LOST IN TRANSLATION: OVERLOOKING CULTURE INTEGRATION IN M&A

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Introduction

There is a common saying that "culture eats strategy for breakfast". A company's "culture" is difficult to define, but easier to feel. That feeling can be the collection of a company's values, documentation and communication habits, Work from Home policy, individual decision making authority, employee incentives, cross-departmental dynamics, priorities, and much more. As the saying implies, culture is so pervasive throughout a company, it can make or break business strategy.

Even though it's widely known that it is important to business success, culture is often overlooked, especially within M&A scenarios. In many cases there are clear operational synergies that seemingly justify the transaction, and yet the lack of cultural alignment has led to countless failed integrations.

Why Does Culture Continue To Get Overlooked?

It's a well known fact that culture can make or break the success of an M&A transaction, so why does culture continue to get deprioritized?

In M&A scenarios, there is usually pressure to reach synergy targets as quickly as possible. Decision makers tend to focus on protecting and improving the bottom line, stabilizing the combined businesses, launching combined products and services, etc. These initiatives have immediate and direct impacts on achieving synergy targets while culture initiatives can take a long time to produce measurable impacts. So what happens? Culture alignment is put on the back burner, and culture misalignment slowly chips away at any chance of a successful deal.

How Deprioritizing Cultural Alignment can Wreck M&A Transactions

M&A deals are typically focused on the financial and business rationale, often overlooking cultural mismatches, even though cultural compatibility is a key determinant of a successful M&A integration. Bain's M&A Survey found that nearly half of the respondents found that cultural fit was one of the main reasons why their past deals failed. Not prioritizing culture increases the risk of the transaction becoming the 70% - 90% that fail to meet their objectives, leading to delayed synergy realization, strained finances, and employee dissatisfaction.

Failed business objectives during M&A transactions can be attributed to talent loss and productivity decreases due to the disruption to company culture. In the past 5 years, 1 in 5 Americans have left a job due to bad company culture, which has cost businesses approximately $223 billion. It's important for businesses to recognize when cultural integration is not working so that leaders can prioritize cultural initiatives to limit the consequences of cultural misalignment.

Common Symptoms of Poor Culture Integration

Ideally, decision makers assess the companies' cultures during the due diligence process. However, there are many scenarios where the cultures do not cleanly fit together. As companies are integrating, recognizing clashing cultures is the first step to improve it.

Be on the lookout for:

- **Lack of Employee Engagement**. When employees are frustrated and feel less connected to the company, they may become less responsive to co-workers and may start doing the bare minimum. This impacts productivity, stifles creativity, and curbs collaboration, leading to poor business performance and outcomes.

- **Siloed Teams & Lack of Cross-Communication**. Lack of communication due to siloed teams can lead to stress in the workplace because people are unclear about what work to prioritize, causing a sense of uncertainty and urgency. This can create an environment where people are unnecessarily overworked, delivering the wrong work that is counter to the overall strategy, and feeling burnt out - leading to turnover.

- **High Turnover**. When a company is experiencing unexpected high turnover overall or on a specific team, it's typically due to low morale. Bad management, toxic environments, high stress levels, and unclear responsibilities can all impact employee morale, prompting many to look for opportunities elsewhere.

How to Increase the Chances of Culture Alignment

Let the Dust Settle. There are typically a lot of unanswered questions and open decisions following the announcement of a deal, making it too early to implement cultural alignment initiatives across the companies. However, companies should start culture alignment strategy discussions at a leadership level early on and implement alignment initiatives later when it makes sense for the organization.

Align at the Leadership Level and Check Ego's at the Door. The collective leadership team needs to be upfront and open about the realities (i.e. the good and the bad) of their respective company cultures. Ensuring that the acquiring company has an open mind and is not assuming their methodologies are the best can help co-create a culture that takes the best of both worlds.

Communicate Culture Differences & Future Plans. Even if the newly combined company culture is under development, simply understanding and sharing the differences between company cultures can significantly improve the employee experience. For example, employees onboarding to the acquiring company will likely be unsure of how the company operates. Communicating expectations early on will help new employees understand how to accomplish their tasks, what platforms to work in, who to escalate issues to, etc. Needless to say, it is vital to share out the cohesive vision and communicate goals early and often.

Communicate Strategic Goals. During company integrations, there are many competing priorities and goals that leaders often do not communicate to the broader company. This can make people feel in the dark and less connected to the business. Over communicating success factors, and goals, and removing silo's to improve communication will help new employees onboard and understand how their work contributes to the larger picture.

Set Culture Integration as a Strategic Priority Early. As culture integration initiatives are developed, setting them as strategic priorities alongside the rest of the integration initiatives will help the business see improved outputs in the long term.

Conclusion

In many attempts to bring two organizations together, poor culture integration has repeatedly led to broken ways of working, low employee morale, and high turnover. However, while countless M&A deals have failed due to poor culture integration, failure is avoidable. If taken seriously and handled tactfully, culture can be a company's superpower and supercharge its strategy.