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SECOND EDITION

ACQUISITION ESSENTIALS

A STEP-BY-STEP GUIDE TO SMARTER DEALS

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FINANCIAL TIMES

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Acquisition Essentials

Cultural barriers to integration

The culture of a company is the set of assumptions, beliefs and accepted rules of conduct that define the way things are done. These are never written down and most people in an organisation would be hard pressed to articulate just what the organisation's culture is. However, these rules and shared beliefs are powerful. It is a mistake for an acquirer to assume that the target company will have anything like the same cultural dynamics as itself. Morrisons, a leading food retailer, blamed its post-acquisition performance dip on the culture clash with Safeway while Marks and Spencer took ten years to get to grips with Brooks Brothers' culture. DaimlerChrysler provides another example of the problems that can arise from a culture clash among employees. The integration team invested much time and money trying to help employees understand the differences between American and German culture, but the firm's real problems seemed to stem from differences in management perceptions and business practices. The firms championed different values, had different compensation structures, and ultimately, had very different philosophies about how to brand their products.

It is very important for acquirers to spend time on understanding the way in which the personnel within the target company behave – both individually and within the 'culture' of the business. Management can then decide how it would like to see the combined company's culture develop and, in the meantime, adapt the way it manages the target. Table 5.3 summarises the main points to consider.

TABLE 5.3 *Areas of cultural difference to be assessed*

Area	Difference to consider between acquirer and target
Structure	Is responsibility and authority very different?
Staff	Does it employ many more people to carry out similar tasks?
Skills	Does it have a lower emphasis on the importance of skills development within the organisation?
(Management) style	Is there a different emphasis on the way tasks are carried out (some typical broad divisions are bureaucratic, authoritarian and democratic)?
Shared values	Is there a common set of beliefs within the organisation as to how it should develop and what are they?
Systems	Does the target go about recruitment, appraisal, motivation, training and discipline in a very different way?
Reporting	How disciplined, formal and financial are reporting procedures?

Information will have to be collected from various sources to understand what is important:

- Management interviews (if access is granted)
- Relevant experts if the acquisition is in a new country/sector
- Trade literature and website visits
- Ex-employees (through contacts and due diligence if possible)
- Customers (through contacts and due diligence if possible)
- Suppliers (through contacts and due diligence if possible)
- Mystery shopping (acting as a prospective customer and analysing responses).

It is also useful to remember that culture tends to reflect the business model, so it therefore makes sense to understand and reflect on differences between the two companies' business models while assessing their cultures.

Cultural convergence is rarely achieved quickly and sometimes not at all. Moreover, acquired employees seem to have fewer problems with 'they are very different from us', than they have with 'they are imposing their ways and did not listen to us'. Overemphasis on controlling newly acquired firms by imposing goals and decisions on them may lead to problems amongst the very group who may be instrumental in determining the acquisition's ultimate success. Although people within an organisation learn to accept its working practices over time, we rarely have the luxury of several months or years with an acquisition. Changes need to be made quickly. This reinforces the need to concentrate only on essential changes and those which will have a significant impact in the short term.

Adjust integration to fit the cultural gap

If a target has a significantly different culture, this can substantially increase post-acquisition costs or hold back performance. The risk increases if the businesses are to be merged as opposed to operating as independent units.

The acquirer needs to assess the impact of the cultural divide and plan accordingly. Where there is a big cultural gap between the two organisations:

- The pace of many aspects of integration should be slowed down.
- The acquirer's management may have to spend more time with the business.
- The level of integration may be revised down, at least for the first 6–12 months.

- The new parent should explain in detail why certain changes must be made and not just inflict them without consultation unless absolutely necessary.
- Company training levels may have to be enhanced.
- Various standardised operating procedures may need to be introduced and enforced.
- Additional financial resources may need to be budgeted for.

Operational and cultural constraints may mean choices have to be made about the way in which the target will be managed, ranging from allowing the target to have effective operating independence through partial integration to taking full control.

The acquirer should be clear about the type of parent it wants to be and the level of independence it will allow the acquired business. Table 5.4 shows the options.

TABLE 5.4 *Level of integration options*

	Level of integration		
Activity	**Independence**	**Partial**	**Full**
Budgeting	Effective autonomy	Clear guidelines	Integrated into company-wide policies
Investment appraisal	Guidelines on appraisal and funding	Company-wide policies followed, except for minor investments	Company-wide policies on all investments
Personnel	Fully independent	Broad guidelines	Company-wide policies and procedures
Marketing and sales	Fully independent	Clear guidelines on key areas such as brand and pricing	Company-wide policies
New product development	Limited co-ordination	Clear guidelines on key areas	Company-wide policies followed
Supplier base	No central supplier list	Key suppliers identified; terms negotiated	Supplier base fully integrated; centralised purchasing
Information technology	No common platforms	Common platforms in some key areas	Common platforms throughout
Legal framework	Independent entity	Many common systems	Common systems throughout

For most acquisitions, the ideal is to achieve full integration, though the speed at which this is achieved may be influenced by particular circumstances. It took Reed International and Elsevier Science about five years to integrate properly into Reed Elsevier. Broadly, the less the target is integrated, the greater the level of risk. Risks include failure to achieve cost savings, and conflicts about strategic direction, investment and sales and marketing or other policies.

Thinking about the right arrangement cannot await closing. The integration team should use the information and time during the due diligence process to develop the appropriate integration approach and have in place the necessary action plans ready for execution on day one. Whilst taking control, acquirers should not forget that integration should be a two-way process. Acquirers are not perfect and acquired companies are not run by dummies. The best acquirers know that there may well be some tricks to learn from the business it is buying and that the integration policy and process must not be allowed to bury this value.

2. Move quickly once the deal is done

Before walking through the door of its new prized asset, the acquiring company must know how it is going to manage integration. Once inside the business, it must then put its plan into action. The reasons for speed are the:

- Need to reduce employees' uncertainty quickly (see below)
- Advantage of capitalising on momentum; playing on the expectation of change
- Need to return managers to their original jobs
- Need to show results which quickly justify the acquisition.

Any factors that lessen the need for full speed should already have been analysed and their impact built in to the integration plan. In any acquisition, there are three areas requiring early attention:

- Ensuring that the acquirer gains complete financial control of the operation
- Communicating effectively with all the stakeholders of the acquired business
- Managing the expectations of all involved.

3. Minimise uncertainty

Change equals uncertainty. Any failure to communicate leaves employees uncertain about their futures, and it is often this uncertainty, rather than the changes themselves, that lead to dysfunctional outcomes such as stress, job dissatisfaction, and low trust in, and commitment to, the organisation. Uncertainty stems from the fact that the groups of people affected have a number of expectations but no idea of whether or not those expectations will be met. Their first concerns will be 'me' questions such as 'What does this mean for me?' For the acquirer this means:

- Agreeing the way forward with the sellers
- Making people decisions early
- Identifying key talent
- Communicating openly, honestly and a lot more than you think you have to.

Agree the way forward with the sellers

Consensus among buyers and sellers on the merged company's strategy and operating principles significantly contributes to post-acquisition performance by minimising destructive conflicts, political behaviours and confusion among employees about lines of authority.

A high level of consensus is possible to achieve even when the two sides have a low level of cultural fit. Target company employees will be ready to accept the management styles imposed by the acquirer if they see the deal as an opportunity to advance their careers.

Make people decisions early

As the buyer you will have convinced yourself that you can run the business better and will be itching to get on with it. The first concern of those who you are going to rely on to make all those changes is: what does this mean for me? They all know that acquisitions mean job losses so where do you think their logic takes them? And having got there, is their next instinct to work productively and serve customers with a smile? People like certainty. Even if there are to be mass redundancies and closures it is best to say so up front and then quickly get them out of the way. Do not procrastinate; there is no 'right' time to make this sort of announcement. With it done, at least everyone knows where they stand. As long as restructuring is handled with sensitivity people will respond much better than they will to creeping, piecemeal changes that only add to the anxiety.

Identify key talent

Key people or groups are those whose departure would have a significant detrimental effect on the organisation. People or groups can be considered 'key' for various reasons, but the business impact of losing them should be the factor that deems them essential. The impact that their departure would have might include, for example, the loss of a key client or customer, important innovation abilities, knowledge of a core product or service offering, or considerable project-management skills. Once the key talent has been identified, the factors that are important to retain these people must be understood and an action plan developed that covers both the macro-level (organisation-wide human resources practices) and micro-level (manager-to-employee) engagement factors.

For example, at the macro, organisation-wide level, management might conclude that key talent needs to be fully aware of, and included in, the core human resources practices of the merged company. At the micro-level management might think in terms of increases in base and/or bonus compensation, better job titles, bigger offices, bigger roles and/or responsibilities, assignment to high-profile projects, changes of location, etc.

Communicate openly

In essence, you need to communicate openly. There should be no secrets, no surprises, no hype and no empty promises. This includes being able to say, 'we don't know' or 'we haven't decided yet'.

Whilst the acquirer may be pumping out a consistent message about how great the new world will be, this will by no means be what everyone will be thinking. Figure 5.2 outlines some stakeholders concerns.

This illustration shows that communication with stakeholders is complex. There must be a consistent core message. Underneath this, different messages are required for different audiences. Each one must be honest and accurate, but tailored to address the real concerns of real people.

Best practice in communication is to:

- Communicate early and often; avoid silence.
- Communicate in a coherent and consistent manner.
- Avoid contradictory messages; they destroy credibility and increase uncertainty.
- Appoint a single person or small team to act as the focal point for the communication.
- Develop specific messages to address the individual needs of each of the differing audiences.