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When Corporate Cultures Clash: A Guide for Directors

By Mitchell Lee Marks and Liz Guthridge

Despite the frequent use of mergers and acquisitions to spur growth, only one in four corporate combinations achieves its desired financial or strategic results.

Why is culture clash so prevalent and detrimental in mergers and acquisitions? The simple explanation is that employees don't regularly notice their corporate culture until they are thrust into a combination. Then they become aware of how differently each "side" does things. And scant attention is paid to addressing cultural issues as the companies combine.

Why Directors Should Care about Culture Clash in M&A

Boards of directors need to guard against culture clash in mergers and acquisitions for three key reasons:

1. The board's primary role is to minimize risk and safeguard corporate values.
2. Culture clashes contribute to the vast majority of M&A failures.
3. Board members are better positioned than executives to take a more objective view of the deal.

Most executives approach a combination with laser-beam focus on the financial aspects of the deal: what is the target worth, what price premium is the seller willing to offer, what are the tax implications, and how should the deal be structured. Surrounded by investment bankers and lawyers (who stand to reap hefty advisory fees if the deal is consummated), the CEO has no one presenting broader points of view, especially on how culture counts in eventual merger success or failure. And, once corporate staff members learn that the senior executive wants to do a deal, they're not inclined to raise a red flag, especially on an issue as ethereal as corporate culture. Instead, they push aside their concerns and join the chase. In short, the "diligence" in due diligence is missing in most organizations today.

Then, after the board approves the deal and integration planning begins, the company leaders and their staff confront the competing demands between running day-to-day business operations and contributing to a successful integration. Simply stated, they cannot drive in two lanes at one time. If they could, then 75 percent of all mergers and acquisitions would not fail.

Directors should play a substantive role in these deals, especially in this age of heightened accountability and responsibility. First, directors need to help assess whether a deal makes sense on cultural as well as financial terms. If the answer is yes, directors must monitor how well the company leaders manage the integration process.

How Directors Can Avoid Culture Clash in M&A

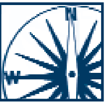
How can directors wield their influence without getting caught up in micromanaging the deal? Based on a recent consulting assignment and our years of experience, we suggest boards of directors take these seven steps.

Phase I: Before the Deal

Step 1. Request an independent cultural audit of both organizations before approving the deal. There are no right or wrong corporate cultures; the purpose of the premerger culture audit is not to determine which culture is "better." Rather, the point is to give the board

Director Summary: Two experts in M&A recommend a three-phased program for integrating corporate cultures during a merger. Understand *both* companies' unique cultures and model behavior of acceptance for company employees.

Ed. Note: This is the third and final article in a three-part series on mergers and acquisitions—**September**: Fairness Opinions. **October**: Maximizing Value.



a heads-up regarding the extent to which partners' cultures are compatible. This, in turn, helps the board determine whether it makes sense to combine and, if so, what degree of cultural integration will be required to realize the deal's strategic and financial value. This puts culture into play, gets potentially sticky issues out in the open, and sets expectations between the board and the executive team regarding the importance of addressing cultural integration along with operational integration.

Step 2. Review the cultural audit results in the context of how the acquiring company plans to operate after the acquisition. Keep in mind that successful combinations do not require the partners to be cultural clones. In fact, a moderate degree of distinction between the partners' cultures usually results in the most successful integrations—the parties have sufficient enough similarities to take advantage of the differences, but they are not so disparate as to be like oil and water. Strong corporate cultures tolerate sub-cultures.

Phase II: During the Deal

Step 3. Require an action plan for building the desired postmerger culture. All too often, buyers pay a hefty premium for an acquisition target and then lose the deal's value when they disrespect the target's culture, anger its employees, and watch helplessly as the top talent jumps ship.

Directors can avert this situation by pushing executives to develop a plan for building the desired postmerger culture. Directors should require an explicit definition of the desired end state, both for the business operations and the culture that will support it.

Step 4. Have one director serve as a sounding board for cultural integration. The director can perform this role by meeting with the buying firm's CEO, the integration teams, and employees to discuss the integration's progress and its impact on the company's culture. The director becomes a pipeline for employees on the cultural impact of the combination and is a force for keeping cultural dynamics front and center as the integration moves forward.

Phase III: After the Deal

Step 5. Require a survey to assess how the organization is doing against its goals. After the integration dust settles, step back and assess the extent to which the postmerger organization is achieving its operational and cultural goals. Even if the buyer planned to maintain its corporate values, it is important to determine whether any inadvertent cultural messages were sent during the integration process.

Directors need to help assess whether a deal makes sense on cultural as well as financial terms. If so, they must monitor how well company leaders manage the integration process.

Step 6. Get commitments from the executive team on how they will reinforce behaviors that support the desired postmerger culture. Many tools are available to build or reinforce a desired corporate culture. The obvious one is the company's reward system. A less recognized, but equally powerful tool for reinforcing culture is the modeling behavior of senior executives. Employees take note of the ways in which their superiors act and then attempt to emulate those behaviors.

Step 7. Evaluate the board of directors' role during all three phases of the deal. Just as the board is assessing the company's progress toward its integration goals, the board should take time to evaluate its own actions. The self-assessment is especially critical if the company's growth strategy is to buy rather than build. Questions to ask include: What worked well? What should the board do differently next time? Should board members rotate individual roles, or hone their expertise?

Conclusion

The objective of director involvement in M&A is to raise attention to an organizational event with a high failure rate. Through this level of involvement, directors provide oversight on evaluating the deal's value and then monitoring the progress in capturing its value. Along the way, the board becomes more aligned with the company culture, safeguards cultural values, and acts to avoid the financial and cultural risks of a merger or acquisition veering off track. ■

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