Managing Culture Clash in Mergers and Acquisitions

Culture clash in a merger or acquisition is a lot like breathing. You don’t think about breathing, you just do it. You may be aware of your breathing now, because I’ve raised it to your attention. If someone threatened your ability to breathe, then you would certainly pay attention to breathing. The same holds true for culture in a merger. People don’t regularly notice their corporate culture, but when thrust into a merger, employees become aware of how their ways of doing things differ from those of the other side. When they feel threatened – often because they see themselves on the weaker side – employees not only see differences but also feel a sense of vulnerability over losing their accustomed way of doing business.

In typical combinations, culture building is an afterthought. Early in the process, executives downplay the importance of culture with off-handed comments like, “We are the same kind of people” or “The more I look, the more I see how similar we are.” With 20/20 hindsight, these same executives bemoan their inattention to differences in culture and values that set so many combinations on the wrong course. Studies conducted in a variety of countries find that senior executives rate “underestimating the importance and difficulty of combining cultures” as a major oversight in integration efforts.

Easing culture clash rests on acknowledging its presence, educating employees as to its dynamics, and preparing people to appreciate how initial impressions influence enduring cultural perceptions between the partners. Several companies include modules for easing a culture clash in training programs they offer to managers and employees. These sessions help people to recognize differences between the companies and expect a clash of cultures. Select firms go further and engage in deeper cross-cultural learning.

A recent study examined three levels of cultural learning during an acquisition –
Managers’ Roles in “The New Normal”

Working for a company that’s going through a merger or acquisition can seem like adjusting to a new blended family. For a while, it’s unclear whose house it is, whose rules need to be followed, and whose names to adopt. It takes a while before identities are secure and a sense of belonging returns.

Employees once had a relatively consistent corporate identity, and they could mold their point of view, work ethic, and sense of pride around that corporate image. But when things change due to a restructuring or re-engineering, employees may find themselves with a lack of identity, a loss of a network, and a total change in teammates. In the “blended family” of a merged business, employees may have new roles, a new team, a new brand, and new leadership. At this point, they really need some grounding and guidance.

This is when good managers earn their stripes. Delivering results requires a new level of managerial capabilities. Engagement and communication to the front line are now required capabilities of every manager. They must translate the evolving picture of their “new” organizations to people in a way that connects them to the business even though it has changed. Even in the best of situations, managers need to play three new roles almost simultaneously.

**The Cheerleader.** The manager needs to get people excited about the company’s vision and convey the possibilities that the business is capable of. With enthusiasm, the cheerleading manager needs to passionately portray how the company is poised for success in the “new normal,” and how every person contributes to that success. If there's bad news, the manager must tell the team and tell them early. When people lack the real story, they tend to make up their own, and that leads to painful situations. A genuine, up-front approach to brutal facts clears the way for authentic conversations and trust.

**The Player-Coach.** Managers once worked to deliver results through their teams by coaching them on what to do. Managers who weren’t great coaches delivered by playing on the field themselves. But now, player-coaching managers also need to lead by example as much as by positional authority. In a traditional game, managers coach according to the rules. But in the new normal, rules evolve continuously, and the manager must be in the game to stay abreast of the changing dynamics.

**The Counselor.** The counseling manager tends to the intellectual, inspirational side of people. When things change rapidly and constantly, people can become unsure of where the company is going and their place in it. The counseling coach taps into people’s passions and their personal motivators, and aligns their activities to fit the changing environment. The manager needs to “go first,” model behaviors and demonstrate their own vulnerabilities, showing that it’s OK to fail or say, “I don’t know.”

**What About Your Managers?**

With so much change and complexity, there is enormous pressure for managers to be change agents and still deliver business results. Frankly, most managers don’t have these capabilities.

How are you training managers at your organization to take on these new roles? Let us know what your organization is doing, and we’ll send you a copy of Mitchell Lee Marks’ book, *Charging Back Up the Hill: Workplace Recovery after Mergers, Acquisitions, and Alliances.*

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**Gary Magenta**  
SVP Client Solutions, Root Learning

**David Kalman**  
Managing Director, Root Learning
Almost two years ago, McDermott International planned to combine two of our entities. A global engineering and construction company, McDermott provides services to the energy and power industries, including the U.S. government, through a number of separate units. So this was not really an “acquisition,” but a definite blending of two businesses and their cultures. Babcock & Wilcox was primarily focused on power generation, and BWXT targeted government clients.

These two entities had distinct cultures, approaches, and ways of pursuing and executing business. Our goal in combining them was to bring cost synergies and revenue synergies together, which would mean a lot of potential for expansion and growth. We anticipated benefits in using the service approach of our power business with the government business, especially with revenue synergy. Then, we added some niche acquisitions to further enhance the revenue synergy side.

At the same time, we undertook a major effort to examine our operating structure. We wanted to re-brand ourselves – not externally, but internally – to create more alignment with our new goals and objectives. We set ground rules for how we would function operationally and collaborate during the transition of cultures. This was an ongoing process, using outcomes and feedback to strengthen our approach.

Although we wanted everyone to know the reasons for merging the two entities, we knew it would be harder to blend the cultures – and we had no less than 13 functional groups to align. Management’s toughest job was to make the hard calls – that public relations would be like this; that we’d take this approach to roll up finance and accounting, etc. Of course, people were deeply rooted in some of those 13 areas, with a long history of running things with ingrained practices and ideas.

**The Key: A Deliberate Process**

When we first told our people about this, we heard general resistance from both entities. At first, people couldn’t sort out the pieces and see how they would work together. But we soon found that the new culture and approach started to create its own momentum.

We went through a purposeful, deliberate process to identify our approach, continually checking that everyone understood. Whenever we made decisions, we asked, “Are we all aligned on this decision?” Although we urged people to state their comments, at some point, top management had to make a call. That process helped us to avoid recycling and rework. We used a consensus-building process that was focused on the way we made decisions.

With Root Learning, we did leader alignment sessions at the senior level and a few levels down, followed by a Learning Map® module that was cascaded through all 13 functional areas. From the top leaders to the frontlines, the rollout took us about a year.

**Finding the Best of Both Entities**

Now, people are not naïve. They understood that a merger was going to occur, and they were cautious. But the operations and culture changes happened much faster than we predicted. In fact, by the time leaders emerged from management alignment sessions, a lot of progress was already being made. I believe this was because our decision-making process was so thorough.

Please turn to page 7.
M&A: The New Blended Family

The Merger Maelstrom

Merging two companies or two entities within a company is not as simple as $1 + 1 = 2$. It can be as complicated as this sketch appears. People can be confused and lost, and the captain’s job can look nearly impossible. If this is your situation, gather a group around a table, explore the picture, and discuss these questions.

1. This captain is trying to combine two boats into one. Read the quotes of the crews on the Managers and Doers decks on the boats. Do they sound familiar? Are they realistic? What emotions might these people be feeling?

2. What issues does the captain face? How easy does his job look? How are the leaders of the two boats trying to influence him?

3. Notice the people in the ocean away from the ship. What kinds of “casualties” do they represent?

4. The captain is the only person who can envision the future. How will this make his journey more perilous? How can he get his newly combined crews to see the same vision?

5. Some people are working on their own to bridge the gap between the boats. What do they represent, and how can they help?

6. If you were this captain, what would you do to get the crews aligned so you could sail swiftly and successfully to your destination?

7. If you were the Leader of the two boats, how could you communicate the new identity to your people?

8. If you were the Managers on the two boats, how could you help your teams to feel a new identity with their new crew?

9. What is the best way for the Doers to cope with this new ship?
2010 M&A Facts

- Globally, 732 M&A transactions were announced in May alone.

- These transactions totaled a disclosed valuation of $130 billion U.S.

- The largest deal: Newcrest Mining, Australia’s largest gold miner, acquired its closest competitor, Lihir Gold, in a transaction valued at $8.29 billion U.S.

- The second-largest: United Airlines and Continental announced a $6.19 billion U.S. all-stock merger, creating the world’s largest airline.

Source: A mergermarket report on global M&A activity, Remark, Part of The Mergermarket Group, June 2010
Your Integration Insurance Policy

During an integration, time is of the essence. With every day that goes by, the cost synergies that formed the rationale for the integration dissolve as a newly formed leadership team struggles to build the level of trust required for optimal decision making, and revenue opportunities are lost as the organization turns its focus inward. Organizations often address this by setting up a Program Management Office to capture the cost synergies and set up the new organizational footprint.

In our experience with large organizations, what is often not done well during integrations is creating an effective future state vision and rapidly aligning a leadership team around it. This work is folded into the “change management” workstream and gets only “check the box” attention. If you are an executive in charge of an integration, here are three items that represent an insurance policy to hit integration goals.

1. The creation of a new leadership team brings excitement, but also new concerns. If unaddressed, these create a drag on the dialogue that is critical to fast, effective decision making. Progress slows because decisions are made without addressing the real issues. We often use Dilbert-like visualizations of what people are really thinking as conversation starters for items that were once addressed only at the water cooler. Addressing these issues up front keeps them from resurfacing when talking about the business strategy and builds a foundation of trust with new leaders.

2. New leadership teams can struggle with a set of norms that define appropriate conversations. As the team is formed from different management styles, leaders may be overly cautious in sharing their perspective. A set of Integration Ground Rules can ensure that strategic issues are addressed and help form a new team dynamic. A ground rule such as “The group will support all decisions after we leave the meeting” is an example of an observable behavior that can accelerate execution. A team shouldn’t have more than 8 ground rules, and the required last one is that team members will hold each other accountable to their commitments.

Many teams provide feedback on these ground rules and the “behavioral metrics” in tandem with the financial.

3. We have found that most executive teams struggle to articulate or even understand the holistic story of the new organization. Individually, the many pieces make sense, but how new customers, offerings, and processes create compelling possibilities together is not well understood. Without a story, there is more focus on tactics, often cost-related, rather than revenue-generating opportunities. A set of generic vision and mission statements usually fail to inspire employees. Then, as offer letters go out and acceptance rates are lower than projected, leaders wonder why employees don’t see the same bright future that they do.

Starting with a picture of the future can be a powerful way to get a team to see new possibilities. Try asking small groups to draw your differentiated value proposition with customers in the future and comparing it to today. This forces systemic thinking, reveals strengths and weaknesses, and moves leaders away from rhetoric and business jargon that isn’t clear.

The rapid creation of a compelling future state and the ability to have authentic dialogue as a leadership team are a critical insurance policy for hitting integration goals on time. If you apply these techniques, you may avoid classic integration landmines. You can also create a more aligned leadership team, making the journey of an integration more fun, successful, and fulfilling.

Rich Berens
President and COO, Root Learning
Brad Haudan
Managing Director, Root Learning
none, shallow, and deep – and found an interesting relationship between them and the subsequent integration of plants in an acquired firm. In the case of no learning, not surprisingly, no relationship to eventual integration success or failure was found. By contrast, deep culture learning interventions, involving cross-company dialogue, culture clarification workshops, and the like, had a strong, positive effect on integration success. Measured results included greater cross-cultural understanding, smoother resolution of cultural differences, more communication and cooperation between combining parties, and greater commitment to the new organization. What fascinates in this study is that shallow learning – for example, show-and-tell presentations, informal Q&A, and such – did little to eliminate inaccurate cultural stereotypes or to reconcile differences between the partners. On the contrary, these had the undesirable effects of strengthening perceptions of cultural differences and reinforcing stereotypes that contributed to conflict between the organizations. Based on this research, it seems that it is better to do nothing about culture clarification than something superficial and perfunctory. The best approach is to devote time and resources to deep culture learning, especially during the combination phase.

When properly managed, cultural clash can result in a postmerger organization that can better achieve strategic and financial objectives than either partner could do on its own. Partners learn from one another and engage in constructive debate regarding what cultural characteristics best align with the combination’s objectives, and best support the attainment of a postmerger organization that is much more than the sum of its parts.

Mitchell Lee Marks, Professor at San Francisco State University and president of the consulting firm JoiningForces.org, has advised on over 100 mergers and acquisitions. He is the co-author (with Philip Mirvis) of Charging Back Up the Hill: Workplace Recovery after Mergers, Acquisitions, and Alliances. His most recent book Joining Forces: Making One Plus One Equal Three in Mergers, Acquisitions, and Alliances will be published in September.

We went into this process with the intent to change some habits – not all – so we could move toward an image that we wanted to create as a company. We gave some strategic directions on how we would pursue business, and some people struggled. But others put their shoulder to the issues and became a key force in its success. We heard people say, “I think I understand why this is significant and better, and I want to be a part of the solution.” They really wanted to get behind this change, and these people have since emerged as leaders of the organization. Throughout the organization, people worked to make this happen and align to our vision. We continue to see the emergence of ongoing senior leadership.

This merger reminded me of a time in 2004 when our government operations did a system rollout of SAP, eliminating old legacy systems. For a while, people were frustrated, but once we got through the implementation phases, attitudes changed. We went from “This is hard” to “I couldn’t have done this with the old system!” We had similar feelings in this merger process.

Success Builds on Success

Once we aligned all 13 areas, we were able to share some great ideas. For example, when we shared the power entity’s service approach with the government entity, they gained a stronger approach toward nuclear service, and decided to do a nuclear reactor design. This happened only because we brought the two sides together; it would not have happened independently. Success builds on success, and efficiency builds on efficiency.

The biggest differentiator in the success of this project was our deliberate approach. If we hadn’t been as thorough, we might have lost some good people along the journey. Instead, this brought everyone along in a bigger block so we could optimize our direction, people, and resources in profound way.

John Fees is CEO of McDermott International, and was the former CEO of its major subsidiary, B&W.
Events and News


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The next issue of the Watercooler newsletter will be published in October.

A culture is made – or destroyed – by its articulate voices.
– Ayn Rand