



Culture: The Key to Successful Mergers & Acquisitions

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Panelists



Alysun Johns



Tom O'Rourke

How Culture Works

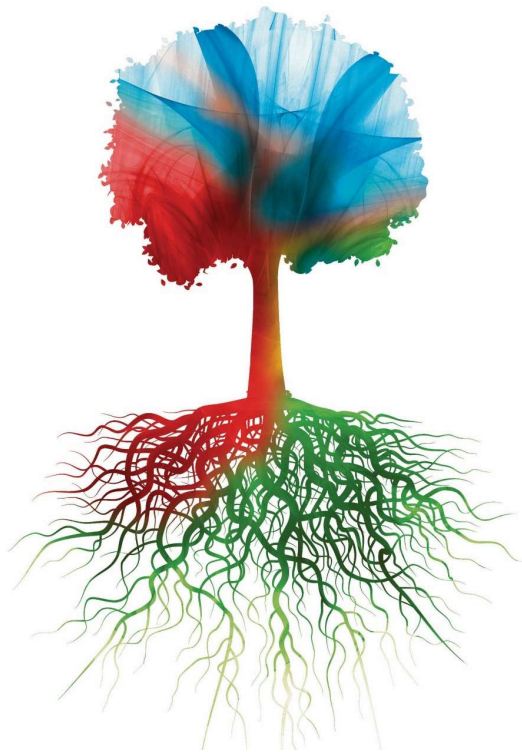
How to set the stage for effective cultural integration



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Culture and Climate (examples)

Important to understand both



Climate (Perceptions & Attitudes)

Clarity of Mission

Strategy/Goals

Management Actions

Involvement

Teamwork

Engagement

Perks/Benefits

Satisfaction/Motivation

Culture (Norms / Expectations)

Take on Challenging Tasks

Never Make a Mistake

Know the Business

Don't Rock the Boat

Proactively Share Ideas

Point Out Flaws

Plan Ahead

Push Decisions Upwards

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What is Culture?

Going beneath the surface of the behavior we see

System of shared **VALUES AND BELIEFS** that can lead to **BEHAVIORAL NORMS** that guide the way people in an organization approach their work, interact with others, and solve problems.

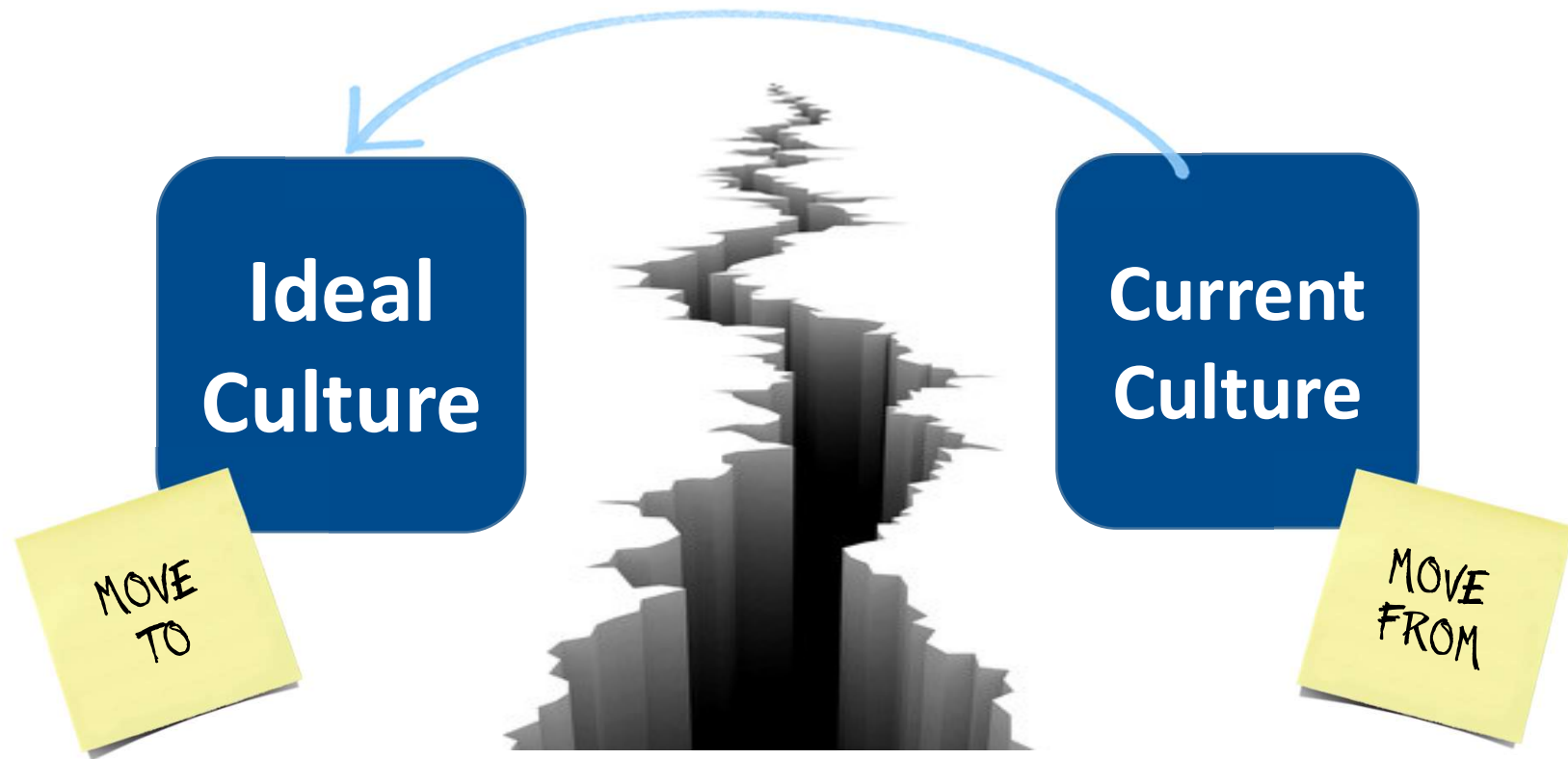
“The way we are **EXPECTED** to do things around here”



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The Culture Chasm

Connecting culture and performance improvement



Three Categories of Values & Norms

Language and measurement for culture

Constructive

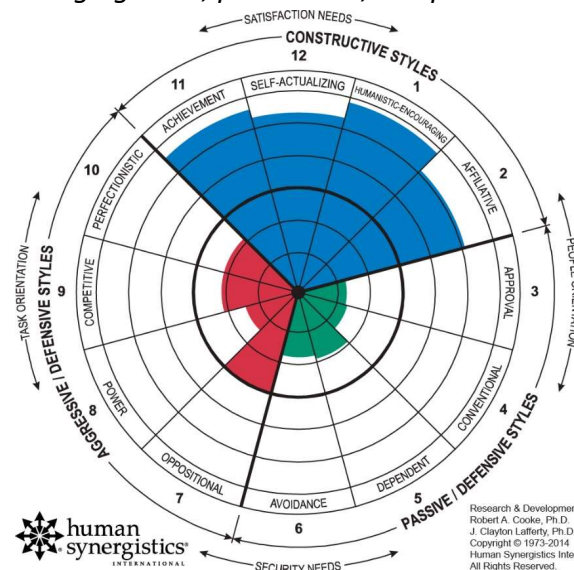
Cultures promote effective goal setting, growth and learning, **creativity**, and collaboration.

Examples: take on challenging tasks, plan ahead, cooperate with others, encourage others

Aggressive/Defensive

Cultures lead to internal competition, the use of force, and setting unrealistically high goals.

Examples: compete rather than cooperate, oppose new ideas, use authority of one's position, never make a mistake



Passive/Defensive

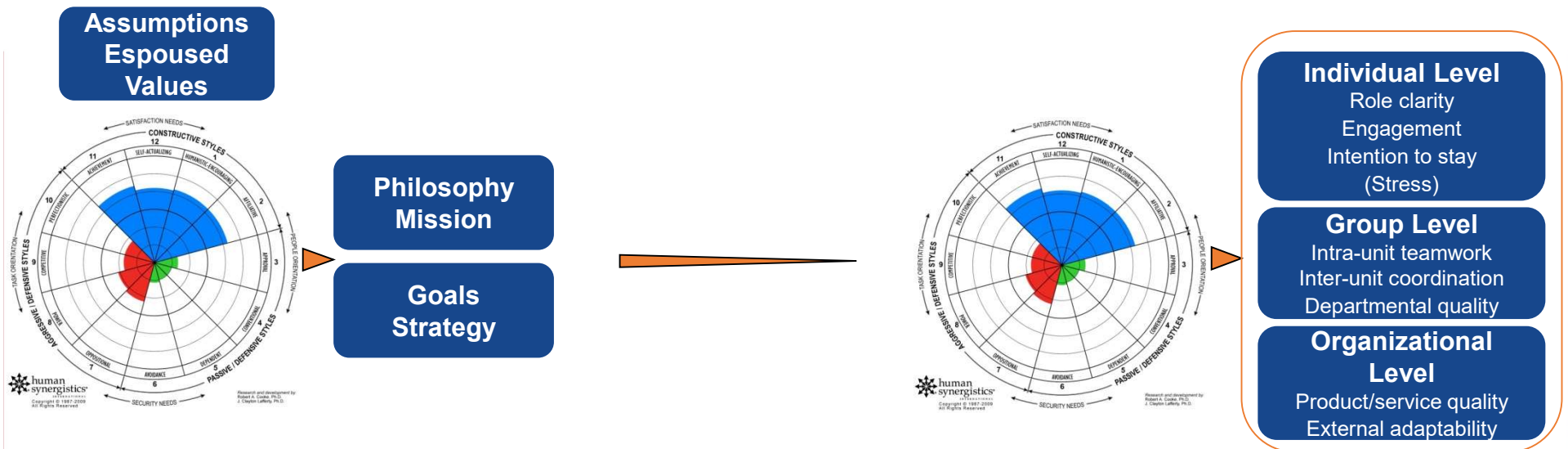
Cultures lead to conformity and rigidity and curtail initiative and accountability.

Examples: accept the status quo, make popular rather than necessary decisions, never challenge superiors, don't rock the boat

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How Culture Works Model

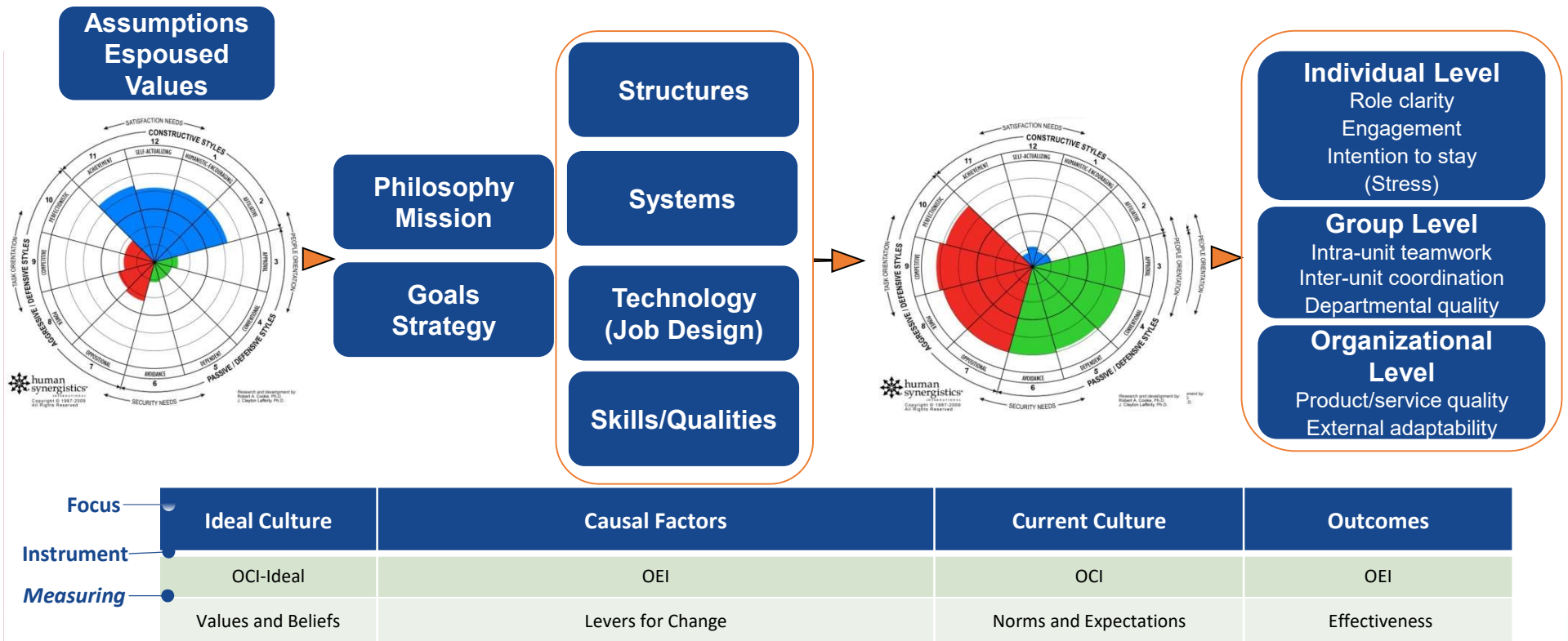
In Theory



Focus	Ideal Culture	Causal Factors	Current Culture	Outcomes
Instrument	OCI-Ideal	OEI	OCI	OEI
Measuring	Values and Beliefs	Lever for Change	Norms and Expectations	Effectiveness

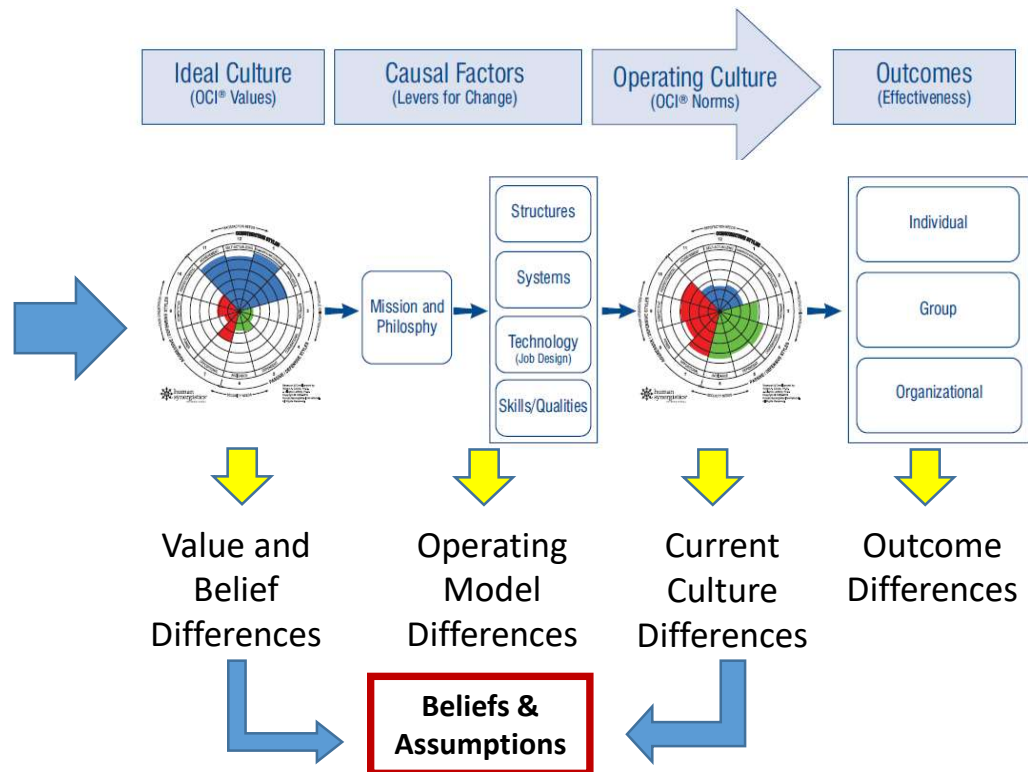
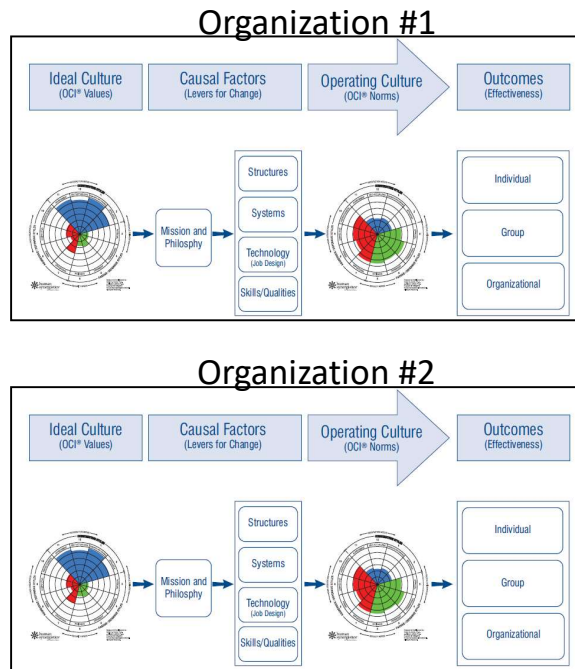
How Culture Works Model

In Practice



M&A Culture Complexity

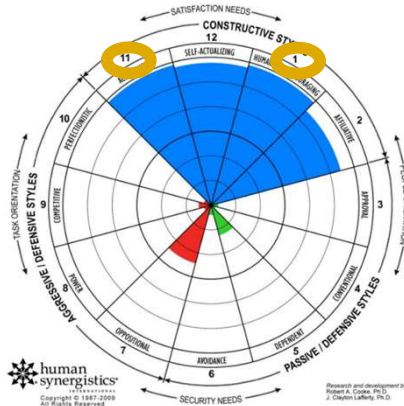
Identify similarities and differences



Culture and Climate Survey

OCI Ideal & Current Culture Example

2020 Ideal Culture



11

Primary Style is **Achievement**

People are Expected to:

- Pursue a standard of excellence
- Know the Business
- Think ahead and plan

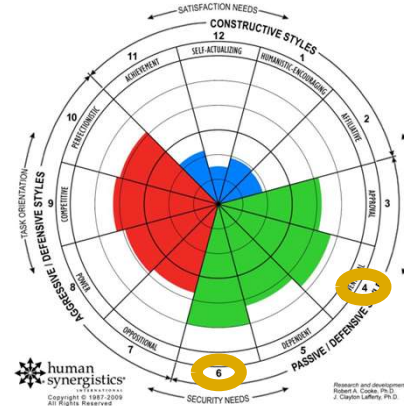
1

Secondary Style is **Humanistic-Encouraging**

People are Expected to:

- Help others grow and develop
- Resolve Conflicts constructively
- Be a good listener

2020 Current Culture



6

Primary Style is **Avoidance**

People are Expected to:

- Push decisions upward
- Make "popular" rather than necessary decisions
- Take few chances

4

Secondary Style is **Conventional**

People are Expected to:

- Always follow policies and practices
- Make a "good impression"
- Not "rock the boat"

Organizational Effectiveness Inventory®

Measuring Outcomes

Organizational

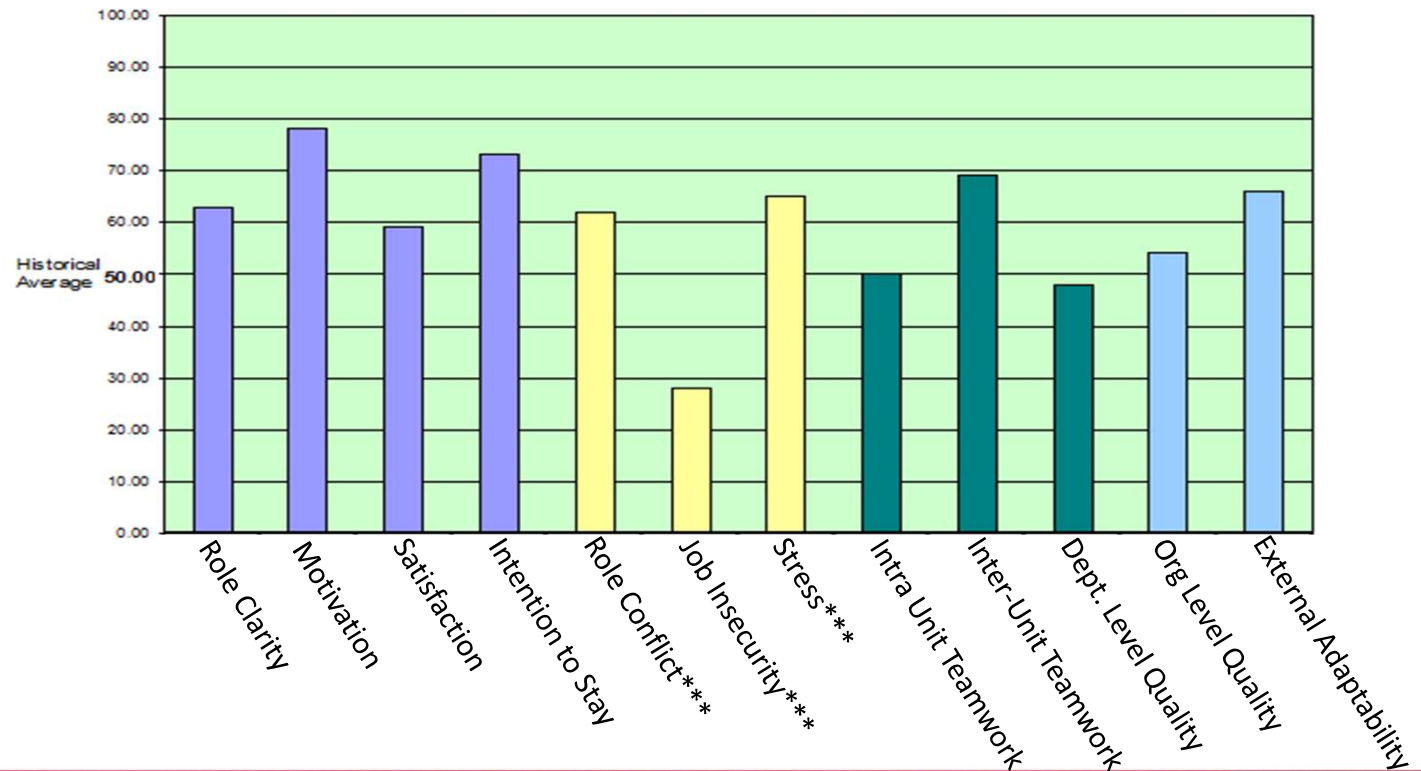
Org-level Quality
Customer Service Quality
External Adaptability

Group

Teamwork
Inter-unit Coordination
Unit-level Quality

Individual

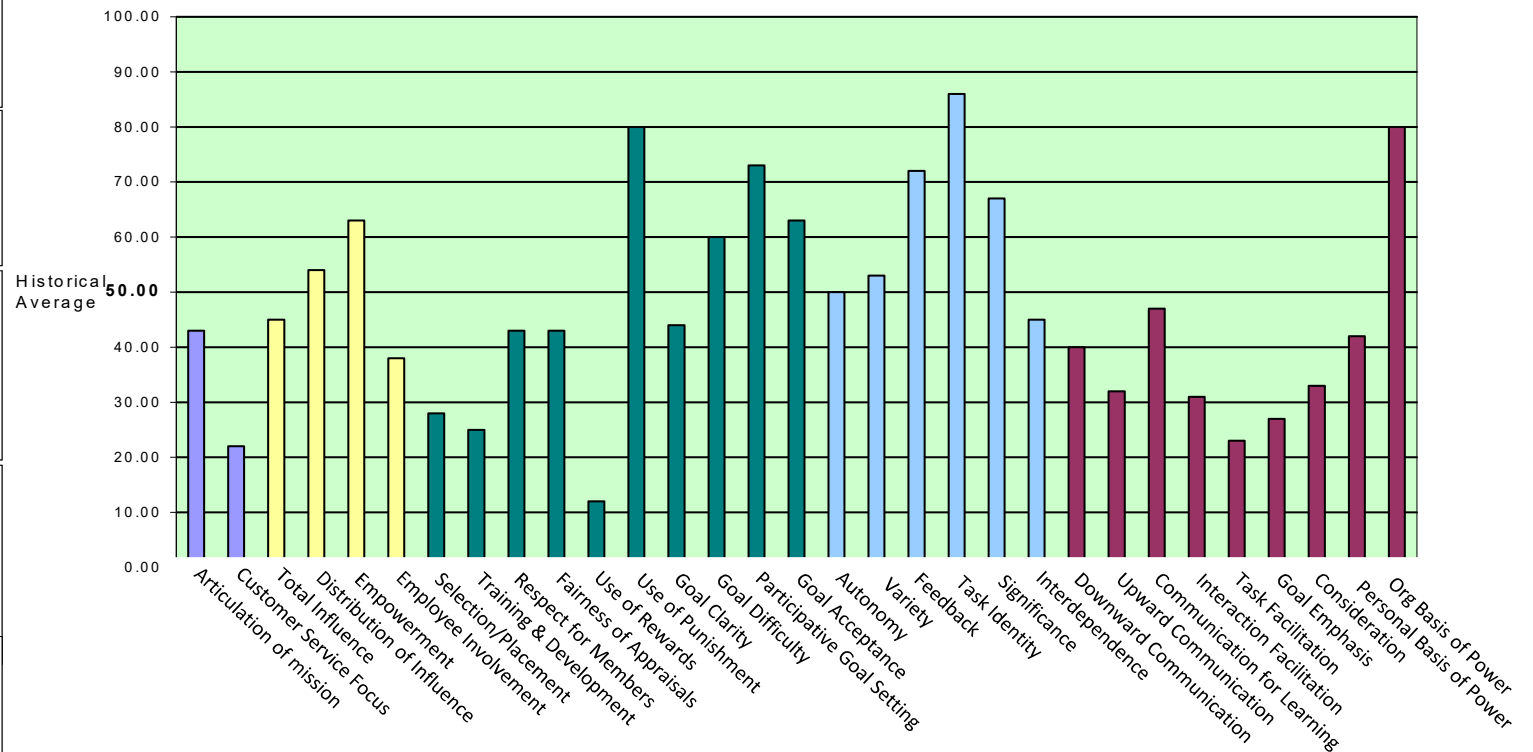
Motivation
Performance
Satisfaction
Stress



Organizational Effectiveness Inventory®

Measuring Causal Factors

Mission / Philosophy Articulation of Mission Customer Service Focus
Structures Empowerment Employee Involvement Influence
Systems Selection & Training Respect for Members Appraisals & Rewards Goal setting
Technology (Job Design) Autonomy, Variety, Feedback Significance Interdependence
Skills/Qualities Leadership Communication Bases of Power



Culture Fundamentals

Culture Is Shared

**Culture is built through
shared learning & mutual experience.**

**Culture is transmitted through
climate factors, including observed behaviors.**

Source: Human Synergistics (Robert Cooke) & Organizational Culture and Leadership Institute (Edgar Schein)

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Integration Example #1

Connecting Culture, Integration & Results

- Large retailer integrating to spread geographic reach and implement new store model across all locations
- Utilized OCI-OEI in combination with qualitative assessment (interviews & focus groups)
- Results were used as an input to:

Utilize the Ideal Culture results to inform purpose and customer value proposition

Defining a clear “FROM-TO” shift for the combined organization

Refine plans for engaging team members in the #1 financial priority: implementation of a new store model

Understand strengths & weaknesses as an input to integration workstreams

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Example M&A FROM-TO

Define From-To Culture Shift

From
↓ Defensive Style ↓

Initial Draft

To
↑ Constructive Style ↑

Common language description:

**Us versus Them;
“conversion”**

- Avoid confrontation;
play politics

Specific Behaviors:

1. Question decisions and challenge others
2. Blame others and point out flaws
3. Win at all costs, showing off how good we are

Common language description:

**One Team - One Plan; the whole
is greater than the sum of the
parts**

- Healthy candid debate and rally around
decisions

Specific Behaviors:

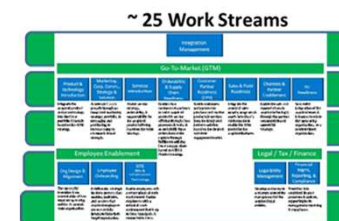
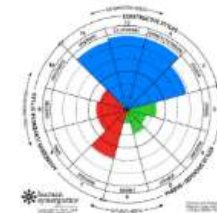
- Proactively engage people in design of the change,
1. problem solving and decision making process
 2. Assume positive intent; seek to understand
Recognize competencies and best practices; be open to
 3. learning and sharing (as an outcome)

Integration Example #1

Three parallel improvement paths

Use Culture to Accelerate Success

1. Use **culture roadmap process** to support business results with a key strategic priority / value driver
2. **Leverage ideal culture development** (purpose, customer value prop, behaviors, etc.) as opportunity to build culture through involvement
3. **Use culture findings** in integration work streams
 - Refine approach to integration management (based on culture results)
 - Refine systems and processes with a high impact on culture (based on climate results)



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Integration Example #2

Connecting Culture, Integration & Results

- Organization #1 completed detailed qualitative assessment and the full OCI-OEI. Organization #2 recently completed an engagement survey and needed a revised approach to understand culture
- The culture assessment results for Org. #1 and a qualitative assessment of Org. #2 were used to populate comparison templates for a series of integration meetings with both organizations.

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Culture Integration Meetings (Integration Example #2)

General Structure

- Define significant culture similarities and differences across Org 1 and Org 2, including potential culture flashpoints that may undermine effectiveness.
- Identify how similarity and difference summary will be shared with guidance to leaders and integration teams on effective team approaches.
- Compare culture development approaches for Org 1 and Org 2. Agree on combined approach for the new combined organization.
- Identify the most significant next steps, new or in-progress, to finalize and implement the combined culture development with an emphasis on culture integration priorities.



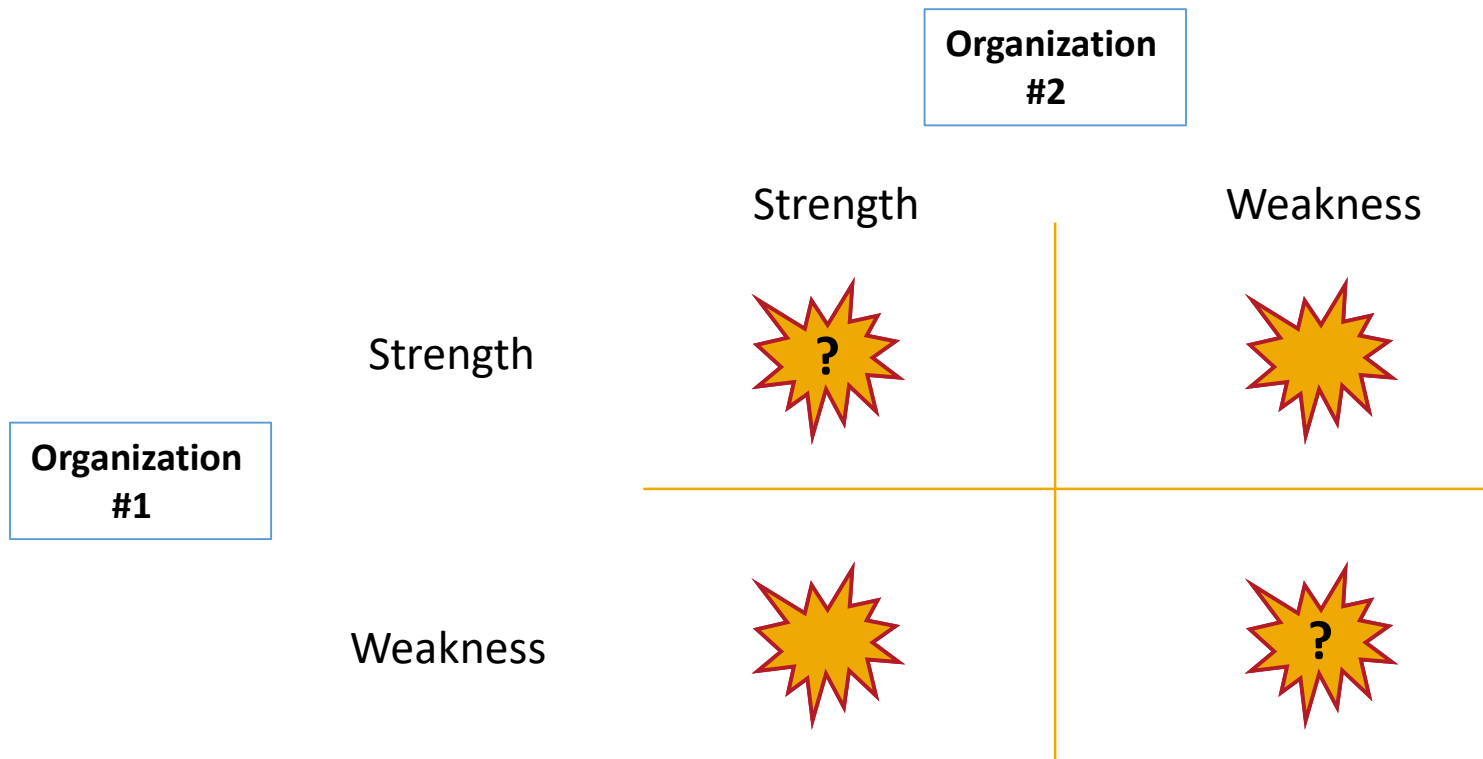
= potential culture flashpoint



= culture integration priority

Flashpoints (Integration Example #2)

No absolutes – team input is needed



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Culture Integration

Connecting Culture, Integration & Results

1. Utilize the Ideal Culture results to **support development of a common vision, purpose and values**
2. Utilize the Current Culture results to **identify potential culture “flashpoints” and plans to mitigate them** overall, in sub-groups and in integration meetings
3. Utilize the Current Climate results to **identify strengths and weaknesses in systems, structures and leadership approaches** as an input to integration workstream/team plans.
4. Utilize the combined Culture & Climate results to support **refinement of plans to effectively engage leaders and team members in top integration priorities** to drive learning and results.
5. **Baseline the Current Culture** as a foundation for pulse surveys or full remeasures to **track how the culture is evolving.**

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Merger Integration: Perspectives, Tools and Approaches



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Objectives

- Share perspectives on culture and M&A
- Introduce an M&A framework and common tools
- Discuss lessons learned and best practices
- Answer questions you may have

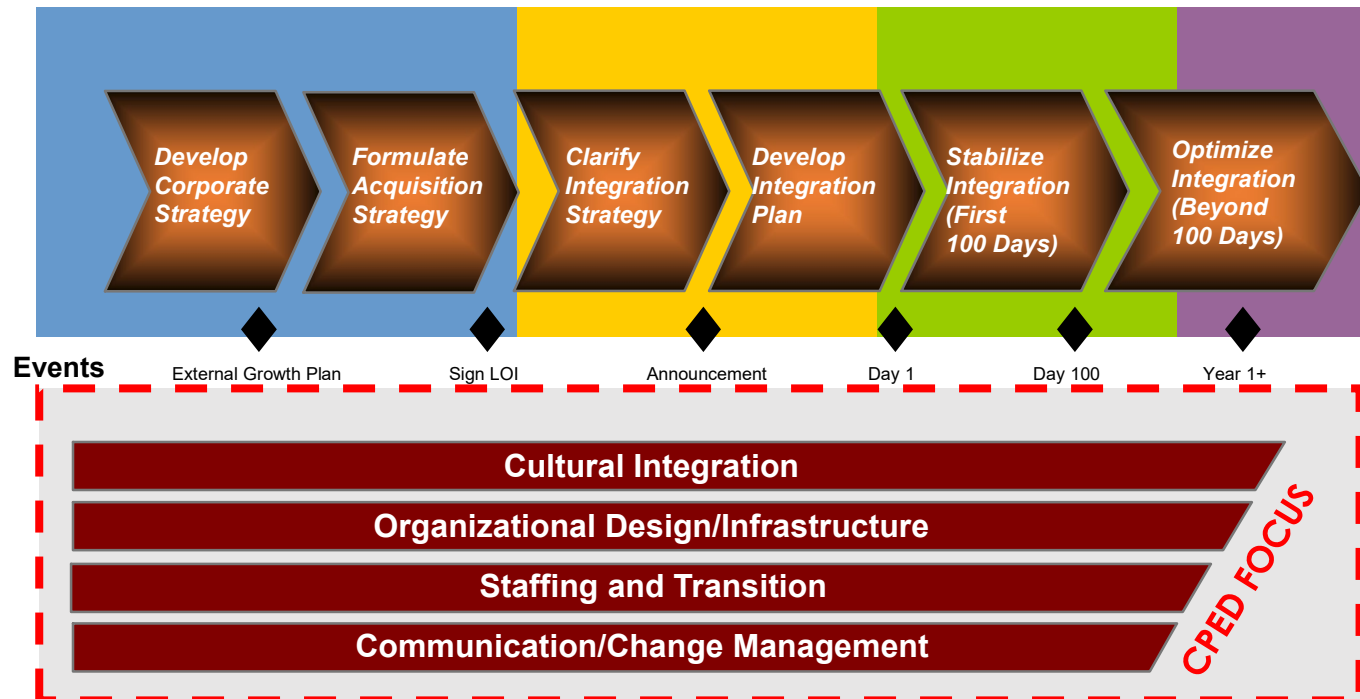


Ten Common Reasons Why Mergers and Acquisitions Fail

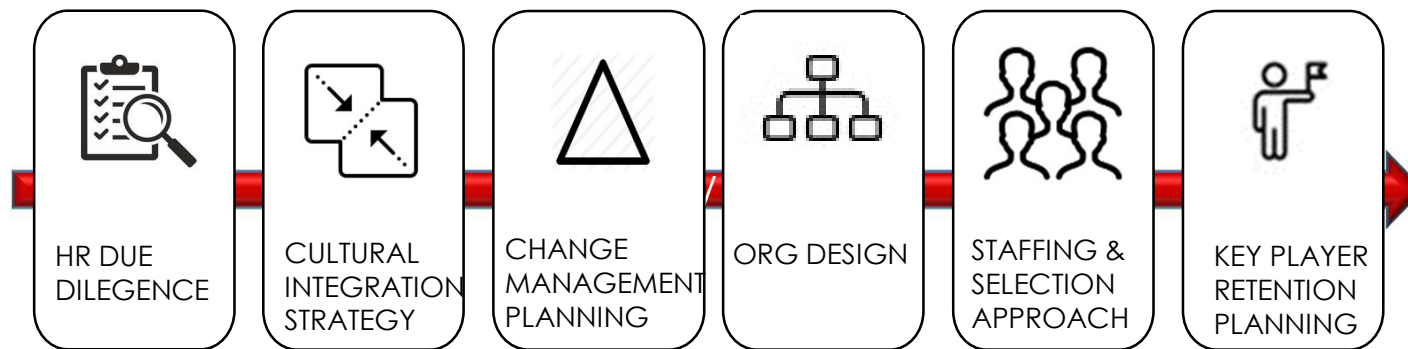
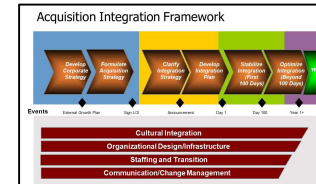
- Poor cultural fit
- Failure to maintain focus on customer
- Overestimation of synergies
- Inadequate or untimely communication
- Lack of vision
- Inability to articulate direction of path forward
- Loss of momentum or focus
- Flight of talent
- Inadequate emphasis on speed
- Lack of cohesive leadership team



Acquisition Integration Framework



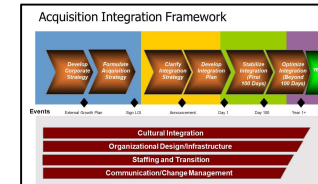
Key Tools and Approaches for Merger Integration



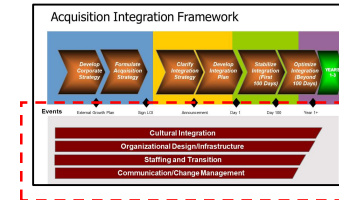
HR Due Diligence



- Identify HR due diligence team
- Identify key stakeholders to interview
- Identify data/documentation to gather
- Complete HR due diligence checklist
- Conduct cultural assessment
- Compile results with recommendations
- Are there any deal breakers?



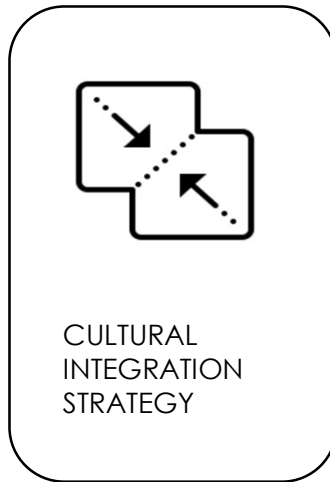
HR Due Diligence Checklist



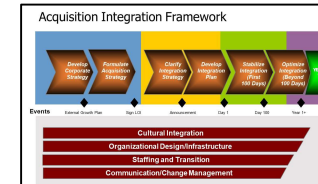
HR Due Diligence Checklist:

- Detailed list of data gathering items to consider in merger due diligence including **cultural assessment**, org charts, compensation and benefits plans, contracts, HR Policies, succession plans, etc.
- "Side by Side" Format

Cultural Integration Strategy



- Assess cultural environment using cultural profile tool (e.g., OCI) - often done as part of due diligence
- Compare and explore commonalities/differences
- Identify cultural barriers/enablers and gaps to close
- Choose a Cultural Integration Strategy



Cultural Integration Strategy

Cultural Integration Strategies



Three Types

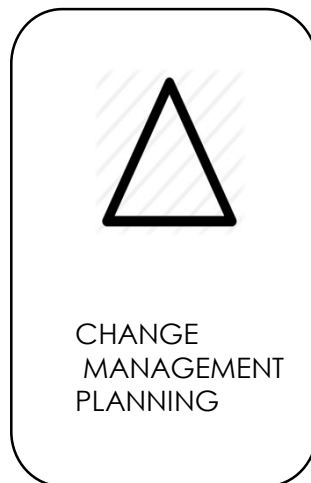
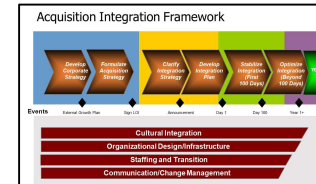
- | | |
|---------------|--------------------------|
| • Blended | “Combined Strengths” |
| • Assimilated | “One replaces the other” |
| • Pluralistic | “Both stay separate” |

- A Key Step in successfully addressing the people-side of merger integration is the selection and deployment of the appropriate **Culture Integration Strategy**.
- To determine the type that will best support the achievement of your combination goals, you must explore the intentions, beliefs, behaviors, and outcomes of both organizations involved.

Cultural Integration Leading Practices Checklist

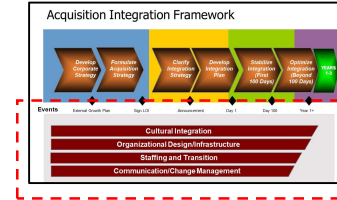
- ✓ Selection of appropriate **Cultural Integration Strategy**
- ✓ Cultural gaps and differences are **identified and addressed early**
- ✓ Executive Leadership **understands the role of culture & change** and their role in creating it
- ✓ **A shared vision** of the new organization has been created and communicated to all employees with clear goals, roles and responsibilities defined
- ✓ **A two-way communication process** has been developed and implemented to disseminate organization-wide information
- ✓ Avenues exist for employees to **share ideas, cultural differences and learn**
- ✓ Level of appreciation and understanding of **each organization's history, values and work routines**
- ✓ Thoughtful design and implementation of an **organizational change strategy**
- ✓ **Continual measurement** of key people -performance metrics and change management measures
- ✓ **Leaders model** and reinforce appropriate cultural behaviors

Change Management Planning



- Establish **Merger Guiding Principles**
- Conduct a **Stakeholder Analysis**
- Develop and implement **communications plan**
- Conduct Change Risks/Barriers Analysis and Mitigation Plans
- Offer executive communication coaching
- Routinely evaluate the effectiveness of communications and change management via Pulse Surveys

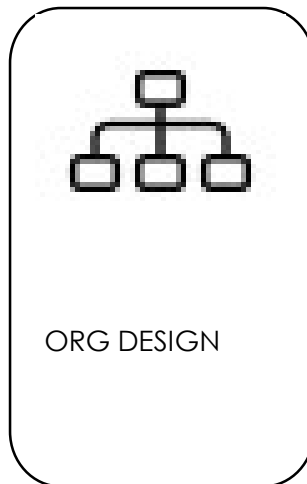
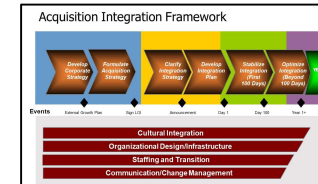
Stakeholder Analysis Tool

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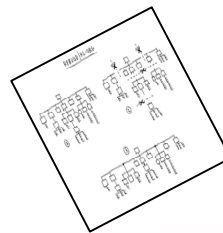
Stakeholder Analysis:

- Identifies who is being impacted by the merger and level of impact, specific concerns and risks, commitment level, communication needs, and risk mitigation plan
- It is the “DNA” of any merger “people planning”
- Typically assigned to Change Agent Network

Organizational Design

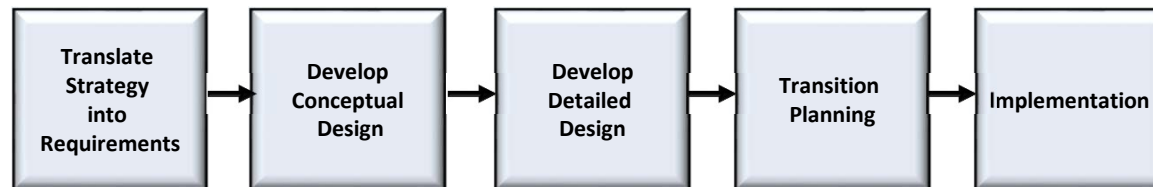
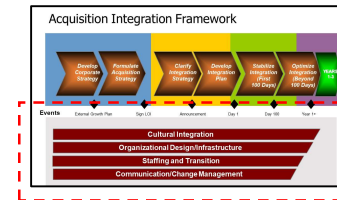


- Align on **Organizational Design Principles**
- Develop functional organizational design to meet requirements of new organization
- Determine number of new positions required and number of redundant positions
- Determine **Spans of Control**
- Identify job roles/responsibilities and required skills for new positions
- Identify critical skills for retention purposes

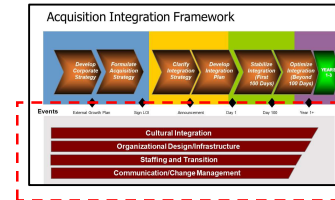


Not back of the napkin!

Approach to Strategy and Structure Alignment in a Merger

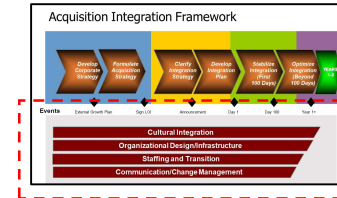


Organizational Design Checklist



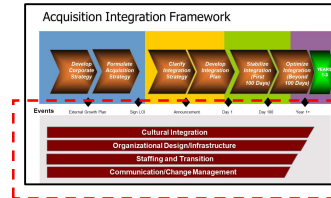
- ✓ What is the Merger Strategy?
- ✓ What **organizational design principles** should we use?
- ✓ Will similar functional units of the two merged companies be combined or allowed to operate separately?
- ✓ If similar units will be combined, what is the correct organization structure for the combined unit? Will similar functional units be combined all at once or over time?
- ✓ How will L-1 and L-2 roles be staffed? Appointed? Posted? External?
- ✓ How large should the combined functional units be to support the newly merged company?
- ✓ What is the preferred **spans of control** in the new company?
- ✓ How many organizational layers will the new company have?
- ✓ Are there any new functional units that need to be created to support the new vision and strategy?
- ✓ Does the merger present the opportunity to move toward innovative organization arrangements such as self-managed teams?

Organizational Design Principles



- List of Org Design Principles
- Administered via survey
- Execs rank order importance to post-merger future state model
- Generates a scorecard that prioritizes most critical design principles to evaluate operating models/org structures

Spans of Control Evaluation

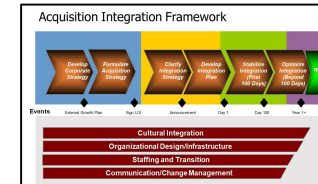


SPAN OF CONTROL EVALUATION TOOL		
DEPARTMENT: _____		CURRENT STATE SOC RATIO: _____
NARROW SPAN		
CRITERIA		EVALUATION
Nature of the Jobs	Highly Complex/Non-Routine	←
Managerial/Supervisory Experience	Limited Experience	←
Experience/Skill Level of Employee Base	Limited Experience	←
Geographic Dispersion	Multiple Locations/Geography	←
Degree of Change within Department	Large Scale	←
Interaction Required by Manager/Supervisor and Employee Base	Heavy Interaction	←
Maturity of Department	Early Growth	←
Administrative Requirements of Managers/Supervisors	Heavy Admin Burden	←
OTHER		←
OVERALL		←
Recommended SOC Ratio: 1 : _____		

- Customized Tool that profiles the department across a series of factors including, but not limited to:
 - Nature of work
 - Manager Experience
 - Employee Skills
 - Geographic Dispersion
 - Degree of Departmental Change
 - Departmental Maturity
 - Supervisory Interaction
 - Administrative Requirements
 - Other
- Allows for data-driven, fact-based, and directionally correct point of view on width of span of control (versus one size fits all)
- Administered through a facilitated session and/or interviews

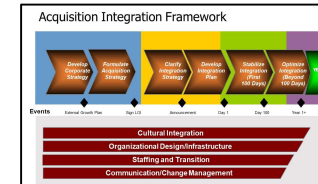
Spans of Control Evaluation Tool

Staffing & Selection Approach



- Develop a **standardized staffing and selection approach** (e.g., position classification)
- Use a consistent approach to interviewing and filling roles in the Newco
- Conduct interviewer training on standardized interviewing
- Design job posting processes

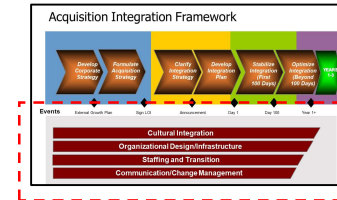
Key Player Retention Planning



KEY PLAYER
RETENTION
PLANNING

- Key player identification/assessment (**Key Retention Matrix**)
- Communication planning
- Design retention contracts (if necessary)
- Short and long-term strategies

Key Player Retention Matrix Tool

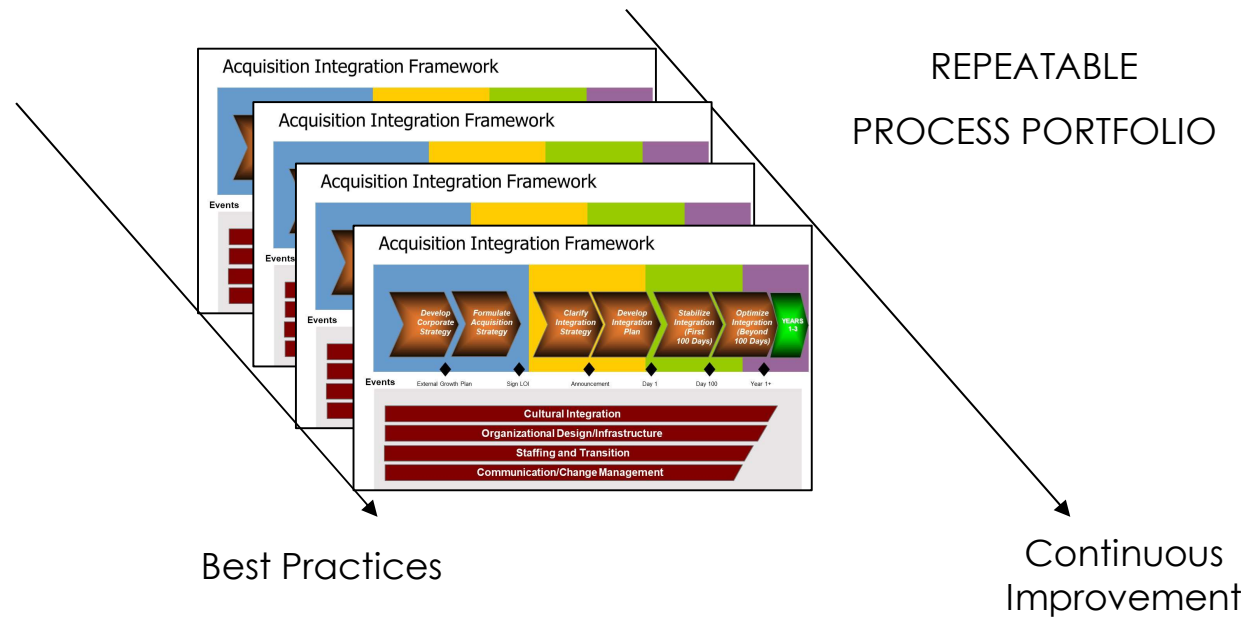


KEY PLAYER	FLIGHT RISK (1 LOW-5 HIGH)	WHY KEY?/IMPACT ON ORGANIZATION	POTENTIAL REASONS FOR DEPARTING	DIFFICULTY TO REPLACE (1 LOW-5 HIGH)	STAFF/STAKEHOLDERS IMPACTED MOST IF THEY DEPART	KEY SUCCESSOR(S)	MITIGATION PLAN
NAME	2			4			
NAME	3			2			
NAME	2			4			
NAME	3			4			
NAME	2			3			
NAME	4			3			
NAME	2			2			
NAME	4			2			
NAME	3			4			
NAME	3			3			

Key Player Retention Matrix:

Framework for identifying Key People, Retention Flight Risk Level, Difficulty to Replace, Impact of Departure on Others, Immediate Successor(s) and Action Plan for Retaining

Goal of Successful Merger Integration: Building a Repeatable Acquisition Integration Footprint



Ten Factors that Drive Successful Mergers

- ✓ *Establish an Integration Management Office (IMO)*
- ✓ *Define "Merger Guiding Principles" up front – sets direction*
- ✓ *Define your success measures up front*
- ✓ *Never overlook the importance of cultural alignment and integration*
- ✓ *Build a comprehensive Change Management Plan*
- ✓ *Make people-related announcements as quickly as practical*
- ✓ *Use tools and methodologies for managing merger programs and activities*
- ✓ *Set 'tight' goals and timelines*
- ✓ *Don't appoint two people to run a single function*
- ✓ *Develop a strategy to retain key employees*



Q&A



Thank You

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