

MERGERS & ACQUISITIONS

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ACHIEVING CULTURAL ALIGNMENT: THE FUNDAMENTALS OF SUCCESS IN M&A TRANSACTIONS

By David Liddle



Anyone who has been part of a merger or acquisition, either as an employee living through it or a leader helping to drive it, can attest to the heady mix of excitement, trepidation, hope and confusion that typically surrounds the joining together of two organisations.

Everyone hopes it will be a raging success, with the synergies between the two parties resulting in happy and engaged teams, increased innovation and productivity, competitive edge and improved shareholder value. As the raft of failures that regularly hit the headlines show, however, getting together on the ground isn't always that easy, with a host of financial, operational, communication and cultural challenges to overcome.

Google and Motorola, Microsoft and Nokia, eBay and Skype... the list of high profile M&As that have gone awry goes on. According to a report by Harvard Business Review, the failure rate is between 70 and 90% – an alarming statistic, particularly given the high rate of current M&A activity.¹ PwC reports that global mergers and acquisitions peaked last year, with more than 62,000 deals announced worldwide, and publicly disclosed values reaching US\$5.1tn.²

The stakes – both financial and human are high – and in fact it's the human element (the marriage of two cultures) that is at the root of many unsuccessful M&A transactions. What looks like a great partnership in strategic and financial terms can often start to unravel when it becomes apparent that the purpose, values and leadership style of the two organisations are very different.

In a recent investigation we have been working on at TCM, for example, it became clear that the root of a damaging and disruptive dispute between colleagues lay in a disconnect between cultures and working practices following a previous merger.

So what can organisations embarking on an M&A do to give themselves the best chance of achieving the cultural alignment that is fundamental to success?

1. *The Big Idea: The New M&A Playbook*. (2011). <https://hbr.org/2011/03/the-big-idea-the-new-ma-playbook>

2. *Global M&A Industry Trends: 2022 Outlook*. (2022). <https://www.pwc.com/gx/en/services/deals/trends.html>

A new cultural blueprint

Corporate culture is the greatest asset or the greatest liability an organisation has. It is widely misunderstood, routinely ignored, yet a potential source of riches when it is managed well.

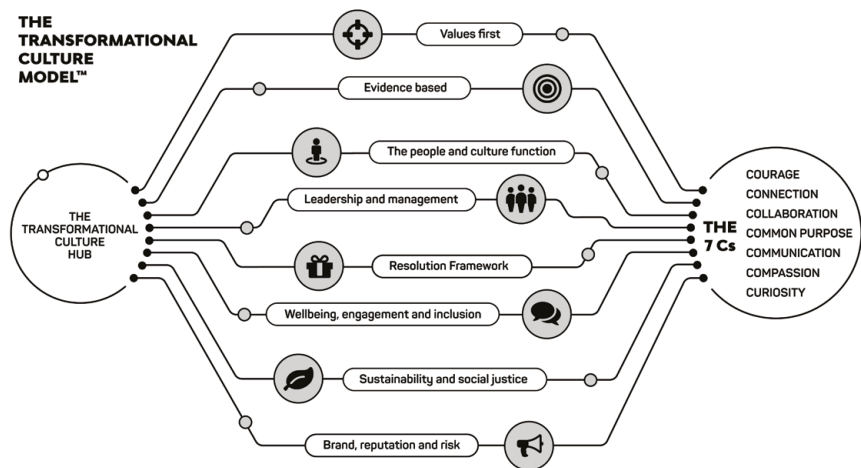
As an asset, good company culture can drive employee experience. It engenders trust and respect and can create a safe and healthy workplace. It can ensure that customers, investors and stakeholders receive the very best a company has to offer. Conversely when cultures go wrong, they can be stifling, toxic, dysfunctional, destructive, corrosive, confusing, fear-inducing and unsafe places to work within or do business with.

The meshing of two organisations provides a great opportunity to draw from the best of both cultures – and in so doing, to create the kind of fair, just inclusive, sustainable and high performing company which can fully realise the opportunities the merger brings.

In my recent book, *'Transformational Culture: Develop a People-Centred Organization for Improved Performance'*, I propose a new Transformational Culture Model which can help with this task. It is a blueprint which can be applied in the context of a merger to any organisation irrespective of size, location, sector or maturity.

This practical framework allows organisations to overlay their cultural 'maps' and identify areas of divergence, convergence within the prevailing culture of the two organisations and the sub-cultures and the climate within individual teams, departments or divisions. This understanding of where strengths, opportunities and challenges lie, can help feed into the change process and guide the two organisations towards a powerful and enduring cultural alignment

The Transformational Culture Model raises the profile and importance of purpose, values, people and culture during the M&A process, ensuring these four factors are given equal weight against other economic and operational issues and improving chances of overall success.



The culture hub is a cross functional team, which acts as the culture change project management office (PMO). The culture oversees act as the cultural transformation PMO including the cultural mapping and the cultural alignment process. The culture hub is chaired by the PMO director or CHRO. The eight enablers of the Transformational Culture model provide the basis for the mapping exercise as set out below:

1. Values first: Values are the golden thread that run through an organisation. They bind a Transformational Culture together by aligning an organisation’s purpose and strategy with its agreed behaviours and overall customer and employee experience. Examining the similarities and differences between the two sets of organisational values should be a key early task in any M&A.

2. Evidence based: The use of data and evidence to inform a programme of cultural alignment is central to its success. This could cover everything from information about key staff and their roles, tenure and compensation through to people management policies and processes and training spend. Without the evidence base and data to help planning it is like embarking on a journey in the dead of night, in someone else’s car, without a map and with a phone you forgot to charge!

3. The people and culture function: The Chief HR officers in the two organisations have a difficult

balancing act to play. Both are vital to the integration of people across the two businesses and need to collaborate closely. Ideally, the two CHROs would sit within the aforementioned Transformational Culture Hub, which is responsible for driving the leadership and people-related changes necessary to bring the two organisational cultures together successfully.

4. Leadership and management: The Transformational Culture Model is used to map and evaluate each organisations prevailing leadership and management styles, systems and strategies. The way in which a leader or manager behaves is perhaps the single biggest factor affecting organisational culture, leaving unwritten cues and clues for the rest of the workforce. The two merging organisations may have very different leadership set-ups and styles. One may be a flat organisation where people are empowered to make their own decisions; the other may be hierarchical with a command and control culture. Understanding where the differences lie will be crucial, as will encouraging managers to listen, lead with values and show compassion, at a time when many employees will naturally be feeling unsettled and anxious about the future.

5. The Resolution Framework™: A Transformational Culture requires leaders, managers and HR to eliminate their reliance on traditional retributive justice orthodoxies (blame, shame and punish) and embrace a new and proven form of justice: transformative justice. This brings together procedural justice (concerned

with due process) and restorative justice (concerned with reducing harm, promoting dialogue and encouraging learning). The Resolution Framework™ replaces an organisation’s retributive justice systems, including performance, absence, discipline and grievance procedures, with a single, fully integrated structure for handling and resolving concerns, conduct, complaint and conflicts. Most importantly, the framework is values-based and person-centred, with dialogue at the heart. Thinks of the Resolution Framework as the employee handbook for the 21st century organisation

6. Wellbeing, engagement and inclusion: It is important to find out how much synergy there is between the way two merging organisations approach wellbeing, engagement and inclusion – three huge concepts which are so interconnected that in my view they should be considered as a single discipline. They are essential to overall Employee Experience (EX) and as a result hold the key to great Customer Experience (CX). Good EX plus good CX equals a successful M&A

7. Sustainability and social justice: These two imperatives will become the defining characteristics of the 21st century and their impact on company culture must not be underestimated. Widespread reorientation of the employee relationship with the employer and society at large is profoundly changing company culture. CSR statements are no longer sufficient. The successful organisations of the future will make sustainability and social justice a core focus. A merger will provide the opportunity to put these key

issues at the heart of a new, Transformational Culture.

8. Brand, reputation and risk: Open any newsfeed and it is plain to see that the culture of our organisations and the behaviour of leaders can have a significant impact on the reputation of companies. Once a culture is lived it can quickly help stakeholders to form an opinion about the overall behaviours, competencies and values of an organisation – and therefore the degree of trust and repute in which it is held. Organisations who have recently merged will find themselves under the spotlight, with the business press (and competitors) watching closely to see how well, or not, the two corporate cultures align.

Finally, the 7Cs of the Transformational Culture Model are the outcomes that can be achieved. When we are supporting a merger or acquisition, these answer the question – what does good look like. Without putting too fine a point on it, these are the seven dimensions of a successful M&A.

The stakes are high, and the impact of organisational culture on an M&A cannot be overstated. Organisations cannot afford to leave cultural alignment during a merger or an acquisition to chance. The Transformational Culture Model offers a unique blueprint for cultural alignment and it allows leaders and their change agents to actively develop the culture and climate in a way that ensures the organisation will be competitive, effective and sustainable long into the future.



David Liddle is the founder and CEO at The TCM Group. He has developed significant expertise and authority in the areas of organisational dynamics, conflict resolution and transformational culture. At The TCM Group, David has built a world class team of consultants and a head office team who work with numerous household names to develop and integrate person-centred and values-based systems, cultures and leadership practices. David was awarded his MBA with distinction after studying the use of mediation and ADR within three large organisations.

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