

# Culture: The Key to Successful Mergers & Acquisitions

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# Panelists



Alysun Johns



Tom O'Rourke

# How Culture Works

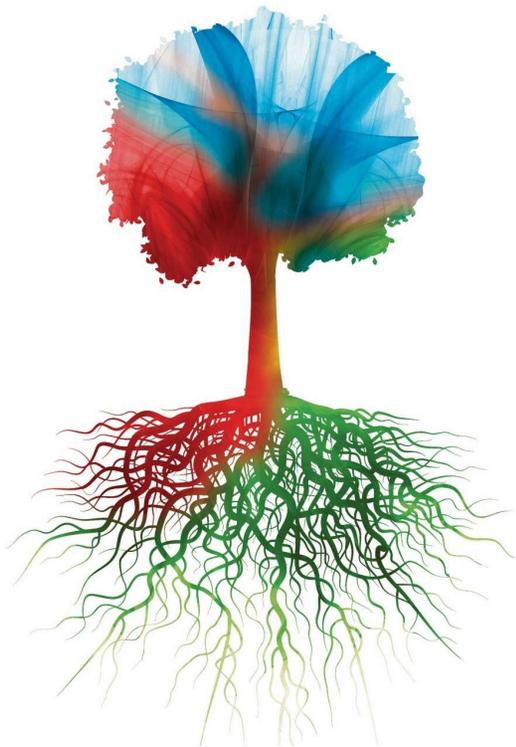
How to set the stage for effective cultural integration



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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.

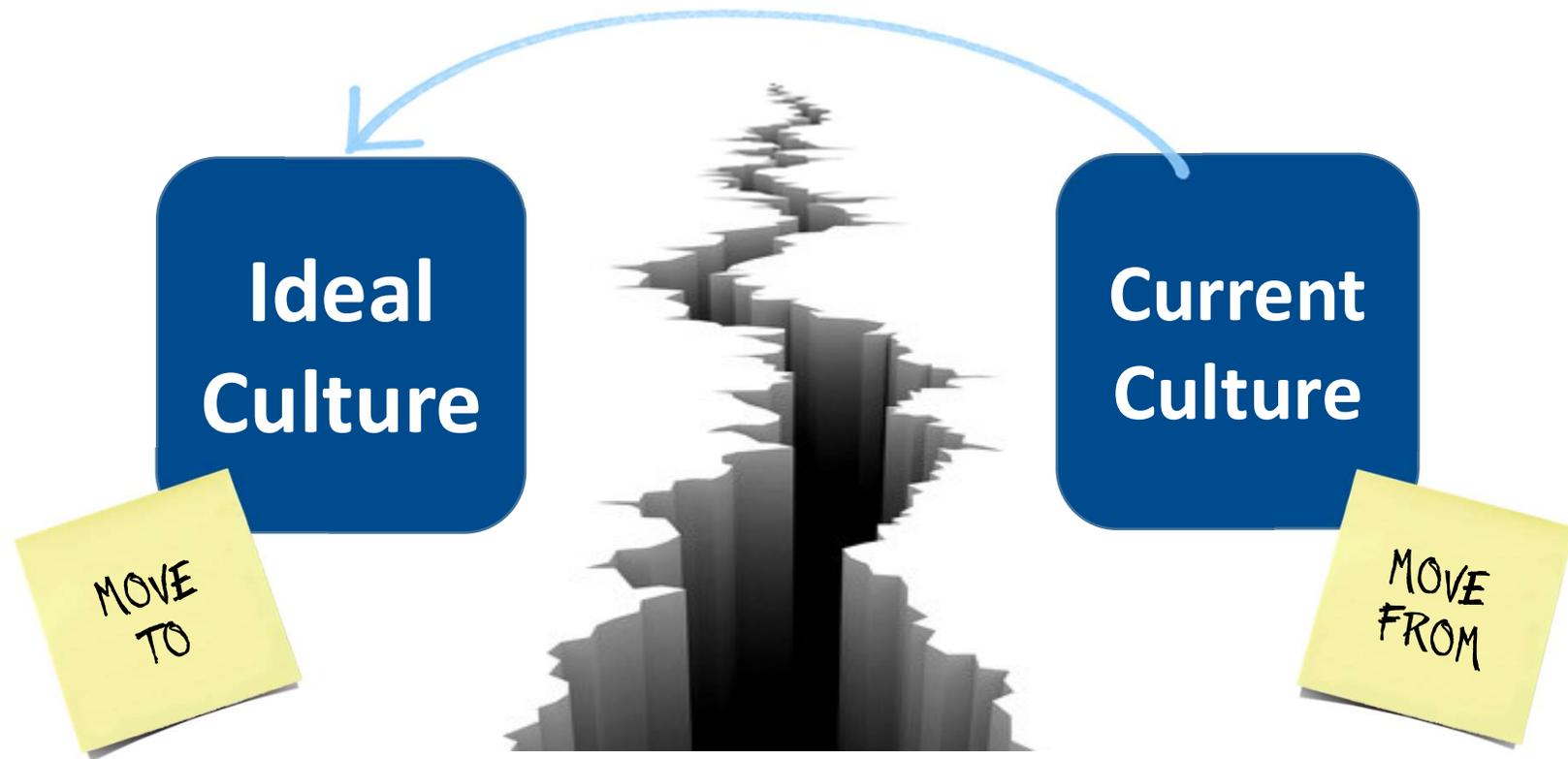
“The way we are **EXPECTED** to do things around here”



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# The Culture Chasm

Connecting culture and performance improvement



# Three Categories of Values & Norms

Language and measurement for culture

## Constructive

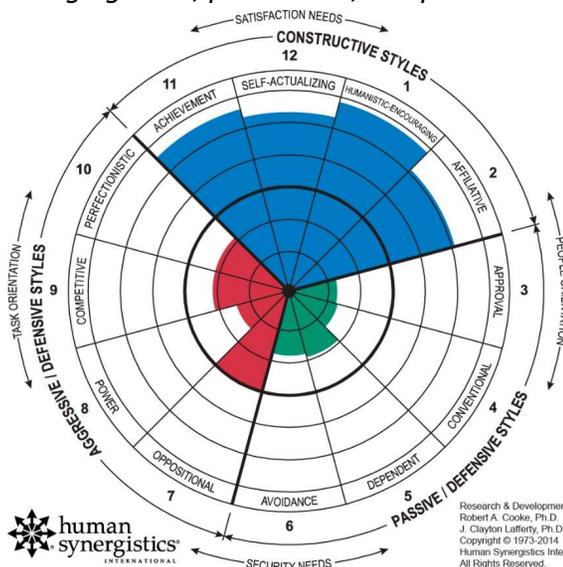
Cultures promote effective goal setting, growth and learning, **creativity**, and collaboration.

*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

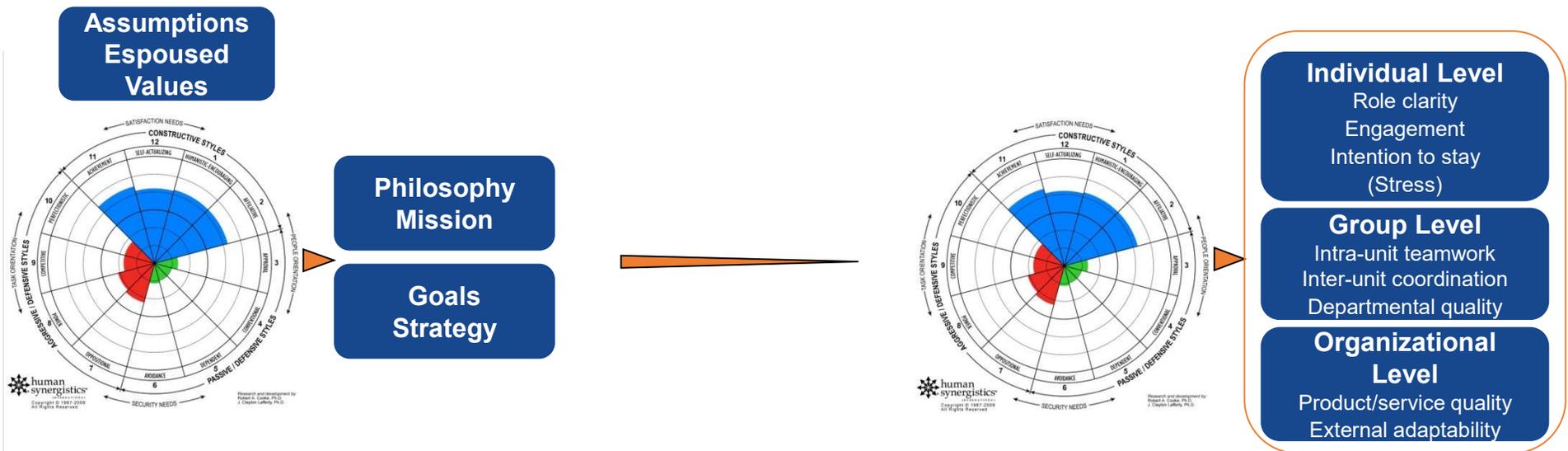
Cultures lead to conformity and rigidity and curtail initiative and accountability.

*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

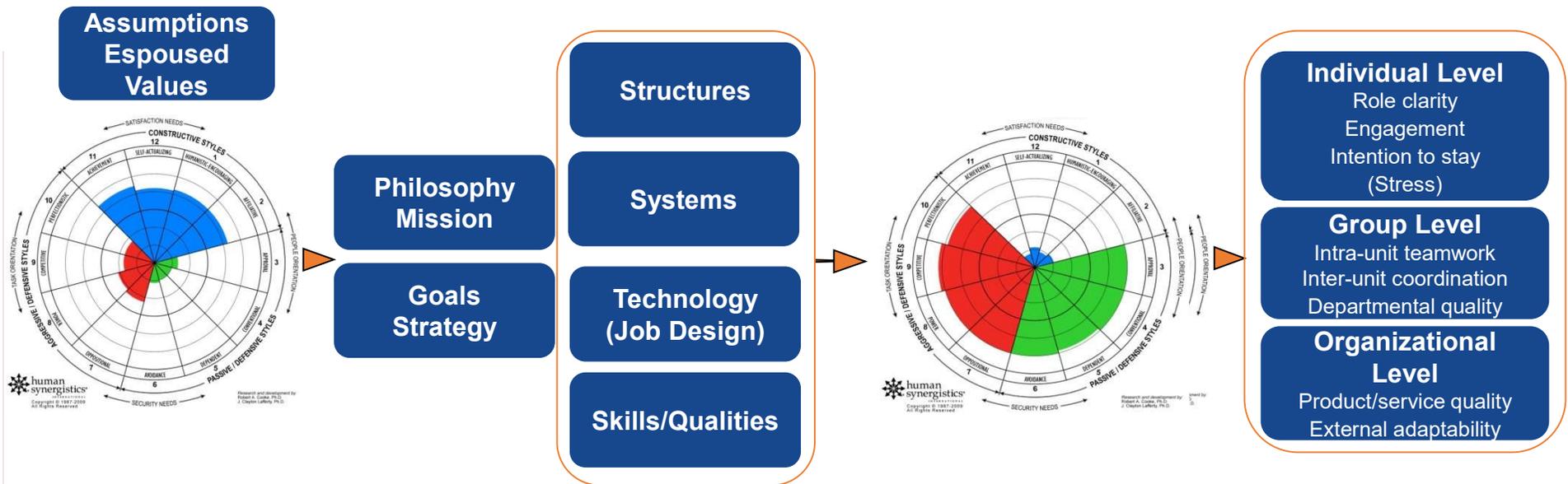
## In Theory



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

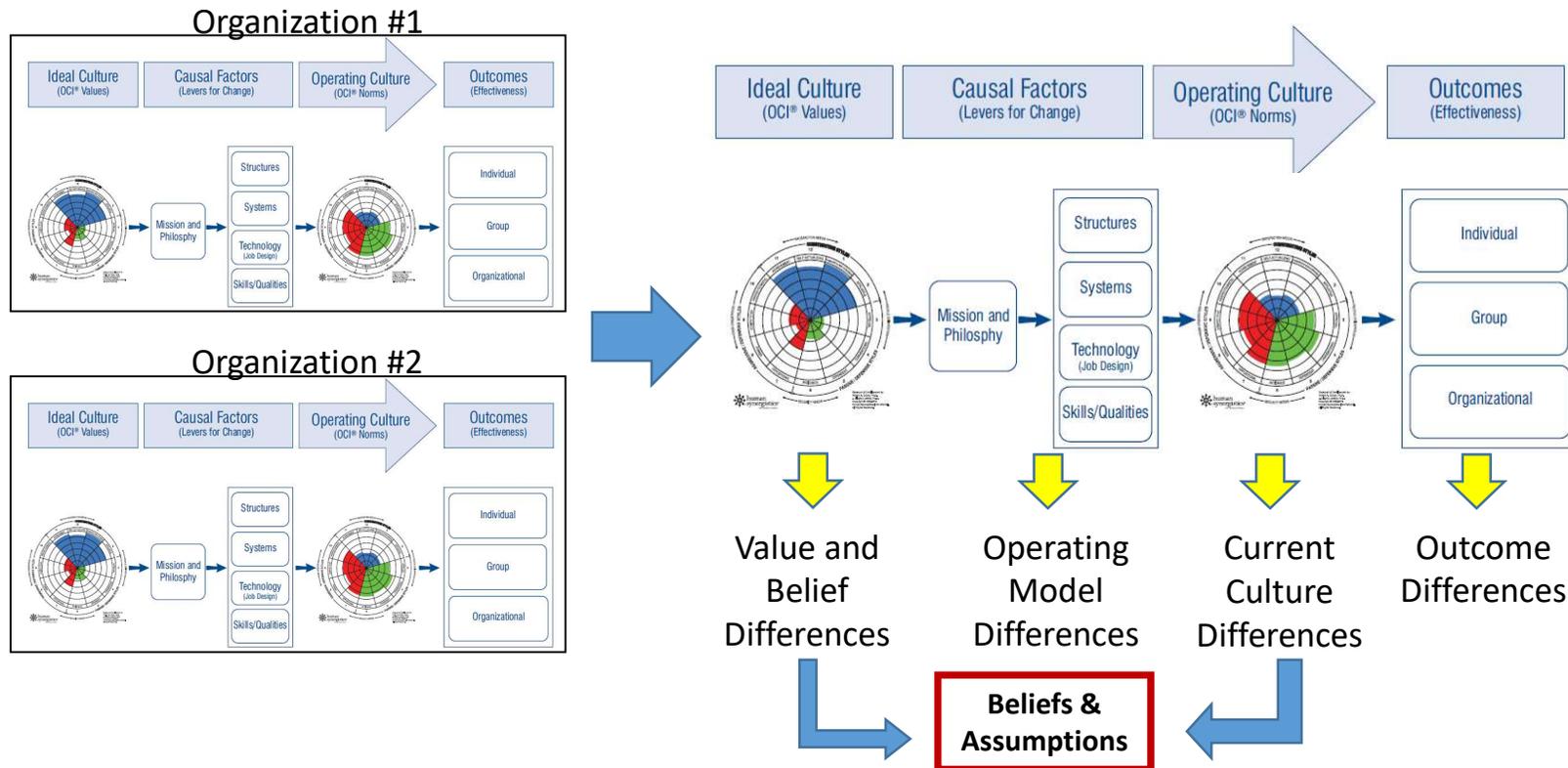
## In Practice



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

# M&A Culture Complexity

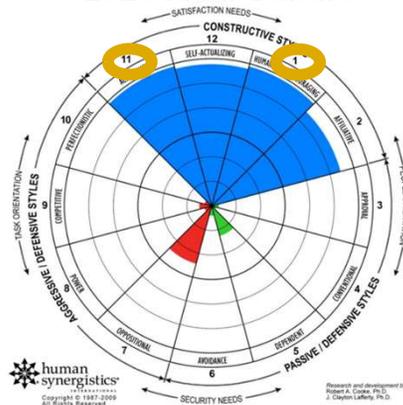
Identify similarities and differences



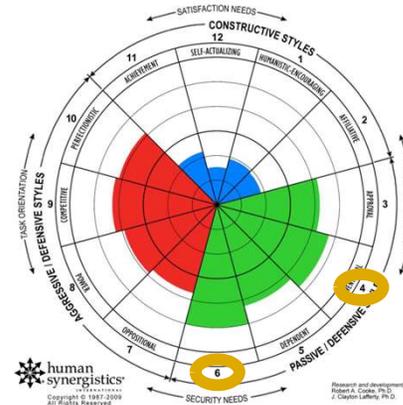
# Culture and Climate Survey

## OCI Ideal & Current Culture Example

2020 Ideal Culture



2020 Current 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

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”

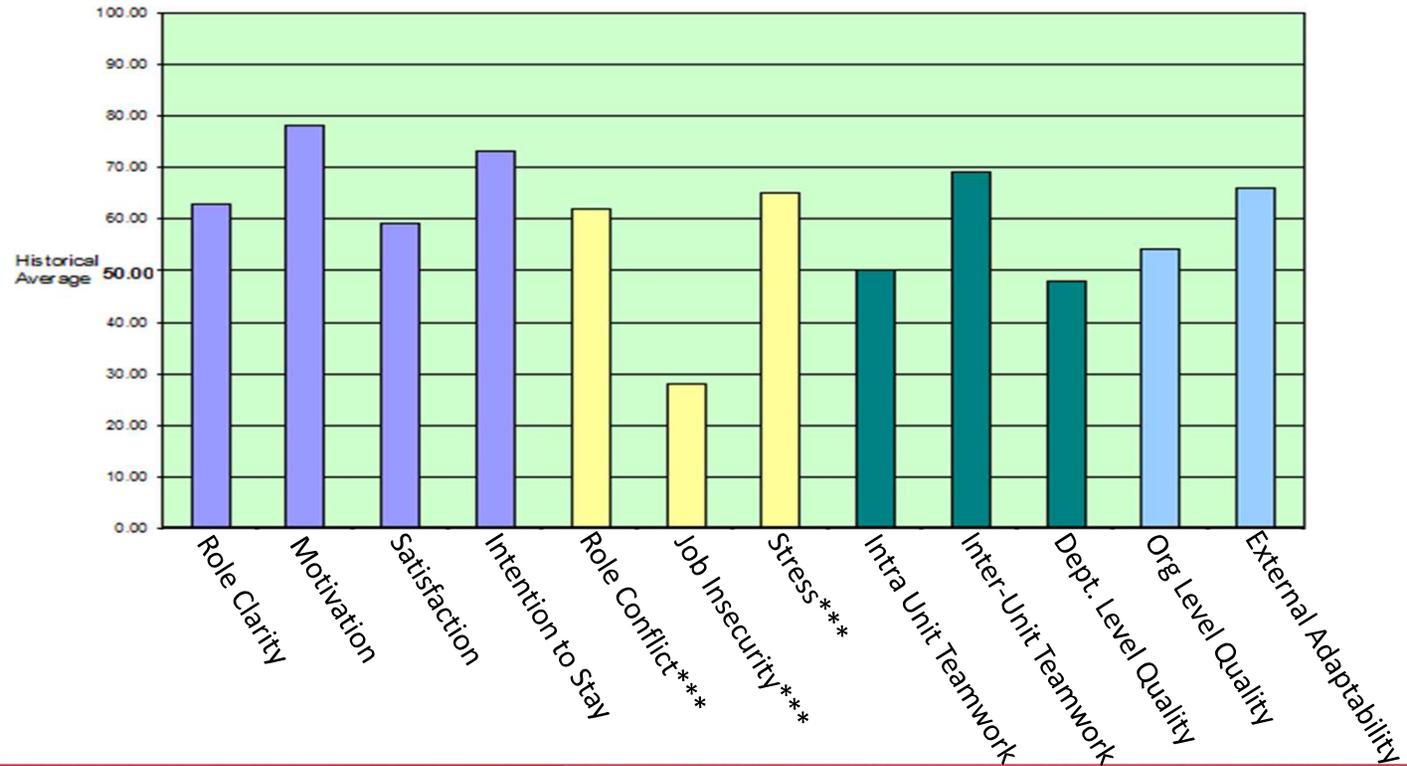
# Organizational Effectiveness Inventory®

Measuring Outcomes

**Organizational**  
 Org-level Quality  
 Customer Service Quality  
 External Adaptability

**Group**  
 Teamwork  
 Inter-unit Coordination  
 Unit-level Quality

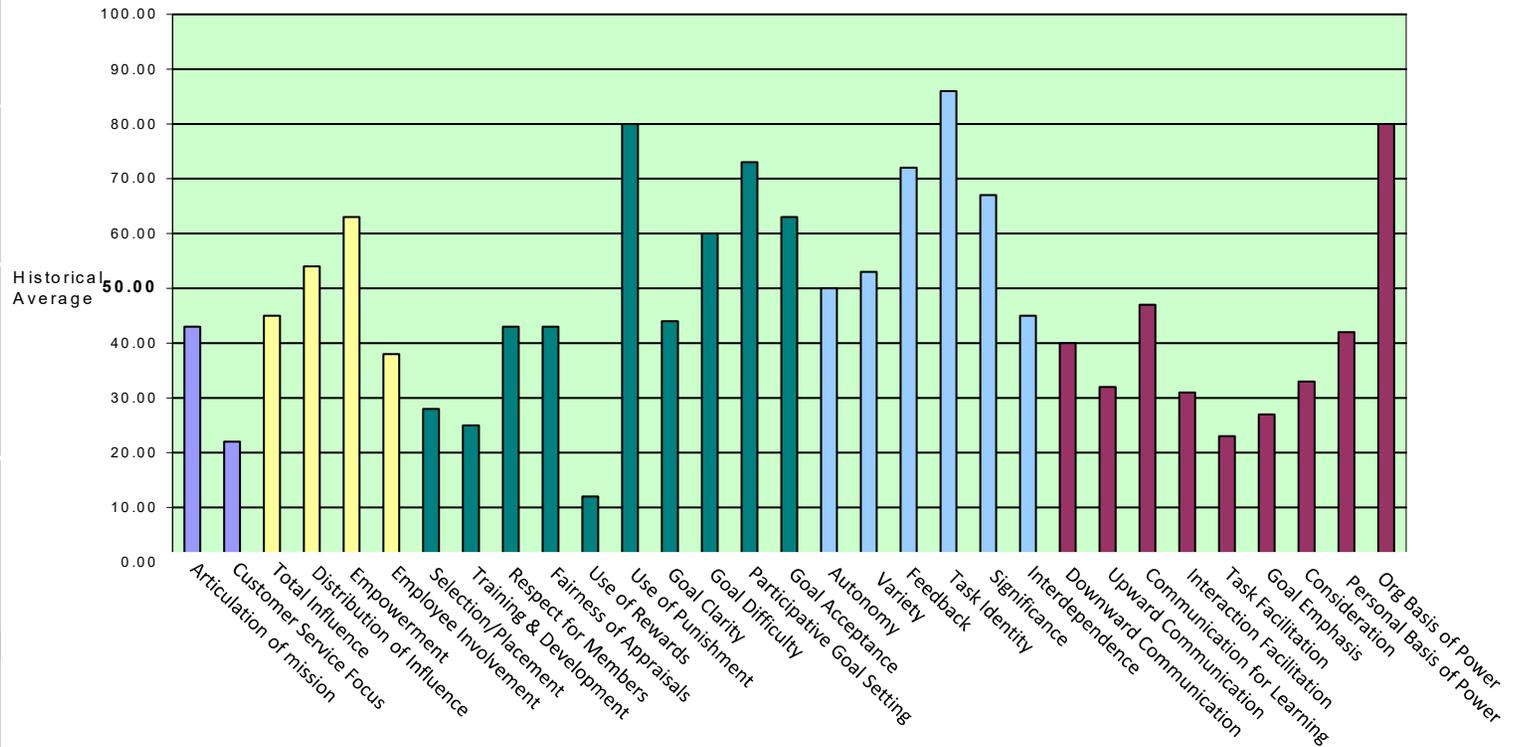
**Individual**  
 Motivation  
 Performance  
 Satisfaction  
 Stress



# Organizational Effectiveness Inventory®

Measuring Causal Factors

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

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:

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

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 #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.



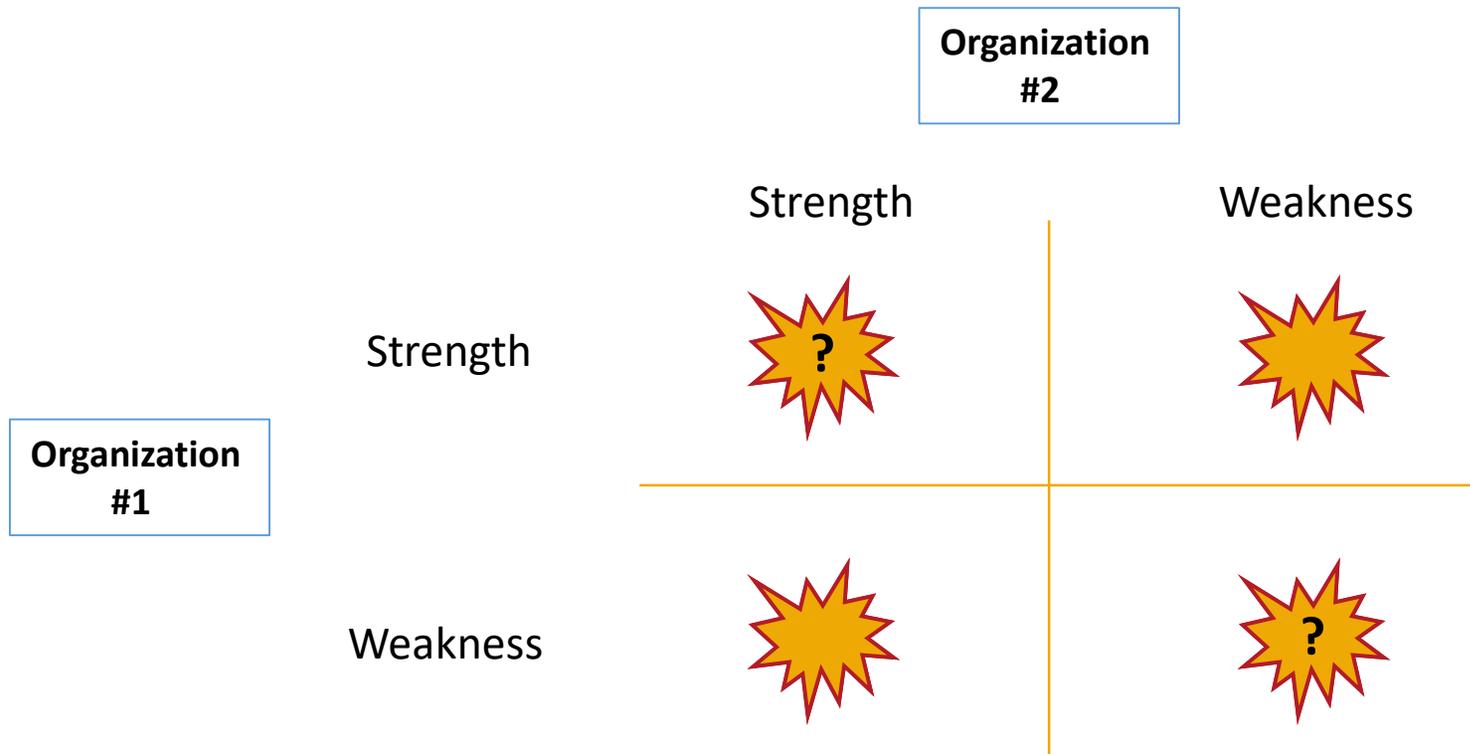
= potential culture flashpoint



= 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

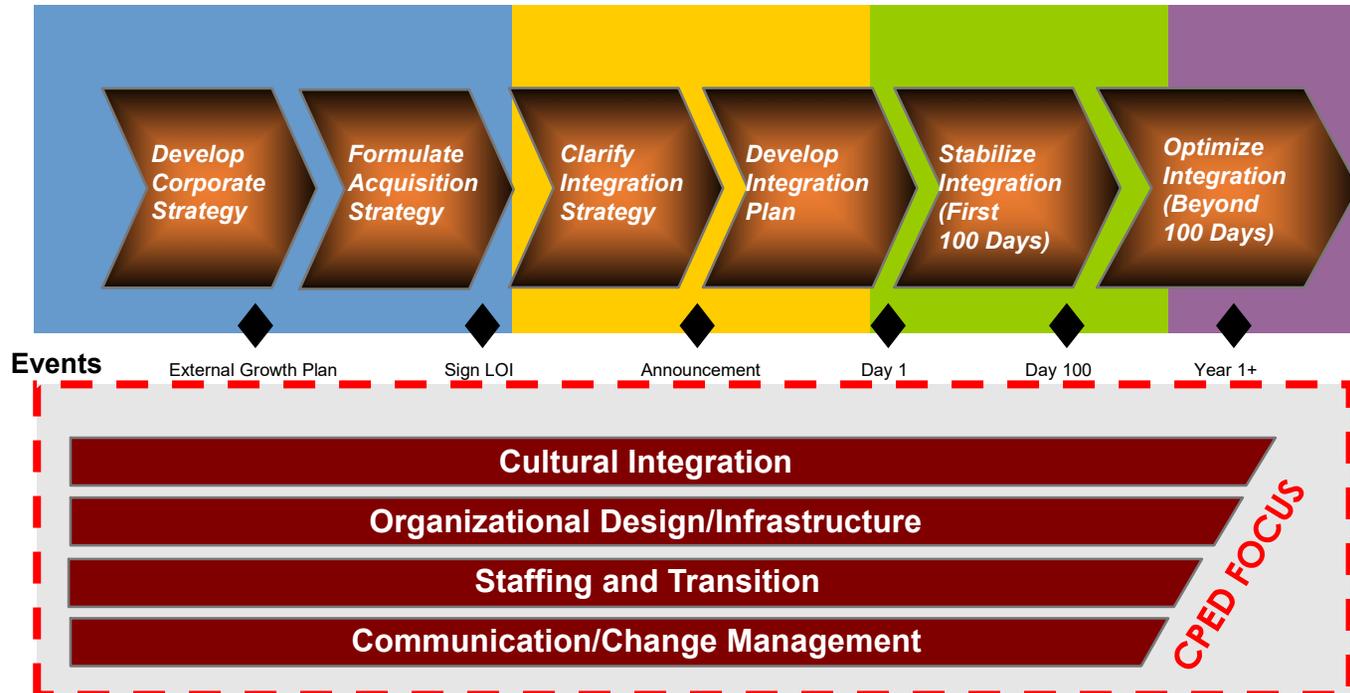


# Ten Common Reasons Why Mergers and Acquisitions Fail

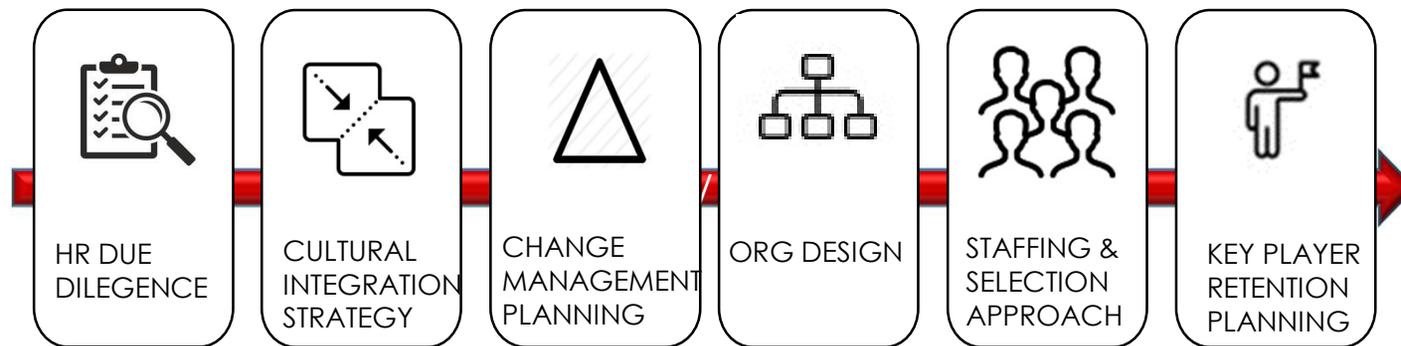
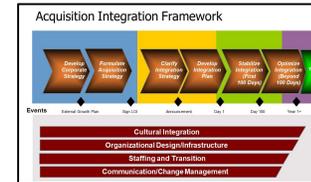
- Poor cultural fit
- Failure to maintain focus on customer
- Overestimation of synergies
- Inadequate or untimely communication
- Lack of vision
- Inability to articulate direction of path forward
- Loss of momentum or focus
- Flight of talent
- Inadequate emphasis on speed
- Lack of cohesive leadership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



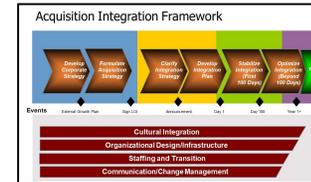
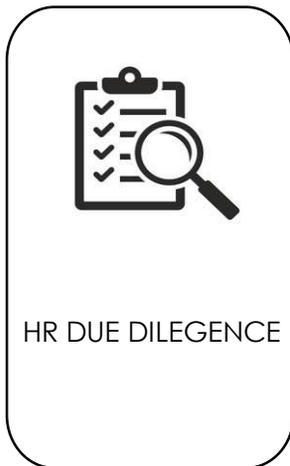
# Acquisition Integration Framework



# Key Tools and Approaches for Merger Integration

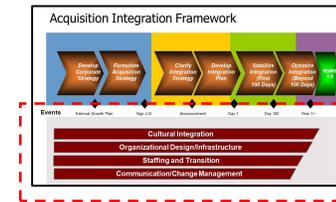


# HR Due Diligence



- 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

## Cultural Integration Strategies



## Three Types

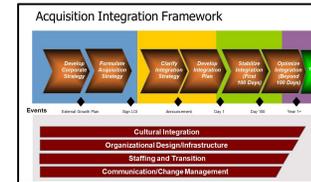
- **Blended**      “Combined Strengths”
- **Assimilated**      “One replaces the other”
- **Pluralistic**      “Both stay separate”

- 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

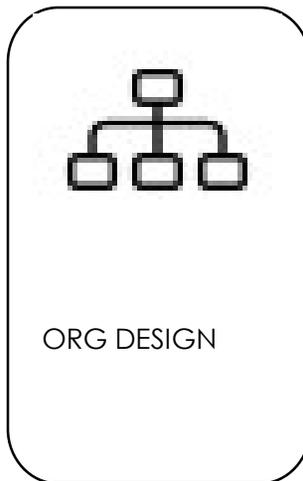
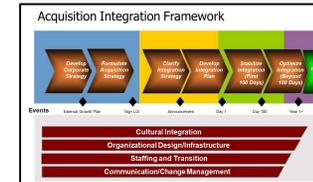
# Change Management Planning



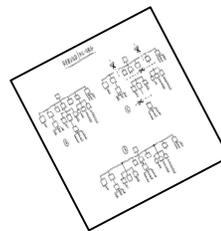
- Establish **Merger Guiding Principles**
- Conduct a **Stakeholder Analysis**
- Develop and implement **communications plan**
- Conduct Change Risks/Barriers Analysis and Mitigation Plans
- Offer executive communication coaching
- Routinely evaluate the effectiveness of communications and change management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



# Organizational Design

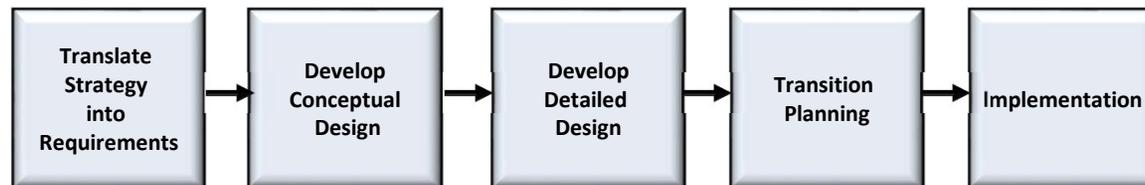
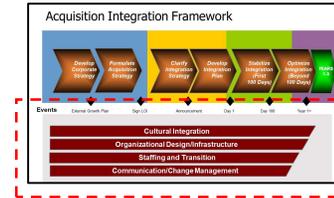


- Align on **Organizational Design Principles**
- Develop functional organizational design to meet requirements of new organization
- Determine number of new positions required and number of redundant positions
- Determine **Spans of Control**
- Identify job roles/responsibilities and required skills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

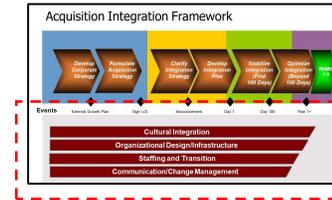


*Not back of the napkin!*

# Approach to Strategy and Structure Alignment in a Merger



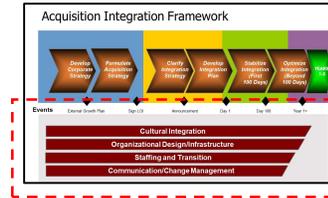
# Organizational Design Checklist



- ✓ 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?



# Spans of Control Evaluation

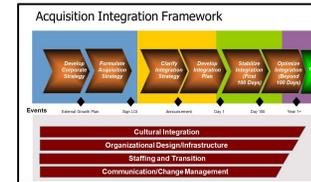


SPAN OF CONTROL EVALUATION TOOL	
DEPARTMENT: _____	CURRENT STATE SOC RATIO: _____
	<b>NARROW SPAN</b>
<b>CRITERIA</b>	<b>EVALUATION</b>
Nature of the Jobs	Highly Complex/Non-Routine
Managerial/Supervisory Experience	Limited Experience
Experience/Skill Level of Employee Base	Limited Experience
Geographic Dispersion	Multiple Locations/Geographic Dispersion
Degree of Change within Department	Large Scale
Interaction Required by Manager/Supervisor and Employee Base	Complex Interaction
Maturity of Department	Recently Created
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

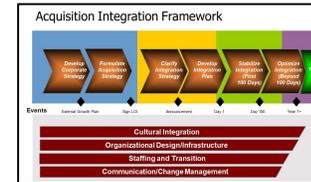
Spans of Control Evaluation Tool

## Staffing & Selection Approach



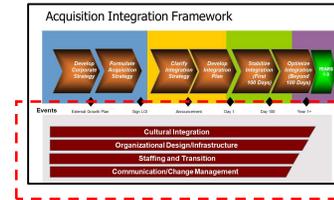
- Develop a **standardized staffing and selection approach** (e.g., position classification)
- Use a consistent approach to interviewing and filling roles in the Newco
- Conduct interviewer training on standardized interviewing
- Design job posting processes

# Key Player Retention Planning



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

# Key Player Retention Matrix Tool

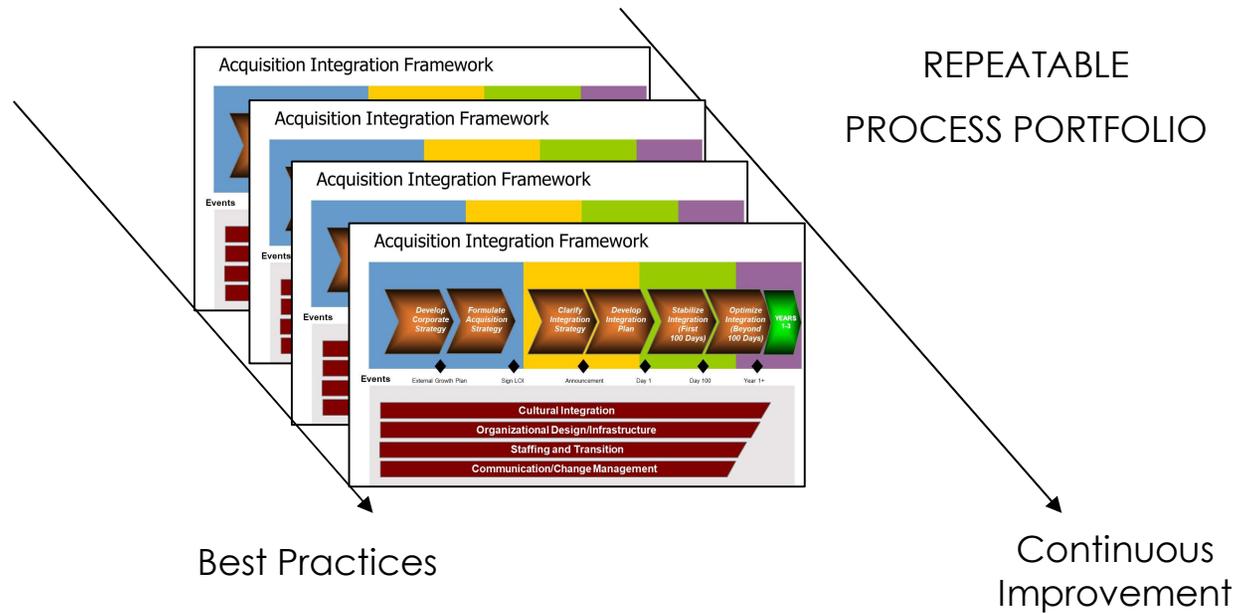


KEY PLAYER	FLIGHT RISK (1 LOW-5 HIGH)	WHY KEY?/IMPACT ON ORGANIZATION	POTENTIAL REASONS FOR DEPARTING	DIFFICULTY TO REPLACE (1 LOW-5 HIGH)	STAFF/STAKEHOLDERS IMPACTED MOST IF THEY DEPART	KEY SUCCESSOR(S)	MITIGATION PLAN
NAME	2			4			
NAME	3			2			
NAME	2			4			
NAME	3			4			
NAME	2			3			
NAME	4			3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