Integrating cultures after a merger

Rising to the challenge

A paper from Dalmau Consulting

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This short overview explores approaches to the challenge of bringing two or more organizations together so they can constructively and effectively realise ALL the benefits of a merger.

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Mergers and consideration of culture

The only constant is change, and it comes to some organizations in the form of a merger with another organization. Often the focus prior to, and at the time of merger, is of a financial nature, but one of the most significant and complex factors relating to how well organizations merge is the cultural change that goes with such an event.

Firstly, what is organizational culture?

Organizational culture is often a vaguely understood term that is often misunderstood or misrepresented in management literature.

In response to this in 2017 my colleague, Tim Dalmau, wrote passionately on the definition of culture and argued convincingly of the futility in attempting to "engineer" cultural change in organizations.

He defined culture as,

"At its broadest, culture is a coherent system of assumptions and basic values which distinguishes one group or organization from another, and which orients that group's choices."

He elaborated, saying that,

"Because culture is complex, and layered, and to some extent unconscious, it is not predictable. The process of working with it therefore always involves unpredictability and risk. Any technique which is applied "cookbook style" is likely to be inadequate. Paradoxically, culture generally (and organization cultures also) serves a stabilizing function: they become the milieu in which people make shared meaning of their experience."

Miller and Fernandes (2009) similarly define culture as, *"consisting of long-standing, largely implicit shared values, beliefs and assumptions that influence behavior, attitudes and meaning in a company (or society)".* Key features of this definition are the

- implicit nature of culture,
- its impact on behavior and interpretation of behavior / action, and
- its resilience

Another common misconception of culture is that it is something that is tangible and can be touched. Equally that it is all implicit and cannot be touched. Both are incorrect. Lundberg in *Organizational Culture* (1985) describes four key layers to organization cultures (Fig 1)

- Artefacts (what we can access about each merger partner with our five senses)
- Perspectives (the way each partner goes about solving the problems it faces)
- Values (those things each partner places value and priority upon)
- Deep unconscious assumptions (the inchoate and tacit aspects beyond language)

Culture is not one of these – it is all of these! And all are impacted in a merger.

Whilst "engineering" culture change in merging organizations is, as Tim Dalmau contends, an exercise in futility, this does not mean there is nothing to be done to facilitate the coming together of organizations in an effective manner. The desired result is one in which the two or more

Tim Dalmau

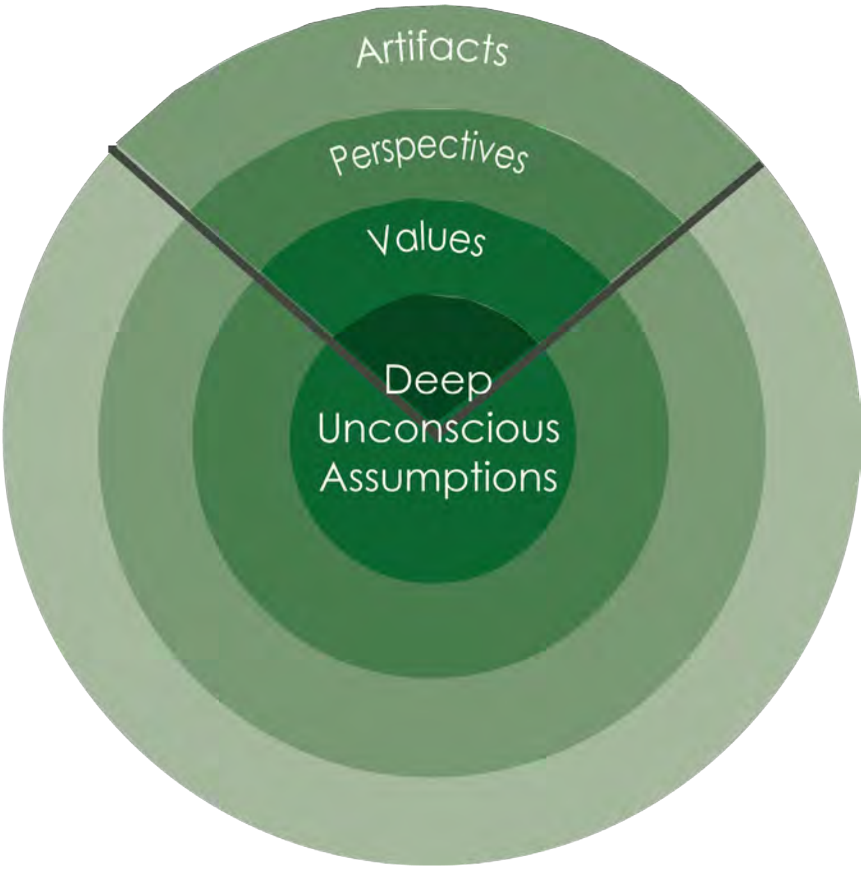

Figure 1: Organizational layers (after Lundberg)

enitties can better understand and work with each other, and actually reap the intended benefits of a merger.

Four possible approaches

The management literature regarding mergers and acquisitions is dominated by 4 key strategies for organizations in relation to approaches for cultural change – they seem to have originated with the work of Malekazedeh and Nahavandi (1990)[1]. Table 1 on the net page summarizes their work. Whilst we can debate the reality of this taxonomy, in the remainder of this post, the focus is on the case when integration is the desired merger strategy.

Impact of mergers

As in all human systems, merging organizations where people and change are involved are, by definition, complex. The key areas of an organizational culture impacted in a merger include,

1. Leadership style – eg. dictatorial, directive, consultative, collaborative
2. Decision-making processes – eg. top-down, consensus, transparent or opaque, rapid or turgid
3. Ability to change – willingness, and knowledge of how to bring about change
4. Operational processes and practices – how people work together
5. Beliefs as to what success looks like for individuals – what is rewarded (for example - teamwork or individual excellence)

Changes in any of these areas without careful thought and action can cause some or all of the following consequences,

- disengagement or turnover of employees, especially in top talent
- paralysis in decision-making or implementation
- ack of will to work through the inevitable differences and difficulties
- lack of knowledge and skill to know how to bring about change
- lack of clear understanding of roles, expectations and boundaries
- lack of shared understanding about business priorities
- operational process incompatibility

Given this, what can be usefully done to

1 Malekzadeh, A. R., & Nahavandi, A. 1990. Making mergers work by managing cultures. Journal of. Business Strategy, 11 (May/June): 55–57

Merger Strategy	Description	Works best when
Assimilation	Aquired company embraces acquiring firm's culture	Acquired firm has a weak culture
Deculturation	Acquiring firm imposes its culture on an unwilling acquired firm	Rarely works - may be necessary only when acquired firm's culture doesn't work but employees don't realize it.
Integration	Merging companies combine the two or more cultures into a new composite culture	Existing cultures can be improved
Separation	Merging companies remain distinct entities with minimal exchange of culture or organizational practices	Firms operate successfully in different businesses requiring different cultures

Table 1: Possilbe apprroaches for bringing organizations together After Malekazedeh and Nahavandi (1990)

support successful cultural merging or integration, if anything?

Rising to the challenge

Preliminaries

To start, each of the entities need to share, through face to face dialogue over several sessions, how "work really gets done around here" focusing on issues listed above (a to e). Whether these conversations are restricted to the Executive, senior management or involve a cross-section through the whole of the new merged organization needs to be considered. This provides a foundation for dialogue about what, as a merged organization, is really valued in terms of a way of working and what approaches to keep, do more of, stop or start doing.

The very act and discipline of sitting together in dialogue, seeking to understand and share what is valued helps minimize the power dynamics and can lead to a deepening level of connectivity and understanding.

This is a rational (above the line) process and very necessary. Additionally, one might also consider using a history trip process – we have used this process successfully to facilitate mergers in many settings dating back to the original merger of Ernst & Whinney with Arthur Young in 1989 then later in the merger of Ernst & Young with Arthur Anderson to form what has recently come to be known as EY.

Collections of employees from both sides of the merger come together and as separate groups take the time to trace the history of key events in their individual history. It follows a particular set of steps based around sequential storytelling and is then usually associated with some future-casting component.

Change Leaderships team and Plan

Once a deeper level of conversation and connectivity has been established, and alignment created of how the new organization wants to work and be, then the suggestion is to set in train a more structured process for change. This may be done by the creation of a carefully selected team to guide the process and develop a plan for change, ideally with a strong organizational engagement component.

This phase of work can be huge or small depending on the context but will normally cover integration of the way the new

organization is to be structured, how its systems, procedures and operations will be conducted and how it will formulate and realize strategy, but especially what it will value and place priority upon.

Social Contract

It is then suggested that, starting from the top, teams develop for themselves a social contract, focused on the behaviors they are going to model, live by and that are expressions of the organization they desire. Social contracts serve to cement aspirations for the 'new' organization in concrete, practical ways. Processes to keep the social contracts for each team, front of mind, and alive are critical. The contracts themselves must be visible in the workplace, conversations based on these part of frequent team conversations, and people made accountable for behavior consistent with their contract.

Agree an Operating Model

A key to effective integration is ensuring the way the organization is going to operate is clear to all. In some organizations it may have been implicit in the past but it is critical when merging that the operating model is explicit, is deliberately considered, chosen and transparent to all.

Depending on the circumstances this may mean developing a new operating model or revising the existing model of the acquiring or acquired organisation. The Operating Model should consist of a clear and coherent structure, clear role statements which clearly indicate purpose and scope of roles, key accountabilities and responsibilities, and key relationships and reporting frameworks.

Inherent and explicit should be the high-level operating principles that will guide the implementation and on-going operations of the organization.

These then need to be wrapped explicitly in a description of the organization's main entities, their purpose and links to other key entities

and boundaries among same. And this whole Operating Model needs to be syndicated and refined with employees of all merger entities.

Business and Strategic Planning

Obviously, a key to successful integration is ensuring that all are clear about the goals of the new enterprise, key strategies for realizing the goals and agreed priorities for the business. Often adjustment may be needed to the adopted business planning cycles and frameworks.

A priority will be to commence with a process to review or renew values, vision, goals and priorities. This is likely to have started with conversations in the preliminary stages of merging and will have been emerging as the process outlined thus far is followed.

Engagement and Communication

The challenge throughout a merger is the integration of a way of working together founded on deliberate and on-going meaningful engagement and communication process with all members of the merged organizations.

When there is lack of transparency as to how decisions are being made and when people feel they don't have any way of influencing how they are expected to work together then negative consequences and the possible failure of the merger ineitably follow.

Rising to the challenge of bringing two or more organizations together so they can constructively and effectively realise ALL the benefits of a merger may look easy when laid out in this short paper. Inevitably in reality it will be messy and iterative.

The important fact remains that one cannot bring about effective and sustainable change, without involving and truly listening to those who are part of making the change successful.

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