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EXPERT OPINION

Melding cultures plays critical role in M&A successes

MERGER MATTERS

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Interest in mergers and acquisitions is heating up again. In fact, M&A activity today is occurring on a global stage. However, we need only look in our own backyard to witness almost weekly announcements of M&A activities, many that will play out on national and international stages.

Although the current level of activity is less than a decade ago, let's hope the lessons learned from the 1990s are not forgotten. Remember Quaker Oats and Snapple, Daimler Chrysler and Mercedes-Benz, AOL and Time Warner? These major mergers fell well short of expected performance and results.

The statistics surrounding M&A activity are sobering. Studies show that 75% of all mergers and acquisitions fail to deliver the anticipated benefits to shareholders. Of the 25% that meet or exceed shareholder expectations, most transactions take longer, sometimes much longer, to complete than expected.

All of the examples cited above, and many others, look great on paper. So what happened? In each instance, corporate culture "clash" was blamed for the underperformance of the combined entities. Of all the M&A activity from the past 15 years, cultural incompatibility and differences in management style were cited as the No. 1 barriers to effective integration in over 85% of failed or troubled mergers.

In short, corporate culture is the key to success in any merger. Lou Gerstner, former CEO of IBM Corp., stated that he came to realize the greatest challenge facing leaders today was their ability to effectively reinvent corporate culture, especially during changes brought on by consolidations and mergers. Gerstner stated that culture isn't just one aspect of the integration game, " ... it is the game."

And therein lies the paradox for business leaders today. In most instances, this crucial aspect of determining M&A success is not typically examined during due diligence or financial analysis of the deal. While analysts are experts at understanding the numbers of a deal, very little, if any, attention is paid to the cultural dynamics surrounding mergers.

So what exactly is organizational culture? Culture can perhaps best be described as the beliefs, values, and norms of an organization created through the dynamic tension between formal procedures and informal processes. Culture exists much like an iceberg. Above the surface, the tip represents an organization's mission, organizational structure, dress code, and the like. The bulk of corporate culture, however, is invisible. This part lies "below the surface" and includes the values and norms that dictate employee behavior.

Although culture is a vague concept, research clearly demonstrates that it can be measured. And if it can be measured, it can be managed. Because of its critical role in determining M&A success, cultural due diligence is quickly becoming a sophisticated and necessary approach based on research in the behavioral, social, and organizational sciences. When effectively implemented, cultural due diligence provides a scientific, systematic approach for measuring the crucial elements of culture, identifying the "gaps" that exist between the two merging entities and providing a roadmap for aligning and integrating people and processes for long-term success.

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In fact, we need only look to the successful "merger of equals" between Wachovia Corp. and First Union Corp. to see the impact that cultural due diligence can have on mergers. Ken Thompson, CEO and Chairman of Wachovia, gives credit in no small part to the due-diligence efforts focused on organizational culture between the two companies as crucial to success. "While it's not enough to look only at social and human factors, such as organizational culture, it is easy to underestimate its impact on success. We spent a lot of time measuring the two cultures and developing integration plans that would play to the strengths of each," says Thompson.

Other local business leaders have made organizational culture integration a cornerstone of their M&A activities. In a recent interview, Dan DiMicco, CEO of Nucor Corp., agrees that spending time on cultural due diligence is an important consideration. Nucor has been involved in more than $600 million worth of acquisitions since 1997. "Part of our success has been in understanding, communicating, and transferring Nucor's culture to the companies we have acquired. If people don't see themselves as member of Nucor, we are not going to be as effective."

As M&A activity continues within today's marketplace, cultural integration will evolve and become a more solid cornerstone in due-diligence activities. Financial interests, market share, and shareholder value associated with M&A activities will always play critical roles in these evaluations. Going forward, however, successful integration will require organizations to pay just as much attention to cultural dynamics at play as to the numbers of the transaction.

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