

ASK®

# MERGERS & ACQUISITIONS

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why ignoring the  
**PEOPLE  
DIMENSION**  
results in failure



Let's  
Learn

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# EXECUTIVE SUMMARY

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In a survey of 90 executives with experience of M&A, McKinsey found 92% believed their past efforts would have substantially benefited from greater cultural understanding prior to the merger.

72% said too little effort is focused on culture during the post-merger integration period.

Source: Peter Buell Hirsh: *Being Awkward: Creating Conscious Culture Change*,  
*Journal of Business Strategy* Vol.36 No.1 2015

It's boom time for Mergers and Acquisitions. With troubles in the euro zone, a slowdown in emerging markets and unrelenting competition, Boards are seeking deals to strengthen strategic positions. According to investment analysts Dealogic, total 2015 global expenditure could exceed \$4.7 trillion, 34% higher than 2014 and exceeding the 2007 record. But whether growing sales or shedding costs, the challenge of extracting value remains - and history makes uncomfortable reading.

Surveys show that as many as 80% of deals destroy rather than create wealth. Most of us can readily recall a number of well-documented, high-profile deals that should never have been done: others were as good in the flesh as on paper, yet shareholders still lost out.

There is a familiar pattern: too little listening and too much of the wrong talk. Structures that cling to the old and fail to facilitate the new. Strategies that reward the wrong behaviours. Above all, insensitivity around culture and values.

Ultimately, any M&A is only as good as the organisational change programme that succeeds it - which is why *people*, not numbers, lie at the heart of success.

ASK® have advised organisations on how to deliver successful organisational change for over 20 years, helping leaders accelerate their organisations' evolution. We combine formal and informal learning to ensure our solutions are both effective and cost-effective. Our approach to behavioural change isn't wedded to any single theory, and we harness best practice in learning transfer so people can use their learning to deliver enduring improvements in productivity.

If you're considering a merger or acquisition, it is worth remembering an enduring truth: **organisations don't change until their people do**. In the battle to extract the anticipated value from any deal, it pays to have ASK's experienced people specialists around you.

“A study by Hay Group and the Sorbonne found that more than 90 percent of mergers in Europe fail to reach financial goals.”

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**DARCY JACOBSEN**  
**6 BIG MERGERS THAT WERE KILLED BY CULTURE**  
**GLOBOFORCE.COM BLOG**

## TABLE OF CONTENTS

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1+1=?	1
The People Dimension	3
Paying Attention to Cultural Issues	6
Working with Cultural Change	7
Top Five Tips for Managing a Culture Clash	9
Leading Change	10
Case Study: Central Government	11
Case Study: Investment Bank	12

# 1+1=?

There are many reasons that organisations pursue Mergers and Acquisitions, but they are usually intended to provide an increased scale of operations, resources and capabilities, to deliver enhanced financial strength, or to broaden market reach or share.

## KEY AREAS OF FOCUS

(% of respondents)



Source: Culture Integration in M&A: Survey Findings, Aon Hewitt 2011

Yet surveys show that between 40 and 83% of M&As fail to fully achieve their goals. Where M&As are principally motivated by survival – rarely publicly stated, but hardly unknown – this level should ring alarm bells. Organisations cannot achieve only a fraction of ‘survival’.

If we look at where organisations typically focus their attention and energies around the M&A process, two diagrams (shown opposite) shed interesting light. While mantras such as ‘our people are our greatest asset’ are common place, these findings suggest otherwise.

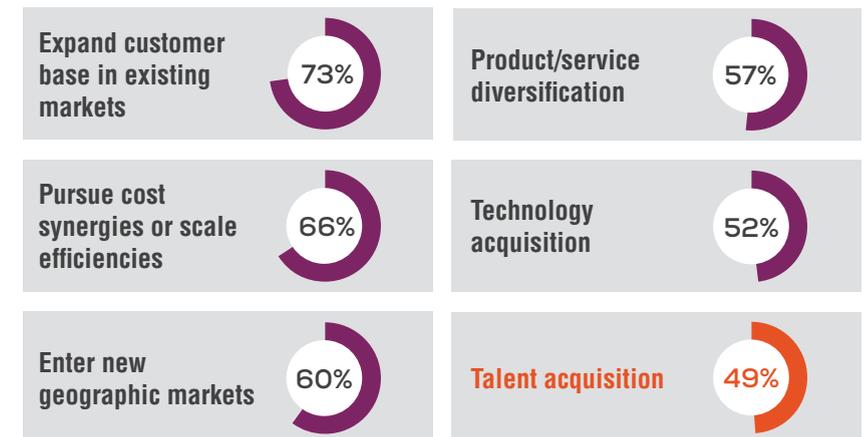
While ‘achieving cultural fit’ and ‘workforce transition’ are seen as the most challenging issues to address, they are **not** seen as the most important.

Similarly, talent is ultimately how any organisational objective is delivered, but ‘talent acquisition’ is ranked as only the sixth most important objective.

Objectives considered important or extremely challenging with respect to company M&A strategy



Objectives considered important or extremely challenging with respect to company M&A strategy



Source: M&A trends report 2014: A comprehensive look at the M&A market, Deloitte 2014

# THE PEOPLE DIMENSION

Mergers and Acquisitions have a profound impact on the people in both companies from senior leadership down, yet this 'people dimension' often receives scant attention. Where M&As fail to deliver their promised benefits, it is usually a result not of poor strategy but of people-related issues: loss of key talent, culture clashes, or management conflicts.

While they are undoubtedly important, purchase valuations are not the only potential prices that organisations can pay. Loss and replacement of staff, especially senior staff and key talents, can cost them dearly, as the Chartered Institute of Management Accountants' COLT<sup>®</sup> and CORT<sup>®</sup> formulae demonstrate.

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**COST OF LOSING TALENT (COLT<sup>®</sup>)**

$$=(\text{Employee EBITDA} \times \text{Employee Weighting} \times \text{Number weeks of vacancy})/52$$

Employee EBITDA is calculated by dividing total EBITDA by the number of employees

**COST OF REPLACING TALENT (CORT<sup>®</sup>)**

$$=(\text{Acquisition Cost} + \text{Cost of Losing Talent} + \text{Opportunity Cost})$$

	Operational Staff	Managerial Level	Senior Management
Employee Weight	1.0	1.0	1.85
Average no. of weeks of vacancy	10 weeks	14.5 weeks	19 weeks

Source: <http://www.cgma.org/Resources/Tools/Pages/COLT-CORT.aspx>

## THE MOST COMMON OBSTACLES TO M&A SUCCESS

- Positioning for power and a clash of management styles or egos
- Lack of managers' understanding of change management
- A clash of cultures that drives negative behaviours and business loss
- Push and pull factors that lead to a loss of top talent
- Loss of productivity/distractions to business drivers as the merger rolls out
- Failure to synergise the changes of process and people
- Poor understanding or communication of objectives
- Impact on both businesses' ability to sustain financial performance

Rank	Top 10 Pitfalls in Achieving Synergies	Negative Impact (out of 7)
1	Incompatible cultures	5.60
2	Inability to manage target	5.39
3	Unable to implement change	5.34
4	Synergy non-existent or overestimated	5.22
5	Did not anticipate foreseeable events	5.14
6	Clash of management styles/egos	5.11
7	Acquirer paid too much	5.00
8	Acquired firm too unhealthy	4.58
9	Need to spin off or liquidate too much	4.05
10	Incompatible marketing systems	4.01

Source: Survey of Forbes 500 CFOs. Assessed on a scale of 1 to 7, where 7 is high.

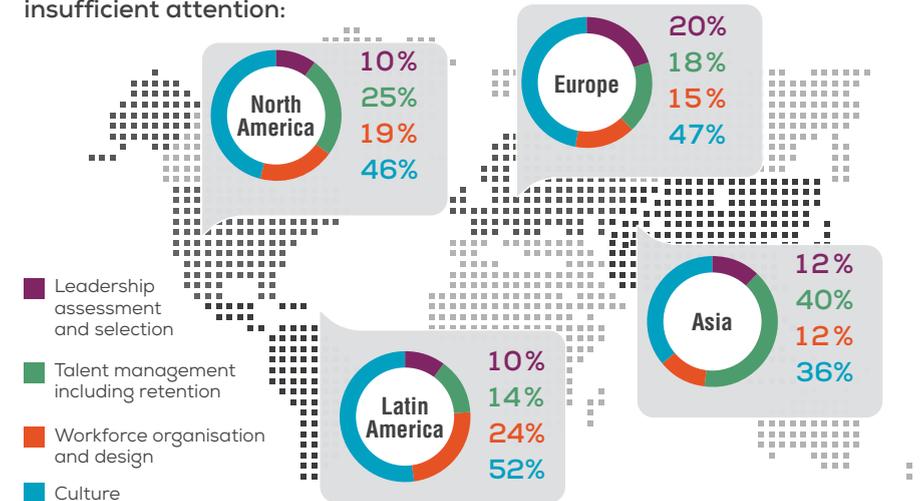
**The implication is clear: strategic people management is as crucial as sound strategy and fair valuation to a successful merger or acquisition.**

“Just because your two companies are in the same industry doesn't mean you've got the same culture. It's all too easy for the acquiring company's integration team to swagger in with 'winner's syndrome,' and fulfil the worst fears of the new staff. Far better if they enter the new company's offices carrying themselves with the four H's: honesty, humanity, humility and humour.”

**JIM PRICE, UNIVERSITY OF MICHIGAN ROSS SCHOOL OF BUSINESS**

## ASK® - PAYING ATTENTION TO CULTURAL ISSUES

People issues receiving insufficient attention:



Source: Mercer 2013 Global M & A Ready Registration Survey

Successful integration requires rigorous review of current cultures, how each is defined and how they align to the new organisation's strategic objectives - aspects of due diligence that organisations ignore at their peril.

In the M&A context, employees are being asked to 'remain' loyal to an organisation they may now barely recognise: while databases can be merged and office layouts streamlined, two employees cannot be so simply merged into a new, fully-functioning, uncomplaining new person. Even where new values are clearly communicated, they must also change the way they behave: few of us can 'self-change' without false starts, failures and relapses: most people need on-going support.

Behaviour is also interpersonal. In the M&A context, many will be working in new teams or relationships: even old colleagues will be confronting new terrain. Simply 'being in the same boat' is not necessarily a successful bonding and team-building activity if no-one is familiar with the boat.

# ASK® - WORKING WITH CULTURAL CHANGE

Managing the impact of an M&A on the people of the businesses in question is a crucial dimension of managing a successful transition to a unified leadership, business model and organisation. Ignoring or giving too low a priority to longer-term 'soft' issues can all too easily lead to a swift, hard lesson.

Organisational culture can drive either competitive advantage or strategic drift, but it is manageable. Simply changing structures and control systems is not enough: strategies need to change at point of delivery, requiring not just encouragement and reason but routine and symbolic changes in behaviour and attitudes. This must be underpinned with change management programmes and learning interventions that help managers to implement them, and HR professionals need to take a strategic role.

We use applied models of change that help leaders manage their culture and enable the required transition, and which challenge them to answer the following questions:

- What are senior leaders' core assumptions and beliefs, and does the culture reflect these? How formal/informal are existing structures?
- What is most closely monitored/controlled and why?
- What stories are told about the organisation?
- Which visual symbols may be censoring or controlling behaviour?
- How would you describe the dominant cultural assumptions?

The Culture Conundrum:  
Companies know it's important but don't know what to do



Source: Culture Integration in M&A: Survey Findings, Aon Hewitt 2011

Once we have explored their responses, we combine contemporary thinking and research with proven change management tools, to challenge them to think differently about how they will implement change in each of these areas.



Source: Harnessing Potential, Mid-Market Integration and Managing Change. West Monroe Partners, 2015

## TOP FIVE TIPS FOR MANAGING A CULTURE CLASH AFTER M&As

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It's said that 'the devil is in the detail', but the greatest opportunities often lurk there too. In successful M&As, the most important – and most overlooked – 'detail' is often in the human element. Here are five tips to help you:

- 1 Have a people strategy:** failure results more frequently because of people-related issues, such as the loss of key talent, culture clashes, and management conflict over strategic direction.
- 2 Understand the situation:** take time to understand the existing context of both environments (ie the acquirer and the acquired). What had made them function effectively as 'systems' in their own right?
- 3 Decide what you want to keep:** be clear which aspects of the culture you want to retain and which you wish to change. Mergers and acquisitions bring together not just organisational capabilities but also characters and styles
- 4 Honesty and transparency:** understand what you are actually asking of the people involved. In any M&A scenario, some employees are being asked to 'remain' loyal to an organisation that may now differ quite fundamentally
- 5 Expect unpredictability:** remember that businesses are composed of people, and that human beings are complex and changeable. They also have emotions and may sometimes respond in ways that others find unpredictable.

## LEADING CHANGE

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In today's workplace, change is both a strategic imperative and a process that must be managed. And where someone is managing, others must be managed. Change cannot impact on an organisation without impacting on its people. To manage both, leaders must more than ever demonstrate a keen understanding of personal impact, self-awareness, attentive listening and a capacity for empathy.

The Kubler-Ross Transition Curve's similarity to a rollercoaster is not without reason, but it is also a simplification: people travel along it at different speeds, reaching different highs and lows. Multiple change cycles can overlap or play out in parallel. But there's another important aspect: some are leading change, while others are being led.

Those leading are further along the curve: while they experience the upward climb, those they lead still face a downward arc. Unless leaders can inspire others, "We're all in this together" can be a simplification too far. Clearly communicating future benefits, and continuing to do so, can help to keep longer-term gains more clearly in mind.

The Transition Curve also reminds us that resistance to change is a natural human response. Hearts and minds cannot be as readily reconfigured as an organisational chart, but knowing that resistance will be encountered increases the chances of a positive outcome.

### KEY SKILLS FOR CHANGE LEADERS

- Delegation and positioning change advocates across the organisation
- Identifying 'early adopters' whose enthusiasm can be built upon
- Continuous, clear communication that addresses why as well as when, what and how
- Emotional Intelligence, active listening and awareness of impact
- Awareness of signs of rising resistance
- Actively demonstrating that trust would not be misplaced.

# CENTRAL GOVERNMENT MERGER CASE STUDY

**Project**  
Leading the Vision  
for Senior Civil  
Servants

**Theme**  
Leading  
Performance

**Location**  
London (UK)

## THE ORGANISATION

Our client was created in 2001 following the merger of a number of Departments and Agencies, with the objective of providing a single continuum of services to the public during their working lives and subsequent retirement. Following initial integration, the organisation's Executive Committee identified a need to adopt a common set of values, and a consistent set of leadership behaviours to support them.

## THE REQUIREMENT

A Leadership Development programme was required for all Senior Managers in the organisation and its agencies (including Executive Committee members), to help them lead the necessary organisational culture change to realise the values and achieve the business objectives. ASK® was commissioned to design and deliver an effective Leadership Development programme for 240 Senior Civil Service (SCS) members involved.

## OUR SOLUTION

In concert with a project steering group drawn from within the Department, we designed a six month programme of activities called 'Leading the Vision'. The programme featured a two-day residential event, a 'back to the shop-floor' experience and six months of executive coaching.

The residential event comprised practical activities designed to raise awareness of personal leadership style and featured a two hour developmental session with an Executive Coach, leading to the creation of a personal development action plan. The 'Customer Experience' enabled senior staff from both policy and operational roles to spend five days working with customers in a 'hands-on' capacity. To complete the package, each participant was given a budget of six hours of coaching with their Executive Coach.



Participants have included the whole of the Top and Senior Management Teams (including the Permanent Secretary), all Executive Committee members and all the other SCS members of the Department.

## EVALUATION

Post event evaluation questionnaires showed the following responses:

- Programme meets or exceeds personal expectations and development needs – 97%
- Uptake of subsequent Executive Coaching Sessions – 98%
- Substantial increase in personal awareness of impact on others – 94%
- Now have clear plan to develop personal behaviours to support values – 95%
- Relevance and value of one to one feedback and coaching received – 97%
- Relevance and value of the skills practice content – 94%
- Excellent networking opportunity and wider understanding of DWP business – 91%
- Rank order of value of Programme elements (top 5):
  - One-to-one Feedback and Executive Coaching
  - 'Leading performance' skills practice
  - Comprehensive programme design and content
  - High quality of Tutors and Coaches
  - Quality of support material

## DELEGATE QUOTES

*"Best personal development event I have attended"*

*"Most worthwhile development experience of my career"*

*"I now understand myself and what I need to do to improve"*

*"I am now determined to live the organisation's values and understand how to"*

# INVESTMENT BANK ACQUISITION CASE STUDY

**Project**  
Management  
Development  
Programme for  
Senior Leaders

**Theme**  
Leading  
Performance

**Location**  
UK

## THE ORGANISATION

Our client is one of the world's largest independent investment management organisations. With over 5,000 employees in 55 offices worldwide, the company has a significant presence in the institutional and retail markets across North America, Europe and Asia-Pacific.

## THE PROJECT CONTEXT

Much of the company's growth has been achieved through the acquisition of a number of small to medium independent companies. A need was identified to bring the resulting disparate group of companies together into a cohesive whole to create a company with a shared vision, culture and leadership style.

## THE REQUIREMENT

Our client sought to implement a global leadership programme for its senior leaders to establish shared standards and common views on leadership, and to recognise the talent in its senior management cadre.

The programme also needed to help the company retain high achievers and build a talent pool from which its next generation of leaders could be selected.

For its participants, the Management Development Programme needed to:

- enhance their awareness of their personal leadership strengths and development needs
- develop their understanding of the impact of their leadership style
- increase their understanding of other people's perspectives, expectations and needs
- help them to improve the performance of others
- identify personal development goals, whose achievement would impact on organisational performance.



## OUR SOLUTION

Our implemented design for the Management Development Programme was a four phase, 30 week behavioural change programme using MBTI®, 360 degree feedback, FIRO-B®, transformational skills development and a rigorous re-entry process using our ground-breaking 'follow-through' technology to improve practice and support transformational change.

- **Phase 1 (Pre-event):** participants completed MBTI®, FIRO-B® and 360 degree feedback questionnaires and met with their line managers to agree development priorities
- **Phase 2 (Workshop):** a high impact experiential learning residential workshop, drawing on diagnostic tools previously completed, and providing opportunity for facilitated practice of key skills
- **Phase 3 (Re-entry):** participants worked through a structured re-entry process supported by our unique 'follow-through' tool and on-line coaching
- **Phase 4 (360 degree feedback re-survey):** participants re-surveyed their 360 degree feedback process to evaluate the extent of behavioural change.

## EVALUATION

The programme used our unique follow-through technology to monitor progress and measure results. At the end of the programme, participants were asked to rate their change in leadership effectiveness: 91% considered themselves 'more effective' and the remaining 9% rated their performance as 'much more effective'. In terms of business impact, 96% of participants said that – as a result of their efforts following the programme – there had been 'some' or 'significant' impact on their business.

Six months after the workshop, participants also repeated the initial 360 degree feedback survey, and assessed five of the reviewed six leadership capability areas as having improved.



The people dimension can make or break any M&A deal, no matter how well structured.

We have twenty years of global experience as people specialists across all markets - our contact details are below.



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