IRI INTELLIGENCE BRIEFING

NEWS AND DEVELOPMENTS AFFECTING THE WORKPLACE

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Mergers and acquisitions work when cultures combine

Crunch the numbers, but don't crunch the people

The record-setting pace of corporate consolidation in 2018 and the first half of 2019 has made it hard to keep up with who owns which major companies in the United States and abroad.

USA Today reports, in the first three quarters of 2018, companies announced deals worth $3.3 trillion – the most recorded in four decades.

Much of the merger and acquisition (M&A) activity is happening in the United States, and it can be seen across all sectors. In 2018 alone, according to CNN Money and *USA Today*, Amazon acquired Whole Foods, CVS acquired Aetna, Meredith acquired Time Inc., Albertsons acquired Rite Aid, and T Mobile acquired Sprint.

The healthcare industry also hit a record high for mergers and acquisitions in 2018, and the pace is expected to continue as declining reimbursements and rising costs squeeze margins. The banking industry is expected to continue its consolidation push in 2019 as the lending market continues its downturn.

But will all these new marriages be productive? Probably not, according to most M&A experts who agree on three things:

1. Most transactions fail. More than half of all deals – some studies say as high as 80 percent – don't produce the value their architects intended.

2. Most organizations focus primarily on the legal and financial due diligence of the deal, paying little or no attention to cultural issues or even active post-merger integration.

3. Cultural factors are a major reason why transactions fail. *A Wall Street Journal* study cited cultural incompatibility as the leading cause of M&A failures.

CULTURAL INTEGRATION

So, what is culture and what are the cultural factors that should be carefully considered during a merger or acquisition? Culture is comprised of the unconscious, unspoken and strongly held assumptions and beliefs that guide behavior. The components of a company's culture may not be obvious or easy to measure. They often are so ingrained that they easily can be taken for granted, and often difficult to articulate.

When companies merge, executives tend to focus first on the business rationale of scale: volume and capital. Thus, leaders analyze the people for their utility in the new company. Are they redundant? What positions should be eliminated?

While a reduction in force is common during a merger or acquisition, considering human capital only for its usefulness in filling positions is a mistake, experts say. Instead, to increase the chances of success, leaders should manage cultural integration with as much focus as they do financial integration. No matter how strategically solid the plan is on paper, joining two businesses won't work without strong employee buy-in and a robust, well-planned communication strategy and effort. The same rigor applied to financial due diligence is often inadequate or missing altogether from a talent planning/assessment due diligence.

REDUCING RESISTANCE TO CHANGE

There are several well-defined steps an organization can take to keep from becoming a failed merger or acquisition:

- **Create a Case for Change** – Create a strong, compelling case for change and a shared sense of urgency by carefully presenting the reasons for the transaction. Employees are often a tougher "sell" than boards of directors or shareholders. Some people respond best to facts, others to emotions, and still others to a combination of both. Focus on what the merger will mean to individual employees whenever possible.
- **Establish a Vision** – Shape a picture of what the organization will look like after the change while addressing fears and inspiring confidence. Most of the workforce, management and non-management alike, feels invested in the status quo. It's essential to move that investment to the new company's culture.
- **Engage Your People** – Involve key stakeholders in critical aspects of the change. When describing the non-negotiables, ensure there are plenty of decisions in which employees can offer input and feel a sense of ownership. The more employees own it, the more they will support it.
- **Align Systems and Processes** – Ensure that all revamped workflow and supporting processes and practices are adjusted to support the vision of the future. Analyze each for possible unintended consequences that could result from misaligned systems. All recognition and reward systems should also be aligned to reinforce the new vision and to support the expected behavior in the new world.
- **Tell Your Story** – Communicate relentlessly. Use consistent messaging to ensure the right information gets to employees, and use communication platforms that make sense to them. Measure the impact of the communications and make adjustments as needed to keep the pressure on positive change. You can't over-inform.
- **Persist** – Keep the energy up. Create and implement early warning mechanisms that let you know if progress is being made or if dangers have just gone underground. Don't let the organization become distracted by the next new thing or by "fire fighting" to the detriment of the new entity's success. Things often look like they are settling down long before they really are.

COMMUNICATION IS CRITICAL

You probably noticed the common thread woven through the steps outlined above: communication.

Having a clear plan for merging culture and talent is the first step. Making the case for the cultural merger is the hardest step; it relies on clear and compelling communication to reduce resistance to change.

During a merger or acquisition, your organization's key communication goal will be to overcome the negative perception of a merger or acquisition. When most employees hear about a deal in the works, they think of facility closings, staff reductions, spending cutbacks and other changes that will negatively – and personally – affect them.

The first message employees hear generally is the one that will most influence their perspective on a merger or acquisition. So, get ahead of the rumor mill with positive and regular communications that provide credible answers to common question, such as:

- Why is this happening?
- What will happen to me?
- How will it work?

Initially, you may be unable to answer some important questions. Help employees understand the process and let them know that you will answer their questions and concerns as best you can. The prudent strategy is to:

- Address what hasn't been decided
- Acknowledge its importance to employees
- Promise to provide the answer as soon as it's available

WHEN MERGERS WORK…AND WHEN THEY DON'T

Companies that successfully merge cultures – and leverage a robust communications plan – are positioned for success.

The merger of Adidas and Reebok is one such story. The Adidas culture was focused on sports while Reebok was more about lifestyle. Adidas was a German company and Reebok an American company.

Instead of allowing one brand to cannibalize the other, Adidas CEO Herbert Hainer decided each would maintain its own identity. Strong communication of that cultural goal helped the plan succeed. Adidas focused on technology and the international market and Reebok built its share of the youth market in the U.S. The business grew, and that meant reduction in costs for manufacturing, distribution and marketing. And the two entities were aligned in the vision.

The Microsoft-Nokia marriage on the other hand, is often used as an example of failure. Microsoft wanted to compete with Apple and Android, so it acquired the mobile phone company. Instead of focusing on a clear cultural and business goal of competing in the mobile phone market, it shifted investment to other parts of Nokia and eventually laid off massive numbers of Nokia workers. It ultimately wrote the entire deal off.

Leaders don't set out on mergers and acquisitions with a plan to fail. Executives are usually great at crunching the numbers. But if the people get crunched in the process, the deal won't work, regardless of how profitable it appears on paper.

Getting the cultural goals right from the start and communicating them nonstop are steps that are just as important to take into consideration as the balance sheet and maximizing the bottom line.