloitte Consulting principals [Sarah Hindley](#) and [Kevin Knowles](#). In part one of our two part series on culture and its importance to a successful merger or acquisition.

Greg: Thanks for taking the time with us today, Sarah and Kevin, to talk about the cultural integration in mergers and acquisitions. Now I know that there's probably a library out there that is full of books, that are all full of things we could say about this, but since we only have a few minutes, is it ok by you if we just drive in?

Sarah: Sounds good.

Greg: Okay. Great.

Greg: I'd like to begin here with capital C culture. It's a huge topic; maybe it's too big for us to talk about in such a short time. I don't think anyone who's ever been involved with M&A is under any illusion about just how critical culture is to the successful integration of two different companies. However, they also believe it's very difficult to fundamentally change any corporate culture, at least not in the compressed timeline of a merger or acquisition. Do you guys agree with this? Sarah, why don't you take the first answer here?

Sarah: Well, I'd definitely say it's true that the impact of culture on business is hard to overstate. From our 2016 Global Human Capital Trends survey, 82 percent of the respondents believe that culture is a potential competitive advantage. Yet only 28 percent of the survey respondents believed that they understood their culture, and even less believed that they have the right culture. However, there are many ways that you can accelerate your understanding of culture during a merger, acquisition or divestiture, as well as how you can align it better with your strategy to accelerate that deal value.

Greg: How about you, Kevin, what do you think about it?

Kevin: Yeah, I'd certainly agree with Sarah and I think all of that is true and right. I think a merger or an acquisition or any other large transformation is a unique opportunity. It's an opportunity for leaders to take a step back and assess what kind of culture they need, what kind of culture differentiates them as an organization, and the activity there creates a momentum, it creates excitement around an integration effort and can be channeled into an in-state organization, a new co-management team, and frankly breathe life into the employee experience as well as the customer experience. Sometimes those efforts seem big and overwhelming, but I'll ask my clients in a lot of ways to begin to focus on the areas that they feel like they can identify, that they can create differentiation around, and you might think of those as sub-cultures, if you will, and sub-cultures in a lot of ways are more identifiable and malleable and places where you can create real change.

Greg: Sub-cultures, that's an interesting thing... How do sub-cultures show up as distinguished from a corporate culture? Is it like if you're going to look at a school or you're looking at any organization, there's a click with inside that? How would you describe a sub-culture?

Sarah: Maybe I can take that. I know when I was working with a company last year, two large companies coming together, they had sub-cultures within their manufacturing plants. One was a sub-culture of low cost, one was a sub-culture of quality service. And when you put those two cultures together, the employees were receiving mixed signals of how they would go about their daily business, which resulted in challenges in their production and their quality areas. So the management team had to take a new look at what they were doing around their business processes and how they were going about their day-to-day work to see where the conflicts were, and then look at how they would change those structures and systems so that it would ultimately change the behaviors and they could align on that sub-culture.

Greg: Kevin?

Kevin: Yeah, the end-to-end view of where and how we can influence culture, I think is a really important perspective. I think we do it and get into trouble when we try to do something discreet with culture. Culture is, as we all know, it's amorphous, there's nothing discreet about it. You can think of it as something that's oozing across the entire organization, and culture will resist any attempt to be shaped and it will get in the way of value. It will get in the way of behavior and it will get in the way of effective decision-making. But there are places and times within an integration process where culture can be changed and it can be leveraged, and it can be shaped. And you have to know where those places are in the integration process, and in the planning process that you can take advantage of the opportunities to shape and develop culture, at the right time, for the right purposes.

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