



IMPACT OF CULTURE ON MERGERS & ACQUISITIONS (PART 2) GOOD OR BAD CHEMISTRY BETWEEN PROSPECTING MERGER FIRMS

Corporate mergers or acquisitions are normally justified as being conducted to maximize opportunities and synergies to seek optimization of shareholder value. Experience has shown that in the conduct of the M&A activity, determining nature of existing culture at each prospecting merger company and whether there is likely to be good chemistry between them if they join forces is the most complex factor to assess yet it is most crucial to the long term success of the transaction.

Frankly, anyone with decent accounting and investment knowledge can crunch numbers to develop a valuation. The true test of a "good deal" is not the money part of it; it is whether the companies are better together than apart, a year or two down the road.

The following are seven factors that can be examined to develop a sense of the deal, to see whether there might be good (or bad) chemistry between the prospecting merger companies:

1. PERSONALITY OF THE ORGANISM

Companies like other organisms have a persona which is largely referred to in business language as the corporate culture. This ranges from quiet companies to companies that make a lot of noise and bluster; companies that see their employees as their **most important asset** and others that see them as **necessary evils** because you can't yet teach computers to do it all. Once you figure out which categories each of the companies fit in, it's easier to predict when there is going to be bad chemistry.

2. SYNERGY

This has GOT to be the most overused word in the M&A lexicon, kind of like "love" between two people dating. It means dovetailing strengths and capabilities, a situation in which each of the companies brings to the "marriage" assets or advantages that the other seeks or needs to prosper. When this synergy truly exists, it can be one of the foundations of a great marriage.

3. MANAGEMENT STYLE

Someone once said, that even with the very largest, most diversified companies on Wall Street, look at the Founder/CEO, and nine times out of ten, you'll see the essential character of the company. In other words, a company is careful, prudent, and rational if its CEO is. It holds uppermost the welfare of its smallest shareholders if the CEO knows he's actually working for them, or the company chooses to enrich the few guys at the top, at the shareholders expense, if the CEO is simply greedy. Therefore, if you examine the CEO of the prospecting merger companies and you see Balogun Market vs. Wall Street, or conscientious vs. cutthroat, you've almost surely got bad chemistry on its way, no matter how great the "synergy".



4. RESPECT

When two companies unite, you often have two of lots of disciplines. If, in the very beginning of the relationship, they can all be convinced that, while different, each side's teams did things REALLY WELL, then there (sometimes) can be fostered an approach of "...we respect the value you built in your company, so we want to learn from you to make us better". Most often, of course, there already exists a feeling that "none of our competitors does it as well as we do", so inevitably, what remains when the transaction dust settles is an "us vs. them" environment. Before long, the more politically powerful team starts to submerge the other side's technology, service ethic, and customer service. Too often, the wrong side wins.

5. PERSPECTIVE

If the two management teams don't have similar focus, goals, and outcomes in mind, one of them will end up disenfranchised and soon thereafter, gone.

6. COMMUNICATION

This is where the intersection of upper management and the employees can be most "out of synch". A company that's had a tradition of full and open information flow, from management to the ranks and back, operates more like a family and engenders a team spirit, a general feeling that "it's OUR responsibility". In too many corporate structures, individual performance is stressed, there's limited information flow (often due to confidentiality issues), team competitiveness (between operating divisions or locations), and generally a feeling of "it's THEIR responsibility". The difference between the two has mostly to do with communication style, less to do with management structure. When a company with one tradition marries a company with the other, it can be like trying to live with someone who speaks only Greek.

7. FOCUS

We've probably all seen Company *ABC* that was simply a sales machine: they had the pitch down pat, the sales team hyped; the dog-and-pony show rehearsed, slideshow at-the-ready, and could bring in the business at a blistering pace. Then you may have seen Company *XYZ* that's grown over the years largely by referral and word-of-mouth, not too flashy but really gets to know its customers, and is always on stand-by, ready to answer any call for help. Then there's Company *ZYZ*; it's technically superior, has whiz-bang computer systems and state-of-the-art automation, and sells best to customers who appreciate those things and are willing to pay for them.

Try merging any two of these different style companies together, and the senior management faces a remarkable challenge to blend them without implosion. However, HALF the challenge is to identify what yours is and what his is, because if you can put correct labels on the two companies, you're that much closer to a successful integration.



According to Chris Kellogg of Wallingford Capital Corporation USA, in 104 merger transactions over 19 years of experience, companies that pay attention to culture (**and not lip service**) are always more successful than those that ignore it. We can therefore safely conclude that those that work at understanding the impact of differing cultures on the companies (they attempt to integrate) can avoid a good bit of the problems associated with it. Those that deny that corporate culture will affect profits get that hard lesson taught to them very quickly. Those that put out solid and sustained effort to avoid cultural problems do NOT always succeed. However, employees ALWAYS know when a company cares enough to try, and the rewards, while sometimes delayed, do finally show up.

In conclusion therefore, management teams that recognize that cultural integration is the **single most important factor** governing whether profitability can be sustained and grown in the companies they acquire or merge, live long and prosperous lives while their stock values steadily appreciate. In fact, you could say, they usually live... happily ever after.

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