Executive Summary

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RESEARCH QUESTION

What are the best practices to follow in order to establish and spread culture for a newly formed company post-merger?

INTRODUCTION

Merger and acquisition (M&A) activity has seen a significant increase in the past several decades and 68% of executives at US-headquartered corporations believe this pattern will continue.[1] Although human capital can be the largest expense to impact a company's income statement, it should be looked at with the lens of being an asset to the company and one worth strategically investing in.[2,3] Knowing this, it is extremely important for a company to be prepared for any large changes to or impacts on their workforce, particularly during a M&A. In addition, a company must address the question of whether or not to integrate cultures post-merger. The answer is determined by the reason for the M&A; are the companies looking to achieve economies of scale or of scope?[4] In other words, it must be clear what the objective of the merger is for both companies: growing the current customer base or gaining a new one.

BEST PRACTICES

When going through a phase of change due to a merger or acquisition, it is common for a company to face several challenges which can be addressed through the following best practices:

Communication: According to research conducted by Deloitte, communication is the number one critical driver of a merger's success.[1] Some companies will implement a 360-degree communication program to reduce rumors and replace them with accurate facts.[2] In addition to being very clear about what is happening both internally and externally, this can also ease some of the fear that comes with uncertainty for stakeholders. Finally, have very clear communication about any changes to the organizational structure; what it will look like, how it will work, and who is in charge. [2, 4] Being transparent and honest can be the determining factor in building or maintaining trust among employees during M&A activity.[5]

Leadership Alignment: To be most effective, there must be clear and visible alignment among leaders from both sides of the merger. [2] Ideally, there will be very clear demonstrations of allied leaders modeling the new dynamic from early phases of the merger. Additionally, aligning the goals of individual leaders with the organizational goals of the merger and keeping leaders involved with the action plan or post-merger operating strategy can help to not only achieve leadership buy in, but actively maintain leadership support. [2]

Culture: First and foremost, culture can't be changed overnight. It is essential that a company take the time needed to make the changes, assuming the changes are necessary to achieve success. [2] Culture should represent the brand you are building. The new brand doesn't have to look exactly like either company did pre-M&A, but should support the new structures and goals of the company post-merger. [2] When considering the purpose of the M&A activity- scale vs. scope- the reality is that cultures should not always be integrated.[4,6] Scale cases are when culture should be integrated, as the focus is on gaining the customers. Scope cases, however, are when the focus is on gaining the target company's talent and knowledge. Forcing an integration of cultures unnecessarily could in fact result in high rates of voluntary turnover among the desired talent pool.[4] In 1997, Boeing acquired McDonnell Douglas. The acquisition did not impact the entire company, rather only certain business units because the purpose was to grow in scope. In such a case Boeing would not want to change the unaffected business units, and in order to achieve success from the acquisition culture varied across business units.[4] In addition, a company should always strive to keep the desired culture aligned with new business strategies. [2,6] Please see Appendix 1 for a detailed chart of how culture can affect two companies merging.

Talent Retention: It is extremely costly to hire new employees, lose intellectual capital, or lose customer relations.[2] Success during a M&A demands buy in and continuity from employees, and especially, leaders. [2] It is easy for employees to lose trust in the changes facing both companies, and the people leading the changes, which can cause many employees to contemplate "jumping ship". [2] Additionally, the potential for sharply increased workloads can result in employees becoming dissatisfied or resentful and deciding that the negatives outweigh the benefits of staying during an M&A.[3] To best combat these retention challenges, companies should use employee surveys to look at what their workforce value and align the company's talent retention strategy to match the identified values.[3] Companies such as Marriott International, Toyota, and Fleet Bank International have all successfully utilized such measures to more efficiently identify where they can improve or change the current strategy to best retain their talent.[3] Please see Appendix 2 for an example of when Mercer HR Consulting group conducted research for Fleet Bank International and identified that the specific factors impacting employee retention are not always what the employer assumes.[3]

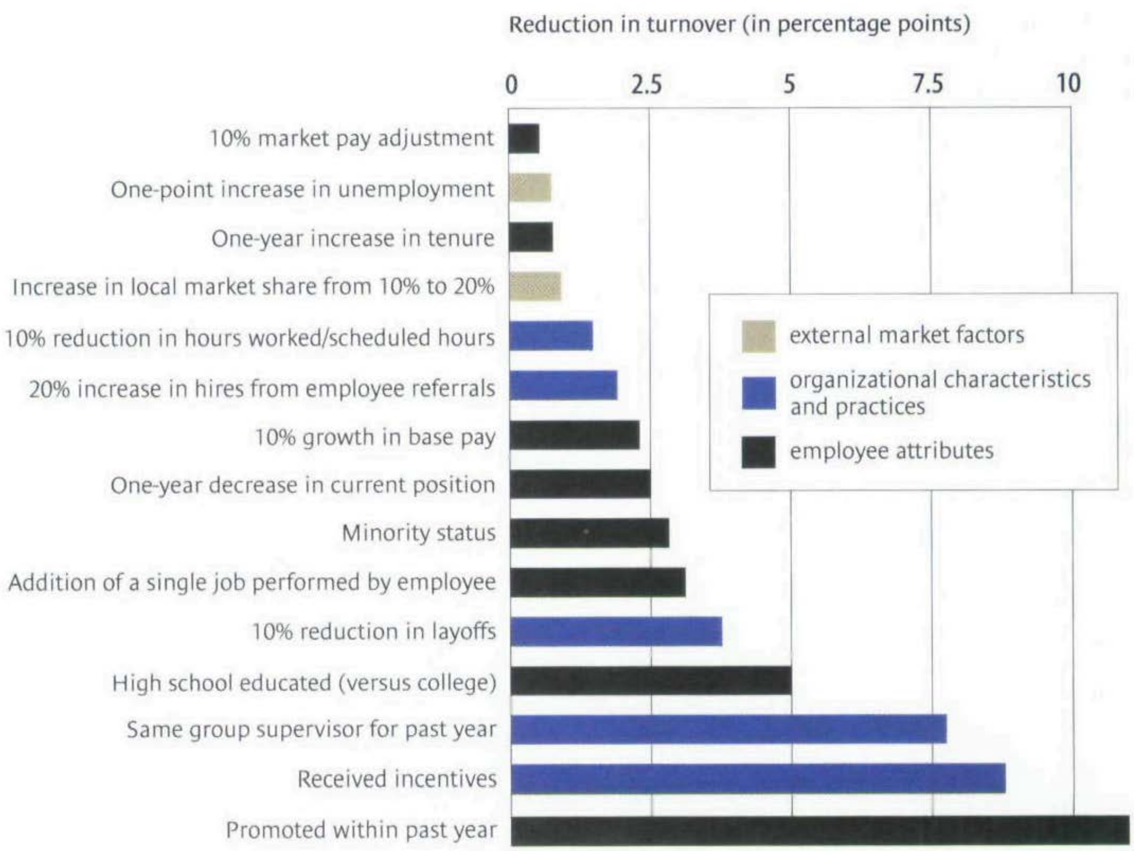
CONCLUSION

Whether a merger is successful depends on many complicated factors. However, with a thorough due diligence process, a company can best prepare to combat any expected resistance to change through strong communication and visibly aligned leadership. In addition, identifying when, where, and how to adjust or change culture can be a critical factor in implementing a successful talent retention strategy.

Appendix 1[2] – Culture Affects

Culture affects	Resulting in
Decision-making style (for example: consensus contrasted with top-down)	• Effective integration requires rapid decision-making. • Different decision-making styles can lead to slow decision-making, failure to make decisions, or failure to implement decisions.
Leadership style (for example: dictatorial or consultative, clear or diffuse)	• A shift in leadership style can generate turnover among employees who object to the change. This is especially true for top talent, who are usually the most mobile employees. • Loss of top talent can quickly undermine value in an integration by draining intellectual capital and market contacts.
Ability to change (willingness to risk new things, compared with focus on maintaining current state and meeting current goals)	• Unwillingness to implement new strategies. • Unwillingness to work through the inevitable difficulties in creating a new company.
How people work together (for example: based on formal structure and role definitions or based on informal relationships)	• Merged companies will create interfaces between functions that come from each legacy company, or new functions that integrate people from both legacy companies. If the cultural assumptions of the legacy companies are inconsistent, then processes and handoffs may break down with each company's employees becoming frustrated by their colleagues' failure to understand or even recognize how work should be done.
Beliefs regarding personal "success" (for example: organizations that focus on individual "stars," or on teamwork, or where people rise through connections with senior practitioners)	• Again, these differences can lead to breakdowns in getting work done. If people who believe they have to achieve goals as a team integrate with people whose notion of "success" emphasizes individual performance, the resulting situation is often characterized by personal dislike and lack of support for getting the job done.

Appendix 2[3] – What Makes Employees Decide to Stay During a Merger



Source: Mercer Human Resource Consulting

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