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THE NEW WAVE OF CULTURE

Why Integration Strategy Matters

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Acquisitions today are increasingly complex as companies look to transform through globalization, digitalization and choosing between a horizontal or vertical segmentation strategy. Regardless of the reason buyers acquire a business, talent acquisition and retention have gained increased recognition as contributors to a successful transaction. As such, the role of culture in building the new company is becoming a focus. While most companies have paid lip service to the statement "culture matters," sophisticated, informed buyers are placing a heightened emphasis on culture earlier in the deal. They're making it central to the integration strategy and seeing concerted attention by leadership.

In fact, leaders have started to think about culture in operational terms — moving beyond the belief that it's simply a soft concept, to one that defines how a company operates, interacts with customers and defines expectations for the day-to-day behaviors of its employees. Defining culture in business terms and integration risks has changed the very nature of the conversation about why culture matters.

The "2013-2014 Change and Community ROI Study Report" by Willis Towers Watson demonstrates that a culture tightly linked to strategic priorities differentiates high-performing companies from their lower-performing counterparts. (See Figure 1.)

A company seeking to differentiate itself on its innovation, for example, may create a culture that seeks to gather diverse points of view into its decision making. That cultural element may get portrayed through how the work environment is designed (e.g., open space), how rewards are distributed (a greater weight on team versus individual achievements), and how communication flows across the organization (greater transparency and cross-company information).

Companies can (and should) begin to formulate the appropriate culture integration strategy at the target evaluation stage, with continued focus straight through to post-close. Two critical inputs in the development of the cultural integration strategy are the rationale for doing the deal and the proposed approach to integration. Building the right culture does not start on Day One of the new company. It needs to start when companies begin to canvas targets to support their inorganic growth strategy.

As Figure 2 illustrates, companies can take actions at each phase of a deal to assess culture and consider how it will be factored into the integration strategy.

Target Evaluation Phase

Many companies struggle to describe their own culture in terms that are measurable and distinct. Determining the truly non-negotiable aspects of a company culture can be a challenge. Yet, prior to any cultural integration that may take place, a company needs to know the attributes that E.H. Schein defined in his 2017 book "Organizational Culture and Leadership" as "cultural DNA": the beliefs, values and desired behaviors that launched the organization and made it successful. This cultural DNA, while often taken for granted, is embedded into the organization and hard to change. More importantly, for both the buyer and the seller, those aspects are what created value in the first place.

As deal teams scout for potential targets, having a picture of the buyer's own non-negotiables provides the guardrails for what to focus on when evaluating potential targets. While cultural differences may not be a deal breaker, the change implications and difficulty of integration may be worth noting from the onset. Are there cultural characteristics that define an ideal target ensuring that acquisition and integration will be deemed a success?

Due Diligence Phase

Buying businesses within your industry comes with cultural insights gained by competing in the marketplace and understanding talent mobility within the sector. Companies may require new ways of thinking about the importance of culture, e.g., a non-tech company buying digital startups. It may be the single most important reason that key talent will stay or go post-close. For example, before pursuing a startup that is developing artificial intelligence (AI), it's wise to carefully consider how the company will fold into the parent company, and think about whether the value in the deal (the elite data scientists and others) will walk out the door. Identifying what created success at the startup in

Figure 1 | **Strategy and Culture**

Using the WTW employee opinion database and working with high-performing organizations, following are the cultural differentiators that support five major strategic priorities.

STRATEGIC BUSINESS PRIORITIES

Efficiency	Quality	Innovation	Customer Focus	Brand
Comprehensive training in basic processes	Best practices exchange	Diverse thought and opinion	Continual information sharing	Brand promise ingrained
Precise job roles	Empowerment to improve processes	Support for risk taking	Positive team relationships	Strong belief in product
Disciplined workload allocation	Disciplined use of performance data	Bias for action	Customer-centric orientation	Deep pride
Clear and effective structure	Long-term focus	Anticipating emerging needs	Focus on talent retention	Integrity guides business
Data-driven assessment	Advanced training	Consistently recognizing new ideas	Local authority and empowerment	Environment reflects brand
Coordination of efforts	Superior processes	Leadership clarity on future priorities		Leadership inspires respect

Figure 2 | **Culture by Deal Phase**

	Target Evaluation	Due Diligence	Integration Planning	First 100 Days	Longer Term
Why Culture Matters	▪ Culture can be a decision factor in certain situations ▪ Seller may have strong beliefs about ideal buyer ▪ Potential integration risks and challenges are identified early	▪ Culture may not be a deal breaker, but may affect integration risks, timing and costs ▪ Early identification of cultural differences influences integration approach and leadership engagement	▪ Culture will affect the integration plan and process ▪ Cultural differences can be mitigated if acknowledged and addressed ▪ Integration teams will set the stage	▪ Having the right plan in place reduces risks and increases engagement ▪ Performance and productivity are enhanced when employees know “how things are done around here” and the unwritten rules for success	▪ Unaddressed cultural issues may affect business performance and retention of key talent ▪ The expiration of retention time frames can spur an exodus of talent if employees are not yet engaged
Considerations	▪ What are your “own culture” non-negotiables”? ▪ What are the desired cultural attributes of target?	▪ What is the integration strategy? ▪ Will cultural differences affect integration? ▪ What is the impact of national culture? ▪ What was it about the culture that created value for the target? ▪ What are you buying it for?	▪ What do you need to learn/validate about the target culture? What is key to keep? ▪ How will you prepare integration teams for maximum effectiveness? ▪ How will culture influence leader selection?	▪ How will Day One communicate/reinforce your culture? ▪ What are the key things employees need to know to be productive? ▪ How will managers be prepared to lead blended teams?	▪ How well are you doing? ▪ What work is still to be done? ▪ What best practices exist in different parts of the business? ▪ What are the critical success factors?
The Bottom Line	▪ Know your own culture well enough to identify good cultural fits and non-negotiable items	▪ Identify any “red flag” issues for risk mitigation ▪ Identify the key culture value drivers	▪ Begin early to signal the future culture and to address cultural integration	▪ Engage all employees in the alignment/creation of culture	▪ Monitor and adjust as needed

Figure 3 | **Right Approach Depending on Deal's Acquisition Strategy**

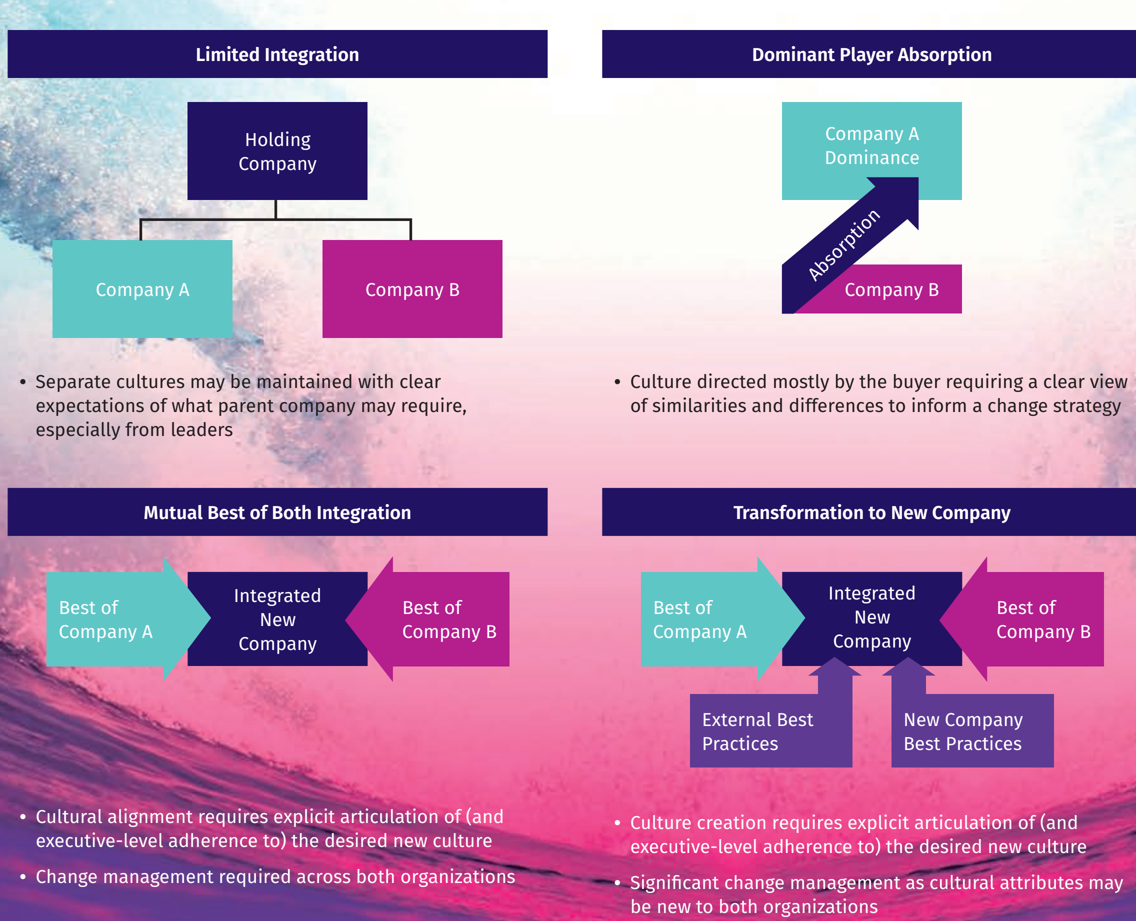
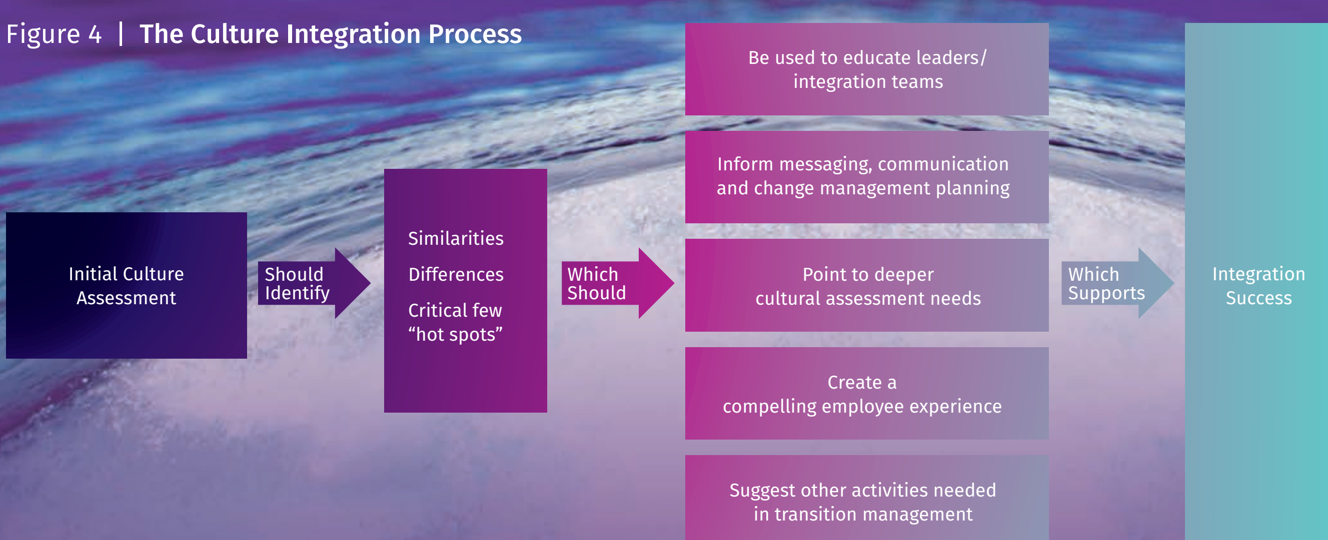


Figure 4 | **The Culture Integration Process**



the first place will reveal the factors most resistant to change. And understanding the motivation for the deal — capability, customers and scale — determines the centrality of culture.

The due diligence phase provides an opportunity to develop initial working hypotheses about the target's culture. Organizations create a side-by-side view of how the target matches their non-negotiables with the important recognition that these perceptions need to be validated along the way and may change as greater interaction with the target occurs. The deal team is best positioned to gather both qualitative and quantitative inputs into the culture profile. Getting the deal makers on board requires talking about culture in business terms that bring to life what we mean by culture and why it matters. For example:

- What is the customer value proposition and how is it delivered (by key sellers, teams and so on)?
- How does the organizational structure facilitate communications and clarity of purpose?
- How does the management team present itself during the deal discussions?
- What is the likelihood of retaining the talent post-close?

Experienced buyers' deal teams take note of cultural observations and aggregate them to create a database of information used as part of the future assessment process. As due diligence progresses, knowledge about the target and the ways a new culture may begin to take shape can be gained through additional information about factors such as compensation structures (e.g., narrow versus broad bands), employee value proposition as gleaned from policies and practices, and leadership profiles. Different ownership models also may point to cultural differences.

Also important is the influence of national culture. For example, a Japanese insurer entering a new market included an extra dimension: national culture. With no other operations in the country, retaining existing leadership was key. Engaging effectively with the leaders during the negotiation process — and ultimately with employees — required both sides to understand the differences in the way decisions are made, leaders communicate and customs are observed.

Integration Planning

Once an agreement is signed and integration planning ensues, the work of building the desired culture for the new company begins. While there may be legal constraints on what happens between sign and close, many acquirers will begin to solidify preliminary insights. Integration teams have conversations about culture and test assumptions through survey tools, which can prevent the missteps of incorrect assumptions based on a lack of understanding of cultural norms, and set the integration off to a successful start. It is not unusual to hear each legacy team bemoan the fact that the other side is difficult to work with when, in fact, they are operating as expected by their peers.

At this stage, key aspects of culture may be called into action:

- **Decision making.** How do decisions get made? What level of authority to make decisions will the integration leads have? Will differences in approaches impede getting work done?
- **Communication.** How transparent will each team be about the integration work? What are the channels of communication to transmit information to employees? How will communications be handled in the future?
- **Employee value proposition.** Are employee plans founded on the employer's paternalistic view, versus one governed by recognition of ways employees contribute to their own health and financial well-being? What will these differences mean as we look to harmonize total rewards?

The near-term focus is to understand the current cultures and start shaping the future state. The groundwork for building a culture that supports the deal value proposition and business strategy can only be done with a sense of open mindedness and mutual respect. Figure 3 shows how the shape of the culture work is driven by the intended integration strategy. For limited integration and dominant-player absorption models, the work is more of a change management process than a culture definition one. On the other hand, a merger or transformative deal may require a new way of defining the culture. And of course, the words used to describe the deal to employees matter. For example, calling a deal which in all ways is an acquisition (legal, financial and integration plan) a merger only serves to confuse and frustrate the acquired talent.

At this stage, many companies embark on a culture discovery that includes diagnostic tools to gather input

A merger may require a new way of defining the culture.

and insights from leaders. The end result is a set of cultural attributes that defines how the new company will operate and what it views as critical to business success. (See Figure 4.) The advantage of conducting this work early is that it can be used as a framework for making key integration decisions — including organization design and leadership selection — serving as a strong foundation for the decisions that follow.

For a life sciences company, one of five key culture factors was embedding a more innovative mindset to achieve the revenue synergies. Demonstrating a willingness to embrace disruption of the status quo would help the company achieve a new business model in its space. Through that cultural lens, the company could establish a decision-making framework for integration decisions that factors innovation into final choices. Integration teams used a decision model to ask themselves:

- How does this decision enhance our ability to innovate?
- Have we taken an innovative approach with how we are viewing the decision itself?

Embedding the Culture on Day One

Day One is an exciting and nerve-wracking time for any acquisition or merger. The planning and preparation culminates in a celebration of completing the transaction and welcoming employees to the new company. Town halls are held, branded merchandise is handed out and new teams get to know one another. If all goes really well, computer logins will work and payrolls will be ready!

Day One also may be the first time employees will truly experience the new company culture. The actions demonstrated by leaders provide the first visible signs of the behaviors expected from everyone. First impressions matter, and it's essential that the celebrations reflect the desired culture during this time. Some examples:

- A telecommunications CEO broadcasts a Day One employee message from a call center, reflecting the company's nonstop commitment to superior customer service.
- An employee welcome pack is themed as a research document showcasing a pharmaceutical's history of life-enhancing drug development.
- Managers and their teams at a high-tech company cluster for talks across development units because collaboration and constant communication are critical to their success.

Aligning the executive leadership team with the cultural priorities prior to Day One might seem difficult, but successful serial acquirers realize that properly equipping managers is an important part of cultural integration. Willis Towers Watson research has shown that highly effective businesses are five times more likely than low effectiveness companies to have managers who clearly articulate what employees need to do differently during a change. For building or integrating culture, this means managers have been trained so they have an awareness of cultural norms — "How are things done around here?" — that allows them to actively address differences within their teams.

Building, embedding and sustaining a new culture takes time, focus and a holistic view. The new culture will be portrayed through leader behaviors, organizational structure, rewards design and performance expectations as well as work environment, external branding and communications. By identifying four or five cultural traits that will affect deal value and future success, business and HR leaders can set the stage for a culture aligned with strategy, pivotal to an engaging employee value proposition. **WS**

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