SHRM® Case Study:

Culture Management and Mergers and Acquisitions

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You are the recently hired HR manager at an organization that completed a merger roughly two months ago. While the two organizations are still in the transition period, you have noticed that the number of employees who have been coming to you with workplace concerns and issues has risen dramatically. Most of the complaints surround the culture clash between the two merging companies.

Prior to coming on board, you were given the history of these two organizations and the background on the management style of both leaders. It became quite clear that this merger was going to be challenging, given the drastically different cultures of the two organizations. One of the companies was headed by a gentleman known for his casual, fatherly and employee-centric approach to business. This CEO allowed for an informal work environment that included all-staff coffee breaks and casual attire. The other company was run by a gentleman who was known for his thousand-dollar suits and a "take no prisoner" approach to business. This CEO wanted the job done, and he wanted it done yesterday.

In addressing this situation, what is the first thing you would do as the HR manager? How would you address the two vastly different approaches to business management? What can an organization do prior to the merging of two companies to address the issue of culture management?

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One of the first things that the HR manager needs to do is establish (in collaboration with the executive team) which culture is going to be adopted as the primary one. The sooner this is done, the better. There can be negotiation, which may result in an understanding that the new organization will be a hybrid of two distinctly different organizations and that each one offers something important and special. But the HR manager should know that most organizations usually choose to have a predominant culture. This discussion can be particularly important when companies from different geographic regions (or countries) attempt to become one entity.

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The HR manager must push for the culture discussion to ensure that it takes place. HR professionals need to know that merger and acquisition (M&A) deals are usually done because the financial and business rationale adds up (or for reasons not related to people). Since many senior leaders are not comfortable discussing organizational culture issues, it is imperative for the HR manager to lead this discussion and arrive at the table with specific recommendations about how to proceed. Most important of all is to help leaders from the acquiring and the acquired companies understand that the merger does not have to be an all-or-nothing proposition. The best aspects of both organizations are likely to yield greater employee satisfaction and higher retention of key personnel—and this usually results in improved earnings for shareholders. The role of the HR professional is a continuous one—a role that begins before the M&A takes place and continues far beyond the official announcement.

One of the important lessons learned from my experience in M&As is that the vast majority of M&A failures are due to cultural mismatches. Studies conducted on the outcome of M&As show that 30% of them fail within three years, with the majority due to disparities in organizational cultures. Much of the anxiety and mistrust begins with the perception that there are winners and losers in M&As. These perceptions are largely due to the nature of the process in which one firm takes over another. What this means is that one company's culture usually becomes the dominant new culture. While this is a business reality, HR is usually left with the task of combining two organizations into one and preparing the organization to be productive. The first action that the HR professional needs to take should begin **during** the M&A process.

Too often HR professionals are not a part of the M&A team, which is typically comprised almost entirely of people from finance, IT and other disciplines seen as essential to making the deal work. It is imperative that HR not be left behind, as people management is a frequently overlooked element. HR's role on the team should be to assess the cultural compatibility of each company being considered in the merger or acquisition.

This assessment is crucial to ensuring that there is a clear understanding of the acquired company's culture and its fit (or lack thereof) with the culture of the new parent organization.

Here are some questions to consider:

- How does the organization reward, communicate and celebrate the success of its employees?
- Are there special privileges for executives (e.g., reserved parking spaces)?
- Are these offerings incompatible with the culture of the acquiring organization?
- How long have these practices been in place?
- What is the plan, if any, for dismantling them after the acquisition?

By making this activity part of the M&A process, companies that are in the market to buy other firms might save themselves the painful experience of trying to force together two organizations that will never fit. If the differences are so drastic that the time and expense of merging surpasses any possible financial benefit, it is best to walk away from the deal. This can be a difficult decision, particularly when the acquisition target is an organization that has been viewed as such for a long time.

Once the decision is made to acquire a company, HR must remain engaged through each phase of the process. It is vitally important not to tell employees that nothing is going to change. A more accurate statement might be, "There will be some changes, but at this point, we are not sure how many. We will keep you fully informed of any changes that will impact you as soon as we know about them."

Honesty and straightforwardness are highly valued by employees at **all levels** of the organization and will go a long way to ensuring the organization stays focused on accomplishing business goals with a minimum of turnover and the resulting loss of productivity. ●

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Since the cultures of the two organizations are very different, one of the first things that the HR manager should do is meet with the new CEO to clearly identify the vision, mission, values and culture that the organization wants to perpetuate going forward. Doing so is critical for organizational success, customer and employee satisfaction and employee relations. The HR manager could suggest that the CEO hold a planning retreat with senior management in order to determine who they are, how they want to function and do business, and how to create a multi-faceted plan to get where they want to be. Usually, before a merger or acquisition occurs, considerable time is devoted to discussing the culture of each organization and how compatible they would be. This aspect often makes or breaks a deal, because unless there is compatibility, the union will not work.

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As previously suggested, one option is to address the issue of culture management during the retreat. The first step would be to conduct a SWOT analysis of the two organizations by examining the strengths, opportunities, weaknesses and threats that the organizations face and then determining where major gaps exist, the reason for the gaps and what can be done to bridge them. While this is a time-consuming process, it is also essential to the success of the M&A. When conducting this exercise, all major stakeholders (stockholders, customers and employees) should be considered. Once a consensus is reached on the vision, mission and values of the newly combined organization, a strategic and tactical plan can be created. The success of this endeavor rests on the ability of the organization's leaders to communicate the new plan. A separate detailed communication plan should also be developed, and it must become the operating framework for the next 12-18 months. Regular meetings should be held to assess progress against metrics established in all key

HR® SOCIETY FOR HUMAN RESOURCE MANAGEMENT operating categories. Constantly communicating successes will reinforce the culture the organization wants to establish. Rewarding success is a key motivator.

Prior to M&A, both companies should appoint a task force that includes representatives from HR to review transition issues and opportunities. Clearly, culture compatibility is very high on the list. With millions of dollars and customer issues on the line, an organization cannot afford a merger that will lead to conflict and failure. Therefore, the proverbial phrase "buyer beware" is applicable here: all organizations should assess the potential compatibility of operating styles, policies, values and culture.

In conclusion, organizations excel when they have a clear purpose that is shared by all members of the team. It is extremely difficult to gain synergy when two organizations have conflicting operating styles. When faced with this scenario, some organizations have had to "rebuild" themselves at great sacrifice to customers and employees. Ensuring before M&A that there is basic synergy of culture can make a vast difference in the success or failure of the project. ●

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In any merger or acquisition, regular communication with key stakeholders, most notably employees, is critical. While this seems like common sense, many mergers fail due to communication issues. In many cases, formal and informal communication channels may shut down entirely after the merger is officially announced—and everyone returns to business as usual. However, business is far from usual at this point. Employees may not know where the new organization is headed and how they fit into the new scheme of things.

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When this context is missing, a culture clash is all but inevitable. While the damage done may not be completely reversible, it can be alleviated through immediate visible action. The head of HR is in an ideal position to lead this effort, using the recent employee relations issues as a springboard.

To start, the HR manager could implement a communication plan, beginning with the senior leadership of the new organization. The senior leadership would need to identify the mission and key goals of the new organization, to the extent that these are changing, and plan to communicate these changes to the employees. The HR manager may want to organize a series of all-staff meetings to answer questions and concerns about the merger, as well as offer other avenues to address employees' concerns, such as hotlines, e-mail or Web sites. In communications with employees, the HR manager should caution the senior team about making commitments they cannot keep—for example, that nothing will change. A schedule of updates to employees, through a variety of communication avenues, should be planned, along with a target date for the transition period, including any organizational changes to be completed. Far too often key decisions regarding the merger are dragged out, destroying employee morale in the process.

To facilitate the integration of the two cultures, the HR manager could conduct a cultural review of both organizations to gain an understanding of what works, what doesn't work and what needs to change based upon the new organization's goals. The HR manager should be especially sensitive for rites, rituals and symbols that each culture considers important. Even seemingly small issues, such as which organization's logo is on the coffee mug, can become sticking points when overlooked or ignored.

Finally, the HR manager should begin re-recruiting the leadership team in conjunction with an organizational assessment. Mergers often result in redundant positions, and it will be important to identify those who will stay with the organization, as well as any redundancies and duplications that may exist. Gaining commitment from those leaders who will stay is critical, as they are often the organization's voice to employees during times of transition and are essential to creating engaged, informed and effective followers. The organization could also offer change management education and tools to all leaders and their team members.

Cultural integration needs to be part of the due diligence checklist, not an afterthought that is addressed only after the deal is done. Although the more tangible aspects of a merger, such as the financials, are often the focus of due diligence, more often than not it is the cultural issues that derail a merger. HR can play a critical role in helping their combined organizations honor the past, so that together they can move forward. ●

Employees should be given an opportunity to voice their opinions.

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The first thing that the HR manager should do is get the two CEOs together to define their collective view on the future culture. It may be challenging for the HR manager to facilitate this discussion because he or she is relatively new to the organization and may not have yet earned these leaders' confidence. Regardless, this is a role that an HR professional should fill. The HR manager should first help these two leaders understand how critical it is to the success of the merger that employees have a consistent picture of expectations in the workplace. The HR manager should assume that both leaders are very bright and will quickly grasp the significance of addressing the issue and, more importantly, the risk to the new company if it is not addressed.

A potential opening question could be, "Who will ascend to the top spot after the transition is complete?" History shows that no matter how equal a merger of peers is, generally only one of these people will survive as "the" boss. So while gaining consensus may not be an easy task if both of these people are contending for the job, it must be done.

Once a consensus is reached on the norms and expectations, these two leaders must address the employee population jointly with a clear definition of those expectations. Since the styles of the two leaders are so dramatically different, it is important that employees see them together with a shared vision. Assuming that the current situation continues for some period of time, it would be helpful for both leaders to show some compromise in their managing styles, such as requiring business attire during the week but allowing casual Fridays, or perhaps permitting casual attire if employees do not meet customers. If the two leaders know which one will be leading the company in the future and which style will survive, the task becomes a little easier, but it is still important for the other leader to show support and agreement with the decision.

Finally, employees should be given an opportunity to voice their opinions, whether through a survey or some other method of collecting suggestions. Employees will typically respond better to the situation if they feel like they had an opportunity to provide their feedback and input. The results may be surprising. In this case, while the expectation might be that everyone would opt for the casual environment, the outcome may be the opposite: many employees believe that their professionalism is enhanced by the way they dress and that scheduled coffee breaks are a distraction to getting their work done.

In summary, this is a classic case of how HR can add value. The situation must be addressed soon, or the organization may lose some valuable employees. And who better to lead the charge than HR? Employees tend to be very understanding if they are given a chance to express their views, if they understand the reasons for decisions and if the expectations of management are clearly defined. ●