

Making a merger more successful

The crucial role of 'culture shock' and how to prevent it

By Andrew Bass, Ph.D.

A staggering 97% of mergers by UK companies fail to completely fulfil their strategic objectives, according to a recent report by the Hay Group. Managers who responded to the survey regarded 'culture shock' as the main reason for failure.

Typically, culture is left undefined, and maybe blaming culture when things fail – which is easy to do - lets assorted managers and advisors off the hook. So if culture is so important to managers, what do they mean by it?

What is 'culture'?

To many finance and operations officers, 'culture' is a woolly concept, while academics and many consultants have done little to clarify the term.

Think of culture simply as '*the beliefs and values that influence behaviour*' in an organisation: or in plain words it's 'the way we do things round here' and 'why we do it this way'.

There's no doubt that the wrong culture can kill a company, even a leading global competitor. Ed Schein, arguably the leading authority on corporate culture, has written extensively about the Digital Equipment Corporation (DEC). Over 30 years starting from 1957, founder and CEO Ken Olsen built DEC to be the world's second largest computer manufacturer after IBM. When I was a university student in software engineering in the 1980s, DEC VAX minicomputers were leading edge. DEC was an engineering and innovation-based culture. The engineers were the heroes. Their answer to any marketing issue was to build another even more sophisticated (and costly) piece of kit. And it worked - until the advent of the PC. Then computer hardware became a commodity. DEC knew that they had to develop a market-customer driven strategy, but they just didn't want to do it. It would mean firing senior executives who couldn't change. It would mean saying 'no' to engineers with new ideas. It would mean emphasising customer research, service and software application, rather than ever more glorious technology. Xerox (at least in computing) and Wang Labs didn't make the change either.

How culture affects the nuts and bolts

Many clients are uneasy about ‘the soft stuff’. It is helpful to focus on the fact that, except in a completely automated business, *executing a business strategy depends on people performing the right behaviours.*

In DEC’s case, the behaviours required in the changed world of the 1980s (e.g. designing features based on customer research and advertising based on customer problem-solving rather than technical advance) were not consistent with its values (e.g. technological progress for its own sake, engineering as fun, being a senior engineer as a source of pride, engineering as superior to business).

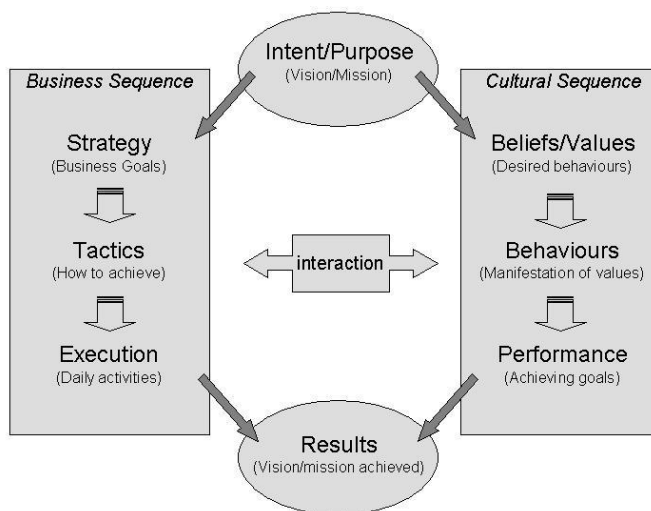


Figure 1: The Dynamics of Strategy Implementation

Adapted from A. Weiss. Process Visuals.

Once you think of the culture as simply the governor of the behaviours required by strategy, then, as Figure 1 shows, it becomes clear that there are not one but *two* interrelated paths that must be followed to implement successfully. Too many managers consider the business sequence alone, with the disappointing results played out every day.

Culture clashes post-merger

Here's a scenario where an acquirer takes on a business which, culturally, it cannot run effectively.

Company A, the acquirer, is quite young, entrepreneurial, fast-growing, innovative, and provides a high level of service. For this, it commands high prices and high margins, which enable it to be disorganised and wasteful in operations. It then takes on a less exciting, lower margin, more commodity business, company B. This is when disaster can strike - total breakdown of order fulfilment, one third of orders being automatically stopped because of alleged credit problems, half of the year-end receivables written off because there are no records of who has and hasn't paid, inability to fulfil orders from stock because, despite there being stock sufficient for five months' worth of sales in the warehouse, nobody can find it when they need it

In short, Company A's beliefs and values – much like DEC's – are not those required to run Company B's processes.

In a recent high-profile merger which must remain anonymous, the converse to the above situation has taken place. A commodity-oriented manufacturing business, with a near monopoly in its core area, has taken over a higher-end manufacturer in the same broad sector. The target's products include large amounts of customised electronics and its people are used to a high level of cooperation with customers. The acquirer has imposed a heavily siloed structure on its acquisition to prevent clients easily negotiating cost reductions (they have to deal with 5 or 6 reps rather than one). This is a hardball mentality which works well with the core near-monopoly business, but is at odds with the partnership ethos of the acquisition. It remains to be seen what the effect is, but reps with candid relationships with clients are getting 'forthright' feedback.

Seven tactics for transition management

Just as 'M&A' subsumes a range of transactions, so it gives rise to a variety of post-deal management situations. The appropriate mix of tactics will also vary accordingly: here are seven of the most broadly applicable.

1. Think about behaviours required to execute the new strategy

Look at the situation through the lens provided by the Strategy Implementation sequences in Figure 1. For a business model to be executed, and for customers to have the required experiences, certain behaviours are logically implied. In order for those behaviours to occur, they, and their consequences, must be highly prioritised and valued by the culture. At a minimum you will see what has to be changed - at a maximum you may rethink the deal altogether.

For example, in the transition from an engineering-driven strategy (such as DEC's) to a marketing-led strategy, priorities and behaviours have to change significantly.

2. Assess what is changing for people – tackle negative effects

A new management team may face a number of specific challenges which could negatively affect performance:

- The team may be accustomed to using many support services from a corporate centre which they will no longer be able to access: HR, IT, Learning & development, Legal, Finance.
- They may have had an extremely hands-on former owner, chief exec or MD, meaning that while they have been individually competent, they have never *really* been a team – the boss did the coordinating and decision-making.
- Alternatively, they may have 'grown up' being very cooperative, but have insufficient definition of roles for the new organisation to grow.
- They may be competent managing in a stable state, cushioned by a larger entity, but no experience of managing for aggressive growth driven by high levels of expensive debt.
- They may handle the inevitable staff's feeling of uncertainty poorly, leading to rumours and the avoidable loss of important managers, reduced morale, poor customer service and increased staff turnover.

Look over your list. What problems may arise? How can they be prevented? What contingency plans can you establish in case they occur?

3. Make change more comfortable

When you say 'Change or Die', many people respond by sticking their head in the sand and carrying on doing what they've always done. They've made the Smoking Kills warning on the cigarette packets bigger than the top line at the opticians – but cigarettes are still flying off the shelves.

So attempting to frighten people into changing is counter-productive.

People can, and do, change when they see it as advantageous and tolerable to do so. Look at all those pensioners who now can't imagine life without texting or the internet.

The trick, as the diagram suggests, is to reduce the fear-inducing uncertainty created by the ambiguous zone which they must travel through to arrive at where they need to be (see Figure 2).

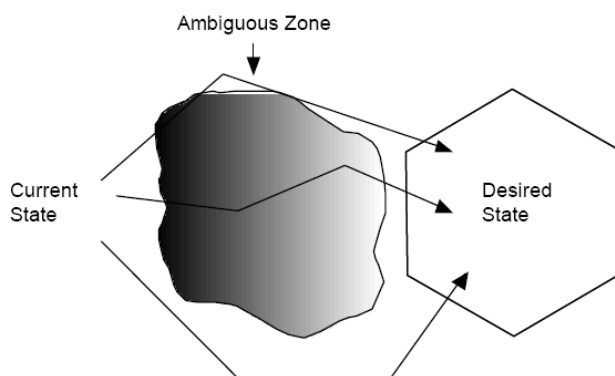


Figure 2: Navigating the Ambiguous Zone

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Make that zone less ambiguous and threatening by communicating not only the final objective and its benefits, but also what it will be like on the way there – aim to make it seem comfortable, or at least 'do-able'.

4. Go and meet people

Amazing but true: people buy companies and don't meet the people for weeks or months. This is the most effective way to fuel a rumour mill. And while people are focused on the rumours, they are not focusing on customers. Anecdotally, the UK is worse for this than the US or the Dutch. This meeting process doesn't have to be in the form of official presentations (in fact these are unlikely to be believed most of the time). Some ideas:

- Avoid coming over like a visiting dignitary
- Leave the PowerPoint behind
- Actions speak louder than words
- Have lunch in the staff cafeteria.

5. Meet the key influencers early

In any organisation there will be certain opinion leaders who others look to for guidance. These are often not the 'official' bosses.

Remember the two marines charged with murder in the film 'A Few Good Men'? One is the charismatic and purposeful Lance Corporal Dawson, and the other is Private First Class Downey, who is naïve and has some learning difficulties. He is described as 'idolising' the Lance Corporal. Whenever something in the court proceedings occurs that he doesn't understand, or that frightens him, the Private turns to Dawson (not the judge or even his own defence team although they are all officers) as the source he trusts in order to find out what is going on and what to do about it.

The way to change organisational culture is to find and influence the influencers. To influence Private Downey, you have to win over Lance Corporal Dawson. Similarly, if a respected supervisor thinks you are ok, you will get the support of everyone who looks up to him or her.

6. Run a transition 'hot line'

A telephone hotline is an easy and inexpensive way to counter the rumour mill. You set up a confidential number that people can ring with their concerns and questions. The people manning the phones provide a digest of queries for the attention of the relevant manager, who communicates answers weekly (e.g. in a circular email, blog, or open meeting).

This can greatly assist the climate, and provide useful feedback to management at the same time. Two caveats: people must be convinced of confidentiality (an external consultant can act as an honest broker), and they must receive candid responses rather than rehearsed clichés.

7. Coach key individuals

Most managers have not had the opportunities to develop their technical and people skills equally. Furthermore, they may have their nose so pressed up against the glass that all they are seeing is their own reflection. An external coach can bring objective questioning, a sounding board, and a deeper knowledge of communication and change to bear during the crucial transition period.

One client acquired a call-centre operation and asked us to work with the newly-appointed general manager. The manager had been with the company since its inception around a decade earlier and had been promoted 'from the ranks'. He was now required to deliver against much more stretching targets than before the acquisition. The challenge for the manager has been to assert authority and control without damaging the morale of the staff. We helped him work out conflicts with former peers who are now his direct reports, and with a former boss who is now his peer. Getting past these issues has freed up his time to deal with the challenges of delivering results in a much higher performance environment.

Conclusion

The seven tactics for smooth transition management are:

1. Think about behaviours required to execute the new strategy
2. Assess what is changing for people – are there negative effects which can be headed off or mitigated?

3. Make change more comfortable, rather than making staying the same more frightening.
4. Go and meet people informally.
5. Find out who the key influencers are, and meet them early.
6. Run a transition 'hot line'.
7. Coach key individuals.

None of these are expensive. In fact, 4 and 5 cost almost nothing, but that doesn't mean we should underestimate their value. We tend to equate effort in with effort out – if something is easy (especially if it is soft and intangible), we don't see that it could have a big return. Just these two actions can quieten the rumour mill, give you leverage in influencing the culture in your favour, and make the merger more successful.

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