

The Eighth Key Practice for M&A Success

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KPMG recently published its latest research findings on "creating shareholder value through mergers and acquisitions" (online at www.kpmg.com). Its Forward states that, "Given the diverse circumstances in which deals are consummated (and the *equally diverse cultures of the organisations* which get involved in them), a single, prescriptive approach to transactions is clearly inappropriate" [italics added]. That's the first and last mention of "culture" in the report.

KPMG's publication reports that 70% of the combinations studied failed to add value. It then lists "Seven Key Practices" that are "likely to have a significant bearing on the outcome of a transaction," and states that "the more [of these seven] that are undertaken, the more likely it is that the deal will increase shareholder value."

Here's the punch-line: When *all seven* practices are applied *in combination*, the percentage of companies creating shareholder value is 67%. Just think about this: merely *sixty-seven* percent!

Something critical must be missing! Like the elusive Eighth Wonder of the World, there must be an *Eighth M&A Key Practice* that, when applied in combination with the other seven, can finally loft that increased shareholder value figure up to the 80% range and maybe even the 90% range.

That Eighth M&A Key Practice is *cultural integration*.

What Is Cultural Integration? One of the shortest definitions of *culture* is: "How we get things done around here." This is especially applicable to *corporate culture* because it focuses on the "how" of accomplishing work. Keep in mind that how any corporation accomplishes work is a complex combination of. . .

1. formal rules & guidelines (e.g., reports are due five days after the end of the quarter)
2. explicit but informal practices (e.g., reports without graphics will be returned), and
3. *implicit* norms & values of which many insiders are largely unaware (e.g., reports that portray senior managers as having made wise decisions tend to be rewarded).

When two firms combine, deal-makers and process managers rarely forget to integrate the two sets of formal rules & guidelines. These elements of culture are codified, thus "demanding" attention. But it's easy to overlook the integration of the two sets of informal

practices and especially the implicit norms & values. These are about *the less obvious ways in which employees have learned to get things done, day-by-day, as they interact with each other and with outsiders*. Less obvious, yes. Less important, no.

Cultural integration, rightly applied, addresses the *entire range* of how-we-get-things-done-around-here issues.

How Can Cultural Integration Become Your Eighth Key Practice? The people who are professionally dedicated to understanding corporate cultures are “business anthropologists.” Anthropologists study culture’s role in human behavior and in human societies, large and small. Business anthropologists apply the culture concept to the understanding of business organizations and the people who get things done in them. They have particularly focused on understanding the process of culture change and culture adaptation within large corporations.

Example: A few years ago, business anthropologists studied the barriers to effective meetings involving employees of German and American firms linked in a joint venture. During meetings, the Germans and Americans were devoting far more time to heated discussions about *appropriate meeting styles* than to addressing the vital work of their firms’ joint venture. You might expect that the barriers lay in their national cultural differences. But since the anthropologists were open to potential influences from *all* types and levels of culture, they located the barriers, instead, in cultural differences at the functional/departmental level. They were able, as well, to pin-point four ways in which the participants’ assumptions about meeting style were derailing their shared intention to have genuinely productive meetings. Armed with their in-depth culture-based understanding of this situation, the anthropologists guided the participants to a hybrid “third way” of managing meetings that freed them to refocus on productive tasks.

This example underscores five facts about the business anthropologists. They . . .

1. focused their inquiries on an actual, current productivity-undermining problem
2. investigated the problem with openness to a wide range of possible causes
3. discovered causes that were uniquely applicable to *this* set of participants
4. worked with the participants to devise a *practical remedy* to the problem, and
5. were directly instrumental in restoring productivity for this joint venture.

How Does Business Anthropology Promote Cultural Integration? Anthropologists view culture as an integrating force in any human group. They study how culture provides a sense of integrity – oneness, a recognizable pattern – for its members, and how it enables members to adapt to changing circumstances. Business anthropologists apply this perspective to businesses.

Business anthropologists are experienced in disentangling the complex interplay of cultural influences at all four levels – national, organizational, divisional, and work-team – and in comprehending how various cultural *macro-level patterns* influence the individual behavior and attitudes of employees, and vice versa. Equally important, business anthropologists bring attention not only to formal systems and procedures, but also to informal and implicit work processes. As with clearly labeled rules, so with non-codified "how-we-get-things-done-around-here" practices: both must shift and blend in a timely fashion if a merger or acquisition is to create shareholder value.

Business anthropology also directly addresses subtle cognitive factors, such as:

1. individuals' cultural identities – how best to shift to new identities
2. assumptions, e.g., about "good work" – how to blend differing versions
3. suspicions of one side about the other – how to redefine "us" and "them"
4. the emotional impact of symbols – how to leverage them beneficially
5. the ideal vs. the real – how to deal with the inevitable gaps between people say they do (or should do) and what they are observed to actually do.

The unplanned consequences of planned change have derailed many mergers. Business anthropology is well prepared to address these, too. Its perspective is holistic: multi-level, multi-functional, and multi-cultural. It pays attention to the informal as well as the formal, to the cognitive as well as the behavioral. Its ways of gathering information – observation, open-ended interviews, and other qualitative (and some quantitative) methods – are directed to the here, the now, the unique, and the practical.

Why Is Cultural Integration Ignored? We suspect that, among deal-makers who care about long-term profitability, cultural integration is overlooked because (1) they conceive of companies as individuals and of mergers as marriages, or because (2) they view "synergies" in terms of value assessment, products, markets, finances, transaction strategies, etc., overlooking the people.

We, too, often *speak* of a company as though it were an individual. But it's actually a collective of *many autonomous individuals*. We also can understand that, from the point of view of deal-makers, the daily concerns of the two merged groups of individuals pales in comparison to the urgency of topics such as global market share, product synergies, billions in financing. . . .and, of course, whether the two CEOs will hit it off.

But at the end of the day, *those two merged groups of individuals are all you've got* to transform your new combination into productive work and thereby create stockholder value and long-term profitability. Cultural integration, the Eighth M&A Key Practice, will enable them to quickly transform your merger or acquisition into a widely recognized world class transaction.