Blending cultures: Success factors in merging knowledge-based companies

An article by Mark Walztoni
The strategic combining of assets has been used as a tool for expansion and market positioning since long before the written record.

Setting aside, for the moment, the sacking of villages and the forceful, violent annexing of entire nations, mergers and acquisitions (M&A) are traditionally a bloodless affair, with all parties more or less agreeable to the arrangement. Marriage contracts, for instance, have for centuries combined the assets and liabilities of strong families to make the combined new entity even stronger. Land deeds have passed hands to expand the power base of landowners. While it can certainly be argued that not all participants have been 100 percent on board with these arrangements, over time humanity has found a way to work these things out with minimum damage to lives and landscape.

In the business world, companies, of course, have reconfigured themselves with the objective of diversifying their market presence, expanding into new markets, taking on new product offerings, absorbing the competition rather than fighting it, and so on. These mergers could also be regarded generally as rather bloodless.

From the perspective of the captains and kings of the transaction, it is a good day if there is a relatively smooth exchange of the keys to the warehouse (with all contents accounted for), or the passing of the combination to the vault where the critical formulas, code, and patents are kept, or a glitch-free activation of the magnetic cards that provide access to the reserved parking spaces.

But with the rise of knowledge-based companies that are merging now (professional services firms, management consulting firms, even high-end design companies, any enterprise that depends on the knowledge and creativity of its staff), there’s a new consideration. Merging companies aren’t just acquiring client lists, real estate, or intellectual property. They are acquiring the talent itself – the very people who make the firms competitive. When the deal is struck and contracts are signed, the assumption is that the people themselves are part of the bargain. But unlike warehoused inventory sitting safely on pallets, people have feet. And people are free to walk.
In the M&A process of knowledge companies, the human resource (HR) role carries a vital responsibility that has been overlooked by leaders who are using the old models of transferring company assets. When the intrinsic value of the merging companies is the talent itself, the time has come to revisit your people strategies. Your role as the HR leader in an M&A process is to help the merging companies retain their critical talent – and therefore value – through this unstable transition period.

Your job has many moving parts:

• To help keep the best talent engaged in the newly formed entity.
• To help the new company emerge in a way that fulfills the vision of all the key players.
• To help all the key stakeholders (including those individuals who will be looking for new employment once the merger is complete) move through the changes with the maximum amount of grace and a minimum amount of damage to careers, reputations, and lives.
• To do all these things in the least amount of time without compromising quality and effectiveness of the new company’s performance in its marketplace.

Why so many mergers and acquisitions fail

According to Christian Clayton in the 2011 Harvard Business Review article, “The Big Idea: The New M&A Playbook,” studies show that between 70 and 90 percent of mergers and acquisitions fail. They either fail to achieve their objectives or they suffer an overall drop in productivity in the first four to eight months. People issues and cultural compatibility are cited as the top integration failure factors. So if you don’t address the people and culture problems that naturally emerge during this high-stress circumstance, you risk falling into this group that suffers failure or a drop in productivity (which, in the knowledge economy, results in severe negative outcomes deep into the future; it’s not just a matter of a disappointing quarter of widget manufacture).

When the value of the transaction is the quality of the talent itself – otherwise known as people – companies would do well to recognize that the transition period itself puts the engagement of their most valued asset at greatest risk for all the hazards associated with damaging disengagement. If the C-suite is handling the M&A process like a typical transaction of tangible assets, the true assets are at risk of the typical consequences of disengagement: Leaving, quitting in place, or even actively sabotaging the enterprise.

Otherwise, the final merger may be the acquisition of B Players at A Player valuation.
The result: Competition acquires the talent you wanted to keep. The quality of services your new firm offers diminish significantly. And your firm’s reputation is in peril.

This may be a time when senior leaders are least focused on the health of the workplace culture. But it is definitely the time when it should be the most focused on the interests and needs of their A Players and A Teams, and their engagement levels. Otherwise, the final merger may be the acquisition of B Players at A Player valuation.

You risk losing critical differentiating talent, innovators, people who are out billing high-value contracts, keeping existing customer relationships healthy and intact. When that happens, not only do you lose your talent, but your competitor also swoops in to snag those customers – who are now in transition themselves. Both parties of the M&A end up worse off than they were before the merger began.

This is what I call the triple bump in this scenario. You first lose your A Players. And then you can’t recruit replacements because word has gotten out that your new enterprise is not the place where high-value talent would want to risk their careers. The remaining employees do what typically happens in a disengaged culture – they “quit in place,” not offering their best brain power to the enterprise, holding back until they see what eventually happens to the company.

If people don’t feel that their interests are aligned with the company’s interests anymore, they simply aren’t going to put forward their best effort. Add potential culture mismatches as two very different enterprises merge and struggle to find common ground, and you stand to lose both your best talent and your most cherished customers.

Let’s take a moment to consider some of the standard engagement markers and how they are affected by the high-stress conditions of an M&A process:

**Do employees know what is expected of them?** In an M&A situation, individual job descriptions and expectations can change overnight. Professionals and knowledge workers identify strongly with their work. And they expect to have control over their careers. To have their job descriptions, expectations, productivity goals radically modified without previous warning or consultation with their managers sends them the signal that they are regarded as mere talent widgets. No A Player wants to be a talent widget.

Additionally, compensation and incentive structures that change radically with short or no notice alienate individuals who take personal pride in their work. When knowledge workers agree to accept a position, they have thought about it and concluded that the expectations are in line with their abilities, and the compensation is in line with their efforts. To change the mix of deliverables and rewards without involving their input will invite confusion, frustration, and resentment. Three unengaging emotions.
Do employees have the materials and equipment they need to do their work? In a merged company scenario, employees will be coping with new, unfamiliar products, specs, pricing strategies, methodologies, and policies. Even the new company culture itself might get in the way of engaged, enthusiastic performance. In one newly formed merger, for example, departments were inexplicably pitted against each other in client acquisition activities. Internal competitiveness that impacts external relationships to the point that it’s a zero-sum game does not engage A Player talent.

Do employees feel that their supervisors care about their performance and development? Probably not. The senior leadership is most likely focused on their own careers during the initial M&A planning phases. They know more about what’s happening than the individual contributors. And they’ll know it sooner. They have their own self-interests top of mind. Encouraging the development of rank-and-file has most likely been back-burnered – especially if it’s not clear which ones of those individuals will eventually be let go.

In the earliest stages of M&A activity, the culture changes are subtle and disturbing. There are now closed doors that were once routinely open. There are distracted supervisors who don’t have the emotional bandwidth to care about their departments when they’re thinking about how quickly they might be able to find a new job themselves. There are an increasing number of vacant workspaces. There are abandoned projects.

Additionally, high-value talent is seeing that their competencies might not be what the newly formed enterprise needs. All that hard work they invested in preparing for their next role has come to nothing because that opportunity no longer exists, or that role is assumed by someone from the other company.

Do employees feel that their opinions count? High-value knowledge workers have ideas, innovations, and opinions. And they want to contribute their perspective to their organization at the highest possible level. But in a merger situation, their opinions might be based on a set of variables that were relevant yesterday, but not today. Or they may discover that in the reorganization, their reshuffled position has found its way to the bottom of the deck. And their access to the essential decision maker is blocked by levels of people they don’t know.

Or perhaps there is a culture clash, where one company nurtured a collegial, egalitarian, innovative culture where all voices were welcome. But the other company in the merger was a more command-control culture where the underlying message was, “When I want your opinion, I’ll ask for it.” Employees at home in either culture will clash with the combined entity. The culture that prevails will alienate the top talent from the culture that must now defer.
A three-part culture-based solution for successful M&A integration

HR leaders have heard the hackneyed expression, “People are our most valuable assets,” so much that the truth of the principle has lost its resonance. But it is never more relevant than it is in the M&A of knowledge-service companies. People really are their most valuable assets. Warehouses don’t walk. Real estate doesn’t rethink its career path. Widgets don’t post snarky commentary on public Internet forums and then find a better offer elsewhere. But people can. And they do.

In a knowledge-based company, where the differentiating competitive factor is the knowledge and talent of the people, the value that is placed on the company is significantly dependent on the quality of its people. But you can’t force your people to stay. And the best ones – the ones who contribute the most to a company’s value – can leave at any time. So, in an M&A situation where you are combining companies that rely heavily on their talent, you are actually trading in volunteers.

As the people leader most responsible for creating a culture that offers your best talent all the reasons why they should want to stay, it’s up to you to be the one to make sure all the essential retention and engagement components are in place. Without your concerted attention to this mandate, you will have a clash of cultures and the chaos that results.

Here is a three-part methodology you can follow that will help you see your organization through the transition adventure and stay focused on successful people organization and deployment, even as you face the potential of your own personal career upheaval. You may end up circulating your own resume within a year’s time yourself. But, in the meantime, follow this program of high-value talent integration, and you will have a powerful story to tell that demonstrates your proactive effectiveness in helping any employer you’re associated with attract and retain its most competitive talent.

Step 1: Conduct cultural and talent due diligence

You probably won’t be the first to know that a merger is in the offing. But let’s hope that you find out early enough to help pilot the process to the benefit of both the new company and its employees. The due diligence phase is your opportunity to capture the earliest possible understanding of the gap between the current iteration of the two still distinct companies and the ultimate iteration, once the merger is complete.
Clearly understand what the ultimate outcome will be. Before you can help your new entity achieve its goal, you have to see the vision for the endgame as clearly as the senior leadership sees it. Will it be a merger of equals? Will one absorb the other? Will the acquiring company honor the culture and values of the new acquisition, for instance, the Amazon® acquisition of Zappos®, where personal service is preeminent? Will there be two different sets of employee value propositions that must somehow find common ground that inspires and engages all? Or does the prevailing company intend to wipe out the culture of the other company, with every expectation that the employees will simply fall in line with the new way?

Connect with your direct counterpart in the other company as early as appropriate. In previous decades, this relationship might have been more competitive than cooperative. But now that careers are so mobile, you will both benefit from having a collaborative partnership. This way you can both fulfill your mandate to see the companies through the merger process, while supporting each other in your respective career goals. Do you completely duplicate each other in terms of skill sets, interests, and ambitions? Or do your strengths dovetail? Is it immediately obvious that one will be better suited for the new company? If so, how can you coordinate your work together over the transition process so that you are each best positioned for your immediate future after the merger is complete?

Define the desired corporate culture and compare it with the cultures of the two merging companies. Look at the workplace style and employee value propositions that are currently in place. How are they compatible with the envisioned future culture? Is the way the employees are being treated now consistent with the stated employee value propositions for their respective companies? Or will there be a need to rebuild trust and commitment once the merger is complete? Are the performance and incentive systems in alignment with the behaviors that each company wants to promote? Are they aligned with each other? Or do they somehow conflict?
Again, looking at both companies separately, are they committed to treating their people with the same service philosophy that they expect their people to treat their customers? What gaps need to be closed in those areas?

**Compare companies:** Is one company a seat-of-the-pants swashbuckler when it comes to making strategic decisions and the other company a slow mover that takes years to make a simple staffing choice? Does one company welcome innovation and suggestions from throughout the ranks? And the other only from officially designated subject matter experts? Are the value statements aligned with each other? How different are they? How different are the customer-facing communications that reflect what the attitudes might be internally? What do the org charts look like? How do the two dress codes compare? What is the buzz on social media about these two companies and their reputations as employers?

What do the customers say about each company? Do the two cultures support go-the-extra-mile customer service? Or is one more interested in rate of immediate conversion driven by technological efficiencies, at the expense of potential customer relationships that last over time and result in repeat sales? This is not an exercise in passing judgment on the business models themselves.

This is about thoroughly understanding the philosophies that are the foundations of each business, how they’re different, and how they’re compatible.

Who are the most influential people within each company and why? This is not about who is at the top of the org chart, but who is a connector. Who is the trusted source of news or inspiration? Who will motivate when others can’t or won’t? Who are the opinion drivers in the organization and why?

What are the generational factors that will present themselves as the companies merge? Do you have good reason to be concerned about potential age group conflicts? Where are the key contributors in their own individual career cycles? As the companies merge, will you have an out-of-balance population that needs to be addressed?

**Compare engagement surveys.** Naturally you will want to see the scores and their history of improvement trends (or lack thereof). But you will also want to study the questions themselves. Is each survey an off-the-shelf product? Or are they custom designed after thorough research into the company culture and values? If the companies have invested in custom-designed surveys, you will learn a lot about what’s important to both the companies as employers and the people as employees.
See if the survey questions reflect values that either match or at least coordinate with each other. Where do they diverge, and what do those instances tell you?

**Study the C-suites equally thoroughly.**
The senior-level people leaders might be tempted to focus their study downward throughout the organization. But they shouldn’t neglect an upward examination. Who runs the separate companies now? Who will run the merged enterprise after all is said and done? What will be the exit strategy of the stakeholders? What is their stated philosophy regarding their long-term obligations toward the individual contributors and the workplace culture? How does that philosophy compare with their actual track records of leadership? Can you reasonably count on them to facilitate the integration? Or are you seeing subtle signs of resistance?

**Create an integration dashboard.**
You need to be able to tell at a glance that you are headed in the right direction, hitting on all your integration objectives. There will be plenty of data created throughout the integration process that needs to be organized so that it’s ultimately useful to you. This dashboard transforms all those numbers into a visible, systemized report that you can quickly grasp and keep track of those things that are most important to you.

A good dashboard will provide you with both quantitative and qualitative data. You can set it up so that it reveals those stories behind the objective measures. You can custom design it to suit your objectives. It can be as simple as a red, yellow, green construction. Or you can provide opportunities to elaborate on responses so you can get the color commentary as well. You decide the frequency periods when the dashboard is refreshed with updated reports.

Develop it in collaboration with your senior team. You want to make sure that there’s agreement about the best people measures, talent measures, human capital measures, whatever the entire team finds to be worth monitoring, studying, and reporting to each other about.

You are creating a culture of collaboration in this way. And the participants are trained to understand the dashboard’s nuance as early in the process as possible. Let’s say, for example, your dashboard reports that your new integration is experiencing 10 percent turnover. In most cases, this might be interpreted as very bad news. But then another manager asks the question, “What percentage of this turnover was voluntary? What percentage represents people we didn’t want to lose? What percentage are people we can afford to let go?” When you involve your senior team in the development of the dashboard, they will take active interest.
in using it. And they will ask themselves the questions about the results that really provide the value of understanding that the whole company is looking for.

It’s been said, “What gets measured gets managed.” By developing this dashboard as a senior team, you are deciding together what are the important data points, how they should be interpreted, and what issues of lesser importance can be set aside for now. Some of the metrics you might consider including are:

- Aggregate retention
- Retention of critical talent flight risks identified during this early phase
- Retention rates by department
- Retention rates by location
- Exit interview data
- What should your company start, stop, or keep doing to accelerate integration?
- What is being said in public forums; what are the common themes of the comments?

I am presenting the dashboard as an essential component of the due diligence phase of the integration. But the dashboard will be a tool that you will carry with you throughout the entire process. And, hopefully, you will incorporate it into your management strategy well into the future.

Step 2: Take action based on your findings

What you do next will be very much based on what you discovered in your due diligence. You should now know where the gaps are between the condition of the two companies and the ideal merged culture – and what metrics will most efficiently track the progress in closing the gaps. You know what potential cultural elements could become barriers to the new company’s progress. You also have a good estimation of what cultural disconnects are truly worth focusing on, versus what is simply fleeting cultural noise.

As you move forward into your action steps, it’s important to remember that this is an iterative process that you will be monitoring and adjusting as you go. Feedback mechanisms are essential, as well as openness to necessary course corrections. You are setting the tone for your new culture by your own behaviors. People will be watching how you carry yourself, handle your department, and treat people. HR is the role model for the rest of the new organization.

Define the desired corporate culture and compare it with the cultures of the two merging companies.
Integrate your HR department quickly. You are setting the tone in terms of not only cultural behavior attributes but also a sense of urgency. You may not have everything organized or operationalized exactly the way you want your department, but as long as you’re a step ahead of the rest of the company, you’re leading.

Likewise, look for ways you can keep your outgoing counterpart in relationship with you and the newly merged company even after he or she has left. Offer a retainer relationship for a few months so that you have a sounding board with someone who could be the only person in the world who knows what it’s like to be you.

Treat the departed with respect and dignity. Lay-offs will most likely come in waves, so people who remain after each wave are watching how the freshly laid off colleagues are treated throughout the process, and even in their absence. Give them the chance to complete projects if you can. Whenever possible, give them fair warning so that they can begin their job hunt from the position of strength of having a current title and position. Give them the opportunity to say good bye to their coworkers. Make sure their records show that their terminations are “no-fault” so that their careers don’t suffer in the long run for this change in corporate strategy.

Look for ways to keep your laid-off employees associated with the new company. The budget for their position might run out before your need for their services does. If it makes sense to do so, engage them as consultants to do project work after their formal full-time employment comes to a close. Encourage your current employees to stay in touch with them. You never know when you might want to hire them again, either for this new company, or the company you move on to yourself after the integration process concludes. In the meantime, people will be watching how you treat all employees – past, future, present – which will be an essential example of corporate culture in action. Make sure your behaviors are consistent with the company’s stated values.

Identify and implement ways of encouraging desired behaviors quickly. An across-the-board culture shift will take several years to completely settle in. But you can start right away to build up a workplace culture that reflects the desired behaviors. Look for cultural fit from the new hires, for instance. Establish appropriate behavior changes. These behavior modifications will build up over time.

Re-recruit your current employees. It’s not enough for them to know they still have a job to be willing to volunteer their efforts and talents to the new organization. You need to make an active effort to invite them to rededicate themselves to the company and its new direction. You have kept your A Players for a reason, and it’s the same reason that makes them supremely desirable to headhunters and your competitors. Make an effort to get to know them, tell them what their new job is, perhaps create custom retention strategies on an individual or team basis.
Create retention, compensation, and team-building budgets to correct salary anomalies and bring in special training. They don’t have to be across-the-board salary increases for those who have managed to survive the merger process. But you need to have enough leeway to provide incentives for your highest-value performers to stay. And, the larger the organization, the more likely it will be that you will come across disconnects between compensation and desired outcomes.

Give your employees the chance to get to know each other in meaningful ways. A reorganized company means reorganized departments, with newly configured teams grafted together from a motley collection of employees, often from around the world. Shared objectives and dovetailed job descriptions won’t necessarily create the bonded workplace culture that will help yours operate at its best. Look for ways they can have shared experiences both within their departments and cross-functionally that will reconstitute a new company culture that is quickly ready to operate at full capacity.

Communicate, communicate, communicate. Whether your company culture is embedded in a single location or throughout the world, you need to hear from your people. And they need to hear from you. And they need to hear from each other. Technology facilitates town hall meetings; Facebook-type social media platforms can create virtual communities of team far flung among continents. Team collaboration tools bring people together in virtual rooms where they can participate anonymously in focus group type conversations.

However, don’t simply hide behind your computer monitor. Get out into the field as much as your time and budget will allow. Different geographical regions within your company, as well as different departments closer to home, have their own microcultures, too. So they need to be exposed to the new vision for the newly merged company. And they deserve to see the person who is driving the culture change.

If your company is in a variety of international locations, make sure all official communications to them are in their first languages. Everyone needs to know the same thing at the same time. This way you avoid the false impression that headquarters cares about one group over another.

Hold top of mind exactly what the vision is for the new company. Be as clear as you can possibly be when you imagine it yourself and in how you articulate it to the rest of the company.

**Step 3: Track your trends and results**

By now your metrics dashboard is filling up with data. You have gotten your key stakeholders into the habit of referring to it in preparation for essential, high-level
meetings. And they have come to own to responsibility of incorporating talent considerations into their decision-making process and communications strategy.

There is no end-point to your metrics gathering activities. But as the integration process reaches certain milestones, you would do well to revisit your dashboard with a distinct set of objectives, beyond the essential tracking of trends that you had been doing all along.

**Update your set of metrics to be the most relevant to your current phase of integration.** It’s likely that some of the most pressing issues that had been before you at the outset of the integration process are no longer the most relevant now. For instance, you may have moved beyond worrying about the voluntary departure of key talent at a certain point. And now you would like to replace that metric with one that tracks how many new candidates come to your company as a result of employee referrals.

**Measure the correlation between stated employee value proposition and actual employee experience.** Your newly integrated organization is building up a culture track record. Administer an employee engagement survey within twelve to eighteen months of the merger to begin to track the progress that the company is making toward the desired culture.

Don’t be misled by an overwhelming positive report or a negative one. What you are looking for is an accurate snapshot of employee attitudes and experience regarding the company. Employees who are apathetic or even mistrusting might report positive experiences just to get the survey completed and out of the way. Seemingly negative results could actually be a positive indicator that your people care enough about the progress of the new culture that they are willing to take the time to report honestly. Your goal is evidence of progress, not an indicator of having arrived at some ideal.

**Use the results for training, not punishment.** The leaders whom you have retained through the merger are learning new behaviors and management skills to align with the new ideal, merged culture. They’re human; they’re not going to deliver uniformly and perfectly from ‘day one.” There will be an adjustment process. The results of your surveys and dashboard should be used as indicators for where additional training or, perhaps, team building is required.

**Gather stories.** Behind each new change in the dashboard, there is probably a multitude of stories about how the employees of the merged company are courageously taking on the transformation. The wisdom and insight you’ll be gathering from these stories will help you breathe life into the metrics as you help the senior leadership understand the results of the culture transformation – as well as quickly grasp what has worked and what hasn’t.
Conclusion

As you move through this process, the one cultural integration story that you should not overlook is your own. No matter what kinds of industries are being blended as a result of your merger initiative (even if it’s not a professional services type combination), every company today depends substantially on its most mobile of assets – the high-value talent.

The experience that you will have successfully ushering two company cultures through a successful merger positions you to provide this exceedingly valuable service as companies form, combine, and recombine in the upcoming years and decades. This experience will be your differentiating factor, a niche that will put you in great demand.
Learn more

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