Mastering Cultural Integration During M&A

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Peer & Practitioner Research Published 26 May 2021 - ID G00731300 - 8 min read

FOUNDATIONAL This research is reviewed periodically for accuracy.

CIO Research Team

Initiatives: Executive Leadership: Mergers and Acquisitions; CIO Role Evolution

Cultural integration is critical to the success of M&A and, yet, it is often misunderstood and undervalued throughout the M&A process. This research will address the key challenges of cultural integration in M&A and provide a roadmap to optimize results that executive leaders can apply.

But executive leaders can't be leisurely with cultural integration during M&A, as it underpins success or failure across all areas of a transaction (i.e., financial, technology, customer, new products, employees, etc). As such the executive leader is under significant pressure to ensure a timely and effective cultural integration following an M&A transaction.

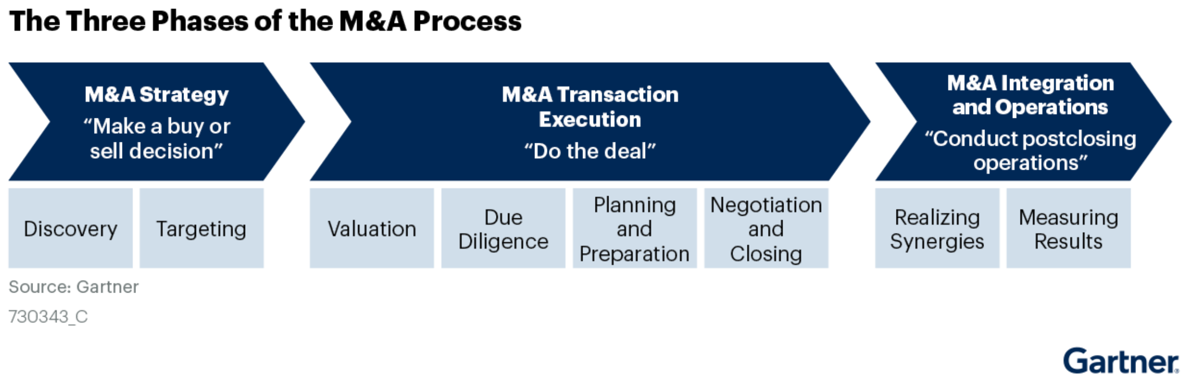
Cultural Integration Is Slow by Definition

The challenge is that by their very nature organizational cultures are difficult to change and integrate. These cultures are the shared values, beliefs, attitudes and behaviors of an organization and its employees. They are enduring and broad, and they permeate processes, behaviors and structures in many ways.

Starting Earlier Helps, but Isn't the Answer

Ideally, executive leaders will focus on culture in each phase of the M&A process, well before the deal is even finalized (see Figure 1).

Figure 1: Three Phases of the M&A Process



In the M&A Strategy phase, executive leaders should take the time to cultivate business relationships with key stakeholders at the companies they are targeting for acquisition. These relationships may initially form through commercial partnerships, industry events or other planned interactions (e.g., management visits, leadership dinners and ad hoc check-in calls). Taking this initiative before substantive transaction discussions take place (i.e., prior to negotiating terms and completing due diligence) will provide an early glimpse into the cultural risks and opportunities upon which to focus as the transaction moves forward.

In the Transaction Execution phase, make culture a key factor in building the acquisition business case and include due diligence findings on culture among the key factors required to make a final "go or no-go" decision. If diligence findings indicate a significant cultural mismatch, or perhaps uncover behaviors inconsistent with your organization's values, such findings should impact your approach in other areas of the transaction including:

- Purchase price
- Additional legal protections in the definitive transaction agreements
- Post-closing organization design
- Key employee retention plans
- Integration plans that impact key cultural elements (i.e., technology, compensation, benefits, etc.)
- Communication plans (style and cadence)

But even with time and careful attention prior to completing an acquisition, assessing the target organization’s culture and how best to integrate with it is an ongoing process that will carry-on well after the deal closes is complex and slow. Truly understanding the values, beliefs, attitudes and behaviors of a workforce requires a set of activities that can take several weeks to many months to perform. These activities can include employee surveys, focus groups, leader and customer interviews, reviews of HR policies and practices, and evaluations of compensation and benefits plans. The speed of M&A and the inaccessibility of this information typically obstruct an in-depth culture assessment.

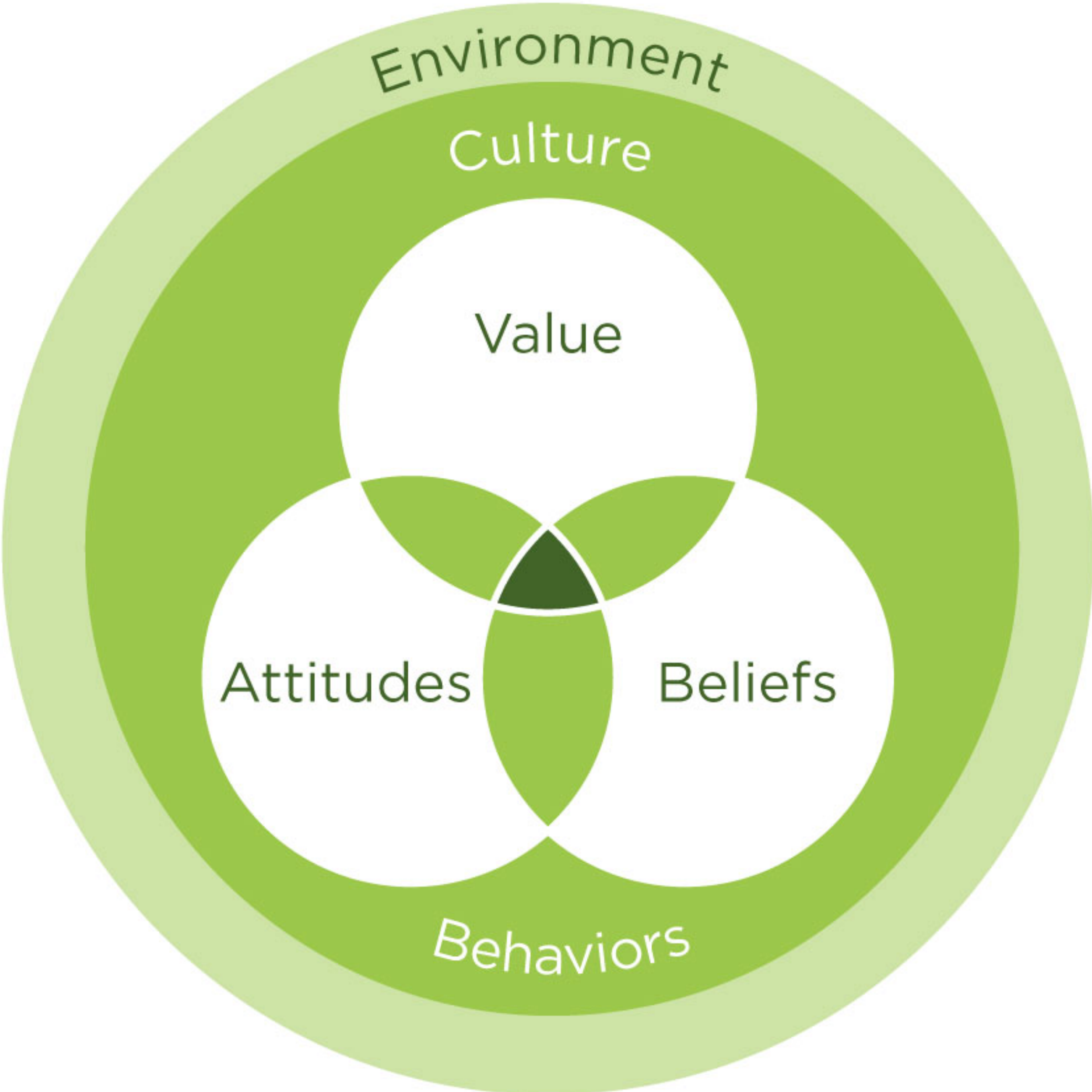
Move Fast in the First 100 Days of M&A Integration

In the newly formed enterprise following M&A, every employee plays a critical cultural integration role, even if they don’t realize it. The organization’s culture is shaped and transformed by the collective actions of each individual employee.

How can organizations encourage employees to act differently — in the best interests of the newly formed organization — from the very start of the M&A deal? The challenge appears daunting, but by following the steps listed below, executive leaders can move quickly to jump-start cultural integration in the first 100 days of an M&A — acting as the tortoise and the hare.

Recognize the Critical Components That Define an Organization's Culture

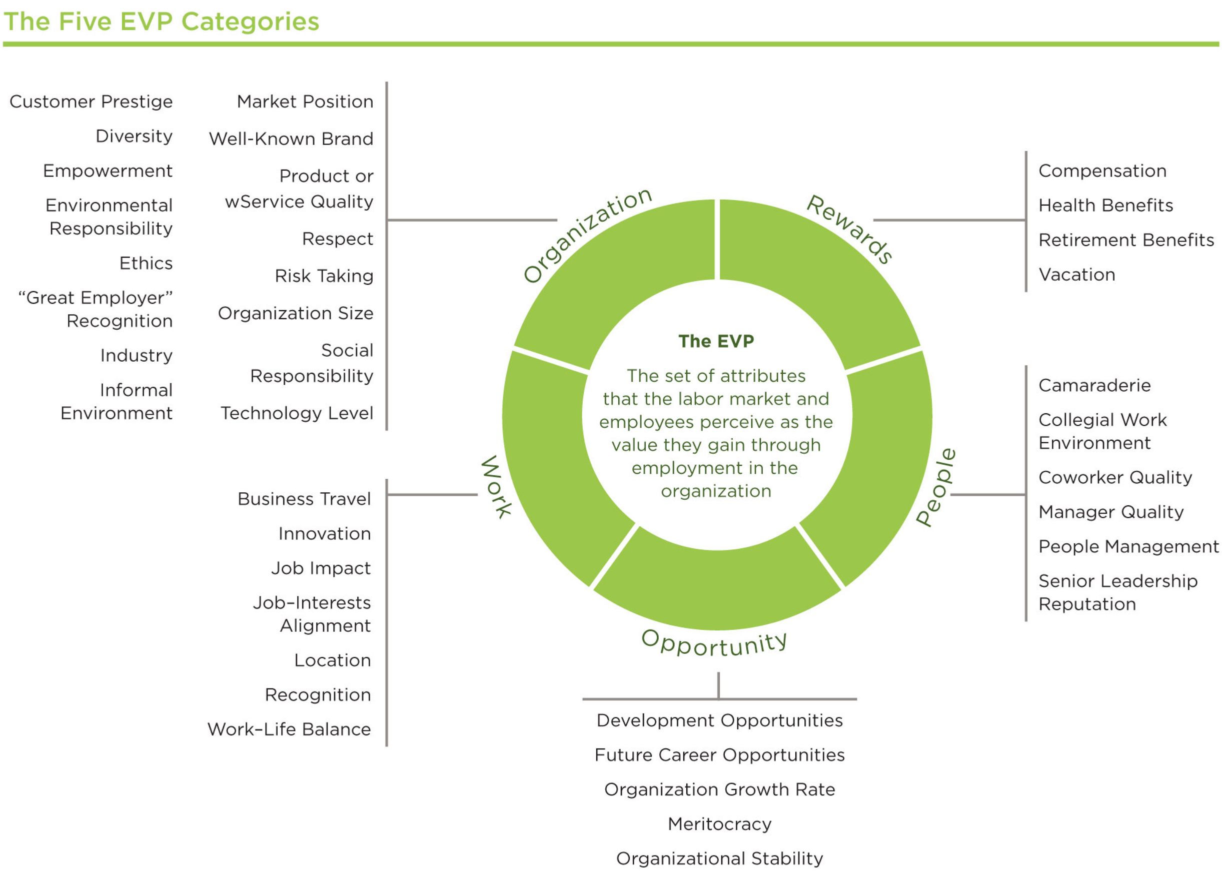
Figure 2: The Critical Components of Corporate Culture



Source: Gartner

1. Use the Employment Value Proposition ("EVP") framework to pinpoint which specific cultural attributes to prioritize and merge (see Figure 3).

Figure 3: The Five EVP Categories



Source: Gartner

Newly combined organizations often establish their cultures by (re)defining their values, mission and vision, and by communicating that information through a top-down cascade. Although important, communicating this common vision doesn't sufficiently help employees change their behaviors and how they perform their work. Values, for example, are far too vague and difficult to translate into specific and relevant actions across the workforce.

Fortunately, executive leaders can use the EVP framework to quickly uncover each culture's strongest attributes and objectively assess which of these to retain and emphasize in the new organization.

To utilize the EVP, start by asking employees to rank:

- The relative importance of each EVP attribute
- Their relative satisfaction with each attribute

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Then, for each organization (acquirer and target), collect the feedback and compare the aggregated results, attribute by attribute, to learn which are important to both organizations.

Once attributes are prioritized, partner with employees from both organizations to identify ways they can improve on the attribute and create a shared culture.

When comparing each attribute's importance (to decide which ones to hone during integration), consider the following:

- Start with attributes with high importance and low satisfaction for both organizations. These EVP attributes are an obvious opportunity to improve in a way that appeals to employees from both organizations and to create a shared, integrated culture.
- Proceed carefully for attributes of high importance and high satisfaction to one or both workforces. When at least one workforce is satisfied with the attribute, changing it may cause more harm than is worthwhile. Learn more about the attributes' similarities before proceeding. If there is a mismatch in satisfaction levels and the attributes are dissimilar, there may be opportunity to improve attributes for one workforce to further integrate cultures.
- Refrain from "improving" attributes of low importance, regardless of satisfaction levels. If leadership thinks an attribute is important but it isn't particularly important to the workforce of both organizations, leave the attribute as-is even if satisfaction is low. Improving it won't have much impact on your ability to create a strong, shared culture in the near term.

2. Change employee mindsets to focus on the entire enterprise.

Another barrier to culture integration is siloed mindsets. Employees up and down the newly formed organization often still view their work from the perspective of their original organization. Even if frontline employees support the transaction, past perspectives and knowledge still shape their perceptions and actions. This barrier extends to leaders as well. More than half of chief HR officers express a high level of concern about fixed leader mindsets. To encourage employees to change their behaviors and actions in a way that supports culture integration, executive leaders must also change their perspective.

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Fortunately, executive leaders can act quickly. Rather than attempting to convince employees that the M&A is beneficial for all involved, executive leaders can help employees discover for themselves the value of the M&A and their role supporting it. Specifically, encourage employees to consider five questions:

1. What will my organization — and I — get that we wouldn't otherwise?
2. What does the new organization get that it wouldn't otherwise?
3. What must I do differently in my role to make sure everyone, especially the other organization, receives value?
4. How will I know that both organizations are getting value from the M&A?
5. How will I know that I'm bringing value to the other organization in some way?

Employees simply asking these questions won't lead to change overnight, but if they start asking early and often it will generate dialogue and jump-start a change in employees' mindsets.

3. Use social networking to break down horizontal communication blockades.

A third barrier to effective behavioral change during M&A is horizontal communication blockades. Executive leaders repeatedly tell us about the importance of communication in M&A, and research confirms this.

A common approach to managing communication during M&A is top-down cascades. Although top-down cascades can — and should — show executive leader commitment to the transaction and support a common vision, cascades occur within organizational silos and risk reinforcing horizontal communication blockades. When executive leaders announce an acquisition to their specific teams, for example, they then communicate to their middle managers, who then communicate to frontline managers and then to their individual contributors. The communication cascade occurs within the silo of the existing reporting lines, doing little to help employees understand their new partners and how to work with them.

Luckily, organizations can use simple technologies — that employees already use — to ensure better communication across the newly formed enterprise from the outset of the M&A. Start with user-friendly technologies that are simple yet impactful, and devise plans to integrate all employees onto more complex, sophisticated technology platforms later on. For example, you can create private LinkedIn groups for employees from the acquired and acquiring organization or invite employees from both organizations to follow the organization's Twitter feeds to increase transparency and communicate common messages. You may even recommend that senior leaders of the new organization set up accounts across the company's communication tools to update the workforce on the latest happenings before internal systems are fully merged.

You can partner now with your peers to determine a plan for the first 100 days (and beyond) to improve communications and information access across the new enterprise and to help employees work together to support cultural integration.

It's Day 101 — Now What?

On day 101, gather your executive leadership team to review what was accomplished in the first 100 days and what needs to happen next. There's no one magic metric that will tell you if cultural integration is working (although employee retention and/or attrition can be telling), but reviewing your progress against each of the three strategies serves as an indicator. For example, discuss the following as a group:

- Have we identified and communicated specific actions that employees should take to help integrate cultures? Do employees regularly perform these actions?
- Can employees articulate how the M&A benefits everyone and their specific role in supporting the M&A?
- How well do we use technology and social media to support horizontal communication across the organization?
- Overall, what changes are we seeing in how our employees act and work?
- What other opportunities exist to shift employee behaviors to support cultural integration?

Full cultural integration won't occur in 100 days, but executive leaders can get the process off to a fast start. The strategies described above will help executive leaders act quickly within the first 100 days and can also be used to devise a roadmap for the longer term.

Recommended by the Authors

“Navigating COVID-19 Impacts on M&A Buy or Sell Decisions”

“CIO Perspectives on Mergers and Acquisitions”

“Five Leadership Skills CIOs Need to Develop Before M&As”

Actionable, objective insight

Mergers and Acquisitions (M&A) will continue its increasingly important role in economic recovery as businesses navigate opportunities in the current environment. Explore these additional complimentary Gartner resources:

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