



IMPACT OF CULTURE ON MERGERS & ACQUISITIONS (PART 1)

Make no mistake about it, mergers and acquisitions are here to stay. Take **Singapore** as a case in point, for her to develop into one of today's World Financial Centers, the Monetary Authority of Singapore (MAS) at some point in their banking history encouraged their four largest local banks to acquire and merge with the smaller local banks to become bigger and stronger. This was necessary for them to meet up with the competition from larger international banks. The positive results are now history as the Singaporean Big Four were ranked by Moody (a U.S rating agency) as financially amongst the strongest and best capitalized in the world.

The Nigerian Banking System is sure in need of sound fiscal and monetary policies particularly as it relates to Bank Capitalization. Let me exercise caution here to mention that these policy changes were not restricted to the banking industry alone, but it affected all parts of the financial sector. With advice in form of industry proposals and views from management consultants and industry committees, steps were taken to promote the (i) asset management industry, (ii) promote the growth of the capital market (by freeing up commission rates and access to the exchange) and the (iii) internationalization of the currency. These are practical tested and tried out lessons Nigeria can today borrow from Singapore and then work conscientiously to build our own **Nigerian Model**.

However, no matter how adept top executives have been in working the art of Mergers and Acquisitions (M&A), many are now singing the post M&A blues. According to a KPMG International study, 83% of mergers and acquisitions fail due to mismanagement of cultures. Merging balance sheets it turns out is far easier than merging cultures. Executives must therefore analyze the culture of the two companies before considering a merger or acquisition.

The good news is that while culture is usually not changed quickly, processes are available to understand the "legacy" cultures of both merged and acquired organizations and to create a new culture for supporting the new enterprise strategy.

This is a three part article. We would attempt in this part 1 to have a quick run through of the underlying items in understanding the legacy cultures of organizations. In the subsequent two articles, we would discuss the key factors necessary to determining if good or bad chemistry exist between prospecting merger companies (part 2) and common pitfalls on the path to merger success (part 3).

✦ CLARIFYING CULTURE

Culture is the pattern of norms, values, beliefs and attitudes that influence individual and group behavior within the organization. In short, culture is "the way we do things." Culture therefore is not an independent variable in the business equation; rather it exists or should exist to support the business strategy.

✦ ASSESSING THE CULTURE

While unquestionably, organizational culture is the "soft side" of business reality, we know it can be a real M&A buster. It is critical to first understand and assess the current culture of both companies involved in the M&A process, giving ample weight to issues of culture during due diligence.

Please note that the purpose of cultural due diligence is not to eliminate culture clash-an unlikely event even in the best of circumstances, nor is it to find a perfect fit between two organization. But while a wide gap is unhealthy, the best mergers occur when a fair amount of culture differentiation prompts debate about what is best for the combined organization. These discussions should be well underway before the merger occurs.



✚ UNDERSTANDING VALUES

Values are a key element in assessing culture- values that are both explicitly stated as well as those that are implicitly held in an organization. In an M&A situation, it is key that both types are examined and intimately understood.

The strategy of an organization is a goldmine for the discovery of explicit values within an organization. For example, what does the mission statement say about the organization and its goals? What values are manifest in strategic statements dealing with future markets, future products, capabilities and financial expectations? What does the annual report emphasize? Such statements speak volumes about the culture of the organization.

✚ CULTURAL INTEGRATION

Once you develop an understanding of the current culture, and have compared that with the goals of the merged organization, it is time to think through what it will take to implement that strategy. This process requires consideration of a number of factors, including organization structure, operating and decision-making apparatus, reward systems and people-related issues.

The project plan for the integration has the following common elements:

- Establish the Strategic Context Early On

This can be formulated by asking and answering basic questions about the vision, product and market scope, critical issues, competitive advantage etc of the prospecting merger companies.

- Communications

An important element for managing a company's culture in preparing for M&A activities. It is even more important in the period leading up to and following closure of the deal.

- Identify and Resolve Important Cultural Differences

- Identification of Leaders

There are two distinct issues: first is the need to ensure that the executive team is aligned with the new strategy during the integration process. The second is the creation as quickly as possible of a new management team. Even if an interim team is required (as is often the case), changes to the management team must be completed soon enough. This is because until the final management is in place and operational, UNCERTAINTY exists and will be manifested first in high employee turnover. A mass exodus of customers moving to the competition is typically next.

✚ CULTURE DOES MATTER

Creating a cohesive culture from two distinct entities is a challenge. But in today's business environment characterized by large numbers of M&As, it is very essential that companies take cultural issues seriously as they do financial ones. Attention to culture has proven to make the key difference between success and failure. Otherwise, the urge to merge may prove to be a costly impulse.

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