

How focusing on culture can create value during M&A integration

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Your deal is done. The champagne is popped, virtual high-fives exchanged. But the celebration soon gives way to something unexpected and unaddressed until now. A big chunk of the newly-combined company is speaking in a tongue only they understand and can't communicate with your team. Blank stares abound, and the failure to consider culture much earlier in the deal has everyone asking "What have we gotten ourselves into, and what do we do now?"

As the pandemic pulled many of us out of our offices and into our homes, more business leaders have started to realize what experienced dealmakers have known for a long time: Culture is a critical part of recognizing value in M&A, and it's much more than a matter of a flexible dress codes, free snacks and ping-pong tables in the break room. It includes the shared values and behaviors — including environmental, social and governance (ESG) opportunities — that shape employee experience, interaction and morale within an organization. These behaviors characterize how a company gets things done.

In working with clients after an acquisition, we often find that culture gets too little attention. In fact, in our 2020 M&A integration survey, only half of the executives we polled said culture was an element of their change management programs. When companies come together without proper planning, cultures can clash. And the consequences of insufficient investment are significant: Leaders struggle to communicate effectively, talent sits in the dark, meetings are ineffective and misalignment permeates the organization.

Consider one acquisition by a large technology firm. At the time, company leaders didn't believe culture assessment and integration planning were worth the effort. As a result, they didn't understand that leaders at the acquired company made decisions more autonomously than at their new parent company. When the acquired chief IT officer announced a new organizational structure without consulting executive leadership or the integration team, integration and business work came to a halt as leaders became consumed with employee questions across both companies.

65% of acquirers say cultural issues hampered the creation of value in their last deal.

Source: PwC® *Creating value beyond the deal report*, Mergermarket



Early engagement is key to culture integration success

Savvy C-suite executives and business unit leaders now insist on figuring out the culture equation. That means investing in resources to effectively uncover cultural differences *before* a deal happens, as well as enlisting leaders in understanding, problem solving and driving their teams to take action.

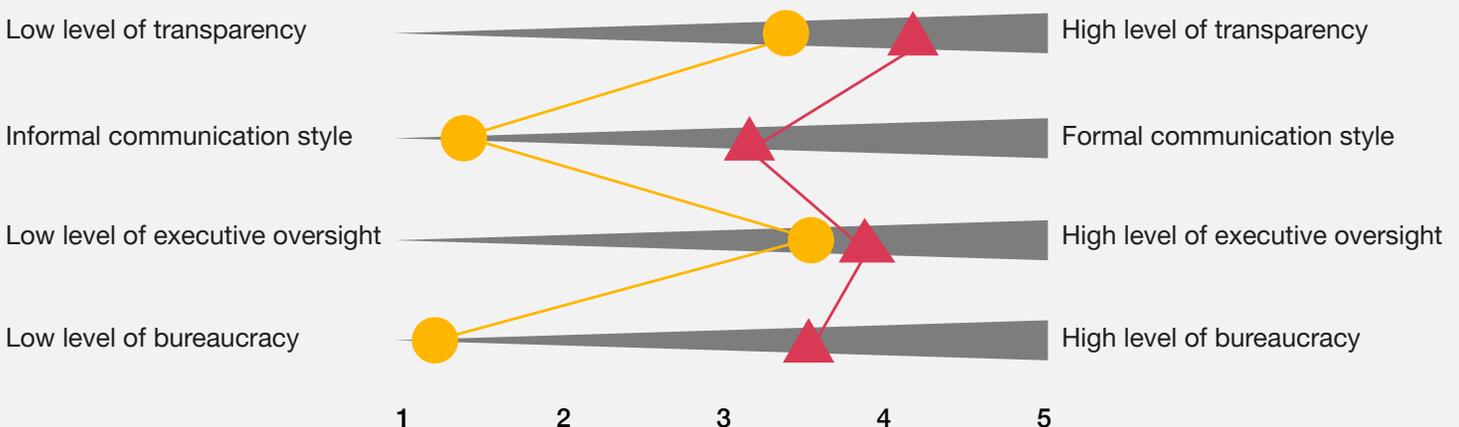
It starts with targeted understanding and assessment. Culture is hard to define, and while your company's leaders may communicate a defined set of core values and purpose, actual day-to-day organizational traits and behaviors may be quite different. The company should invest in an effective way of uncovering its actual culture and setting a baseline that serves as a starting point to plan for a successful integration. It's important to get a clear and

accurate picture, as employees and leaders may have very different perspectives on your culture. For example, in our 2018 global culture survey, 63% of C-suite and board members said what they say about culture is consistent with how people act, but only 41% of employees agreed.

Organizational culture doesn't change easily or fast. In the context of M&A, culture integration is not necessarily about defining a net new culture or rapid culture transformation. It's about honestly assessing culture at both the acquiring company and the target and defining what we plan to do in the near term. This helps ensure we're creating the right action plans and interventions to avoid deal deterioration in the early days of two companies working together.

Example of a preliminary assessment of leadership and management style

Observations by leadership, integration leaders and integration teams can show the similarities and differences between companies involved in a deal.



Culture integration planning should be done at multiple stages



During due diligence

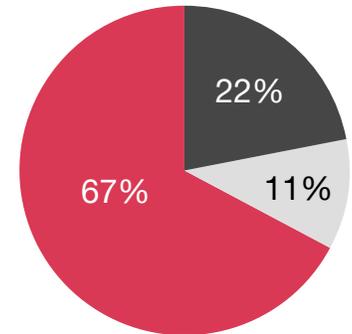
Culture assessment begins in due diligence. Access between companies may be limited, but outside-in social listening techniques can provide a good starting point. Without setting foot at either company, we can learn about positive and negative sentiment from employees and customers using digital solutions that leverage natural language processing (NLP).

These solutions save hours that would be spent on surveys and interviews, and they can quickly reveal what employees and customers value most. We can analyze how previous events in the companies' histories — such as another acquisition, leadership changes and operational shifts — changed sentiments. We can also learn about why employees become dissatisfied and leave.

These insights, anchored on real data points from the workforce, become the guide for a targeted diagnostic of organizational culture. In this critical period before a deal announcement, we accelerate the integration team's ability to uncover an organization's true sources of pride and strength, as well as areas for improvement in preparation for integration planning.

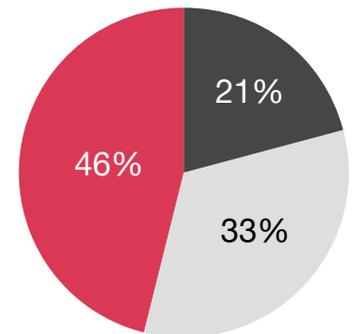
Example of sentiment when discussing leadership

The **target** company has an overwhelmingly positive sentiment ...



■ Positive ■ Negative ■ Neutral

... while the **buyer** is more neutral.





Before the deal closes

As the integration team gains more access to the target company, a thorough culture assessment can build on your initial social listening findings. Along with candid conversations with senior leadership, perspectives should be gathered from a cross-section of the organization. In certain instances, focus groups and/or workforce surveys can enhance the findings. The output is a detailed findings report across five key dimensions expressed in the context of the company and deal strategy.

Culture dimensions drive outcomes

Understanding culture requires an assessment of five dimensions to uncover what drives behaviors, define desired behaviors and align incentives to motivate employees.

| | |
|---|--|
|  | Leadership and management style |
|  | Collaboration and teamwork |
|  | Autonomy and involvement |
|  | Adaptability – speed, innovation and risk |
|  | Work environment and employee experience |

From here, the mission is simple: Determine how we are most alike, how we differ, what obstacles we expect when we start operating together and what we plan to do about it.

Once leaders understand the culture findings, they can form a culture integration sponsor team focused on creating a plan that can help bridge differences and foster behaviors that support deal value creation. The goal isn't to transform culture; that's not feasible in the first 100 days. Rather, it's about active risk management planning and creating awareness and accountability across the business.

Remember that large technology company that had communication issues during integration? When it subsequently made another acquisition, leaders took the lessons learned and completed a thorough culture assessment, which found a similar situation: Leaders at the acquired company typically exercised more autonomy in decisions. This included IT investments essentially having a “blank check” — a stark contrast from the acquiring company's rigorous budgeting process, in which the finance team approved all expenditures. Recognizing these differences, the acquirer developed robust leader communications and an onboarding plan that clearly articulated expectations for the acquired company's leaders. The result was a much smoother integration that ultimately achieved desired objectives.



After the deal closes

Executing this plan seems simple, but your leadership team will need to figure out how to build culture alignment techniques. They may need to commit to a new style of communicating, such as being more accessible or communicating through different channels to connect with their newly acquired workforce. Consider using frequent pulse surveys to gauge employee sentiment, hosting focus groups or engaging in listening tours to gain insight into employee concerns and to identify cultural hurdles.

Leaders may also need to show up differently in decision-making forums — perhaps being more open to challenges or consensus from the workforce. The company may need to honor certain rituals of the acquired organization, such as ways to celebrate success, work environment, or schedule and location flexibility. Each deal will have a unique set of challenges, and no single set of interventions or initiatives will solve all of them.

Leadership signaling and modeling is key, but more can be done. One of the best ways to bring together integration goals, cultural aspirations, leadership action and bottom-up participation is through a “culture activation pilot” using the following components:

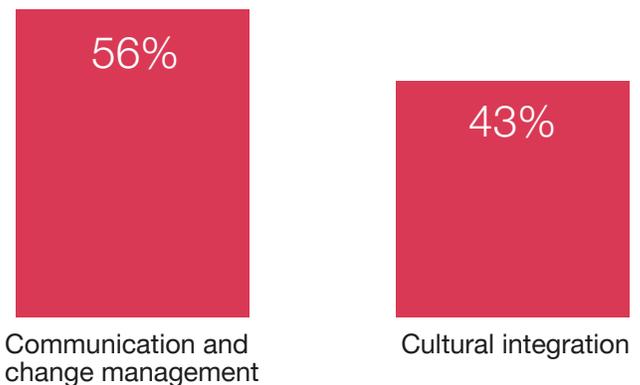
- Define business areas and teams and align on business outcomes and metrics.
- Mobilize leaders at multiple levels, especially your authentic “informal” leaders.
- Prioritize “critical few” behaviors to amplify.

- Select formal and informal enablers to implement, reinforce and encourage those behaviors and help them spread — and remove any barriers.
- Encourage behaviors, enablers, tracking and leadership/team engagement.
- Monitor whether or not this activity is yielding the desired results.

The momentum coming out of Day One is more likely to stick when companies apply a behavioral lens to specific integration challenges. Working side-by-side with the integration teams, companies engaged in a deal can build the muscle for activating desired behaviors through pilots as described above. Essentially, you should focus on igniting a movement in targeted places around a critical few behaviors with the teams most important to delivering value, and then look to grow and scale the movement across the organization.

Digital tools used in integration

Percentage that used a software tool by integration area



Source: PwC's 2020 M&A Integration Survey



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