Achieving Post-Merger Success

A Stakeholder’s Guide to Cultural Due Diligence, Assessment, and Integration

J. Robert Carleton
and
Claude S. Lineberry
About This Book

Why is this topic important?
The odds of achieving organizational success after a merger or acquisition are not good. Research into the success of thousands of mergers and acquisitions—large and small—over the last twenty years shows that between 55 percent and 77 percent fail to deliver on their intended financial results. Most acquiring firms actually lose money on the acquisition.

The research also shows that this is primarily due to the failure to effectively assess and integrate the cultures of the companies involved in the merger or acquisition. The high failure rate and significant cost of failure are of increasing concern to the stakeholders of the companies involved—and not just the boards of directors and executives who make the deal, but the shareholders, employees, customers, suppliers, and community residents as well.

What can you achieve with this book?
This book makes a strong case for cultural due diligence, assessment, and integration planning as a major component of the merger and acquisition process and the resulting success of the merger or acquisition. While it speaks directly to the “deal makers”—the board, executives, and senior management—it is also a provocative and informative over-the-shoulder read for all stakeholders with a vested interest in the success of a merger or acquisition and the fate of the new company created by it.

The book details the cultural due diligence, assessment, and integration processes step by step and is a source of information that will enable the stakeholders of both companies to ask informed questions throughout the process and before it is too late. The examples, guidelines, and tools provided in the appendices and on the accompanying CD provide specific guidance for conducting cultural due diligence, assessment, and integration.

How is this book organized?
The book is organized into three parts. Part 1 deals with mergers, acquisitions, and organizational effectiveness. It summarizes the research on the failure rate of mergers and acquisitions and the high cost of failure, examining the organization as a complex system and presenting a model of organizational alignment as a key element of cultural integration. Part 2 focuses on the concepts, process, and procedures of cultural due diligence and assessment. Part 3 focuses on the concepts, processes, and procedures of cultural alignment and integration. The extensive Appendices provide examples, samples, and tools referenced in the book. The CD accompanying the book presents step-by-step guidelines and tools for performing cultural due diligence, assessment, and integration and PowerPoint summaries of the book’s chapters for use in review or presentation to others.
Achieving Post-Merger Success
Achieving Post-Merger Success
A Stakeholder’s Guide to Cultural Due Diligence, Assessment, and Integration

J. Robert Carleton and Claude S. Lineberry

Pfeiffer
A Wiley Imprint
www.pfeiffer.com
Contents

List of Figures, Exhibits, and Worksheets xi
Contents of the CD-ROM xiii
Acknowledgments xv
Preface xvii
Introduction 1

PART ONE Mergers, Acquisitions, and Organizational Effectiveness 5

1 Mergers, Acquisitions, and Organizational Culture 7
   The M&A Report Card 8
   M&A Failure Costs 9
   Why Mergers and Acquisitions Really Fail 13
   Organizational Culture and Culture Clash 15
   A Case Study in Managing Culture—British Airways 16
   The Prevailing Wisdom Is Wrong 16
   Culture as the Culprit 17
   Defining Organizational Culture 18
   Culture and Performance—The Hard Data 19
   National Versus Organizational Culture 20
PART TWO  Cultural Due Diligence and Assessment  49

4  Overview of Cultural Due Diligence  51
   Cultural Due Diligence  53
   The Case for Cultural Due Diligence  54
   Off-the-Shelf vs. Customized Cultural Assessment  56
   Characteristics of a Customized CDD Model  59
   CDD Deliverables  60
   Due Diligence and Legal Restrictions  60
   Pre Letter of Intent/Acceptance Activities  61
   Assessing Degree of Difficulty of Cultural Integration  65
   Getting It Right—The Hewlett-Packard/Compaq Merger  65

5  Performing Cultural Due Diligence  69
   The CDD Process  69
   Cultural Assessment  76
   Drafting the Cultural Alignment and Integration Plan  81
PART THREE Cultural Alignment and Integration

6 Aligning and Integrating the Executive Group
   Planning Cultural Alignment and Integration
   Aligning the Organization
   Discussing Results and Recommendations with CEO
   Aligning and Integrating the Executive Group
   Issues-Based Team Building for the New Executive Team

7 Aligning the Management Group
   Gaining Clarity on Organizational Direction
   Values and Practices
   Gaining Agreement on Values and Practices
   Communicating the Session Results
   Tiger Teams
   Feedback-Based Management Planning Sessions
   Developmental Streams
   Individual Action Plans
   Follow-Up Sessions

8 Aligning the Total Organization
   Design and Activities for All-Staff Sessions
   The Case for Change
   Work-Process Re-Engineering Sessions

9 Cultural Integration Success Measures
   Financial Success Measures
   Cultural Integration Success Measures

10 Summary and Conclusion
APPENDICES

Appendix A: The British Airways Transformation: A Systemic Approach 125
Appendix B: Organizational Alignment Model: A Reading 133
Appendix C: Organizational System Scan Model: An Overview 143
Appendix D: Organizational Scan: Sample Probes 149
Appendix E: Sample Values and Practices 151
Appendix F: Sample Manager 360-Degree Feedback Report: For A. Manager in XYZ Corporation 155
Appendix G: Sample Manager's Action Planning Guide 159
Appendix H: Staff Involvement Day: Sample Agenda and Materials 185

Glossary 193
References 199
Index 203
About the Authors 209
How to Use the CD-ROM 211
List of Figures, Exhibits, and Worksheets

Figure I.1  Cultural Due Diligence, Assessment, and Integration Flowchart  3
Figure 1.1  Typical Post-Merger Performance  14
Figure 3.1  Organizational Alignment Model  36
Figure 3.2  Organizational System Model: Organizational Focus  38
Figure 3.3  Addition to the Organizational System Model: External Focus  39
Figure 3.4  Organizational System Scan Model  40
Figure 3.5  Organizational Factors: Work Level  42
Figure 3.6  Organizational Factors: People Level  43
Figure 3.7  Organizational Factors: Organization Level  44
Exhibit 3.1  Overview of the Organizational System Scan Model  47
Figure I.2  Cultural Due Diligence and Assessment  50
Exhibit 4.1  Traditional Due Diligence Checklist  52
Exhibit 4.2  Sample Key Person Interview  64
Exhibit 5.1  Sample Focus Group Summary  77
<table>
<thead>
<tr>
<th>Figure/Exhibit/Warehouse</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure I.3</td>
<td>Cultural Integration Process Flowchart</td>
<td>84</td>
</tr>
<tr>
<td>Exhibit I.1</td>
<td>General Considerations for Change Management</td>
<td>85</td>
</tr>
<tr>
<td>Exhibit 6.1</td>
<td>Nine-Step Alignment and Integration Model</td>
<td>92</td>
</tr>
<tr>
<td>Figure 6.1</td>
<td>Discussion of CDD Results with CEO</td>
<td>93</td>
</tr>
<tr>
<td>Figure 6.2</td>
<td>Time-Sensitive Issues</td>
<td>94</td>
</tr>
<tr>
<td>Exhibit 6.2</td>
<td>Sample Vision, Mission, Strategy, and Values</td>
<td>95</td>
</tr>
<tr>
<td>Figure 6.3</td>
<td>Issues-Based Team Building</td>
<td>96</td>
</tr>
<tr>
<td>Figure 6.4</td>
<td>Capstone for the Organizational Alignment Model</td>
<td>97</td>
</tr>
<tr>
<td>Figure 7.1</td>
<td>All-Managers Sessions</td>
<td>100</td>
</tr>
<tr>
<td>Exhibit 7.1</td>
<td>Sample Values and Practices</td>
<td>102</td>
</tr>
<tr>
<td>Figure 7.2</td>
<td>Tiger Teams</td>
<td>104</td>
</tr>
<tr>
<td>Figure 7.3</td>
<td>Feedback-Based Management Planning Sessions</td>
<td>106</td>
</tr>
<tr>
<td>Figure 7.4</td>
<td>Follow-Up Sessions</td>
<td>109</td>
</tr>
<tr>
<td>Figure 8.1</td>
<td>All-Staff Sessions</td>
<td>112</td>
</tr>
<tr>
<td>Exhibit 8.1</td>
<td>Sample Agenda for an All-Staff Session</td>
<td>112</td>
</tr>
<tr>
<td>Figure 8.2</td>
<td>Organizational Re-Engineering Sessions</td>
<td>115</td>
</tr>
<tr>
<td>Figure B.1</td>
<td>Organizational Alignment Model</td>
<td>135</td>
</tr>
<tr>
<td>Figure C.1</td>
<td>Organizational System Scan Model</td>
<td>147</td>
</tr>
<tr>
<td>Figure F.1a</td>
<td>Sample Feedback Report</td>
<td>155</td>
</tr>
<tr>
<td>Figure F.1b</td>
<td>Sample Feedback Report</td>
<td>156</td>
</tr>
<tr>
<td>Figure F.1c</td>
<td>Sample Feedback Report</td>
<td>157</td>
</tr>
<tr>
<td>Worksheet A</td>
<td>Areas on Which to Capitalize</td>
<td>170</td>
</tr>
<tr>
<td>Worksheet B</td>
<td>Areas in Need of Improvement</td>
<td>171</td>
</tr>
<tr>
<td>Worksheet C</td>
<td>Selecting Your Target Areas</td>
<td>173</td>
</tr>
<tr>
<td>Worksheet D</td>
<td>Planning Your Strategy</td>
<td>175</td>
</tr>
<tr>
<td>Worksheet E</td>
<td>Developmental Needs</td>
<td>184</td>
</tr>
</tbody>
</table>
Contents of the CD-ROM

**PowerPoint™ Slides**
Section and Chapter Summaries

**CDD/Integration Toolkit**
CDD, Assessment, and Integration Process Flow Charts
The British Airways Transformation: A Systemic Approach
Dealing With National and Ethnic Culture Issues
Organizational System Scan Model
Organizational Scan Model: Methods and Uses
Organizational Scan Data Gathering Probes
Organizational Scan Survey
Nine-Step Alignment and Integration Model
Organizational Model
Organizational Alignment Initiatives Map
Traditional General Due Diligence Checklist
CDD Checklist
CDD High Level: Sample Key Person Interview
How to Analyze the CDD Data
Sample CDD Focus Group Summary
Cultural Integration Planning and Implementation Checklist
Issues-Based Team Building Process and Tools
Recommended Issues-Based Team Building Psychometrics and Surveys
Sample Organizational Direction Factors: Vision, Mission, Strategy and Values
Sample Organizational Values and Practices
Sample Designs: Feedback-Based Management Planning Sessions
Sample Manager 360-Degree Feedback Reports
Sample Manager Action Planning Guide
Staff Involvement Day: Sample Agenda and Materials
Post-Merger Success Measures

Contents of the CD-ROM
The primary acknowledgment that needs to be made is to the numerous researchers, practitioners, and academics who have gone before and laid the groundwork that made this addition to the understanding of organizations and human behavior possible. Many of these people are listed in the References at the end of the book. There are, however, a few people who merit special acknowledgment for their importance to the development of this book.

First and foremost among these is Dr. Donald T. Tosti. Don is a colleague, business partner on several occasions, and always close friend, whose fingerprints are identifiable throughout this book. In particular, the underpinning models of alignment and the organizational system that are the conceptual basis for Cultural Due Diligence and Cultural Integration have been shaped and refined over the years with Don’s thought and input.

Another is Cathleen Hutchison, whose support and encouragement as a partner and colleague during the early development of these overall concepts was very important to the initial articulation of this area of organizational dynamics. Her intellectual probing, questioning, and polite yet insistent pushing kept me going in the early days in capturing and organizing the thoughts and activities that made the eventual detailing of this body of knowledge possible.

The last is probably breaking some sort of written or unwritten propriety, but I have to acknowledge the person with the most direct and critical impact on my
ability to even contemplate writing this book, as well as my actually getting it done—my business partner, friend, colleague, and honored advisor in life and business, who is also the co-author, Claude S. Lineberry. Without his constant support, encouragement, and Herculean efforts, start to finish, this book would never have become a reality.

J. Robert Carleton
Conifer, Colorado

MY PRIMARY ACKNOWLEDGMENT is of the anonymous millions around the globe who get up and go to work each day, striving to do a good job in spite of the organizational turmoil and turbulence that swirls around them as the result of poorly planned and executed organizational change. Thanks to them for persevering and even finding humor in the chaos. Dilbert is indeed alive and well.

I’d to make special acknowledgement of my father, Claude S. Lineberry, Sr., the world’s most logical and systematic man, from whom I have learned so very much—most of it unknowingly. Thanks Dad.

I would also like to offer special acknowledgement of Dr. W. Warner Burke, who opened my eyes to the world of organizational dynamics and systems, patiently answered my at times naïve questions, and had faith in me when it counted. He also showed me that a boy from Alabama can indeed succeed in the strange world of high-stakes consulting.

Certainly my wife Mari and son Michael merit acknowledgment just for putting up with me generally, and especially over the months that this book was in development. I also acknowledge and welcome my first grandson, Alexander Charles Geczy, who brings me great joy and will receive the first autographed copy of this book—much to the envy of his play group pals.

And finally, special acknowledgment to my co-author, partner, colleague, and friend, Bob Carleton, who really did the heavy lifting in the development of this book. Without his clear thinking and his at times voluminous and stream-of-consciousness input, this would be a thin tome indeed.

Claude S. Lineberry
Eagle Lake, California
Preface

THE BRIEF ARTICLE, written in 1997, that evolved into this book started as a frustrated howl at the moon about the insanity of many post-merger situations and the chaos and costs resulting from what we had come to consider nothing more than bad or shortsighted planning.

We had just completed yet another post-merger “triage” project for a client who had, a year earlier, expanded into an otherwise closed market by acquiring a major competitor. In spite of the business logic and business promise of this acquisition, one year later service and quality standards in the acquired operation were far below its pre-acquisition levels—and steadily getting worse. We were asked to get-involved and to see whether anything could be salvaged or if the acquisition should be divested and written off.

We had been in these situations before with other clients—after a heralded acquisition showing great promise on paper, the post-merger or acquisition period often saw operational performance worsen. Often disagreement and dissatisfaction on the part of both customers and staff increased, service and quality levels diminished, staff/management relations worsened, and revenues declined. In short, the great promise of the acquisition or merger was not being realized.

In these cases, we were generally able to resolve the issues and help the organization move toward achieving the originally intended results through intensive
intervention into the overall organizational system and by making adjustments to
the organizational culture. Our frustration stemmed from our success in improv-
ing the situation—after the fact. If we could do this successfully in different com-
panies reactively, how much easier would it be to proactively avoid these post
merger and acquisition problems in the first place?

This set us off on several years of extensive research on mergers and acquisi-
tions, and especially on their success or failure. That, coupled with our continuing
experience in helping clients deal with post merger or acquisition problems, re-
sulted in this book. The intent of this book: to make it possible for organizations
to achieve post-merger success in a timely manner.

We hold strong views about the obligations of management and the fiduciary
responsibility of executives to the organizations’ stakeholders when they choose to
engage in a merger or acquisition. The current merger and acquisition (M&A)
track record is not good, and the stakeholders—especially the shareholders—are
taking the brunt of the resulting losses. We hope that any stakeholder of an
organization—shareholder, employee, customer, or supplier—who has a vested
interest in the success of the organization can utilize the information in this book
to ascertain the adequacy of due diligence and forward planning performed in con-
junction with a merger or acquisition. We sincerely hope that this book will be a
force for improving the success of mergers and acquisitions, thereby making life
better and a bit less traumatic and uncertain for the organization’s stakeholders—
especially the organization’s staff and management.
Introduction

“Of course the merger was a success. Neither company could have lost that much money on its own.”

Steve Case, Former Chairman of the Board,
AOL/Time Warner

The odds of achieving organizational success after a merger or acquisition are not good—no matter whether the companies involved are small, with a few million in annual sales and a few hundred employees, or whether they are corporate giants, with billions in annual sales and thousands of employees around the world. The complexity of mergers and acquisitions certainly increases with the size of the companies involved, but large or small, most mergers and acquisitions fail for the same two basic reasons: (1) failure to assess the potential impact of attempting to merge and integrate the cultures of the companies involved and (2) failure to plan for systemic and systematic and efficient integration of those cultures.

The high failure rate of mergers and acquisitions and the significant costs related to failure are an increasing concern to the stakeholders of both companies involved—obviously their Boards of Directors, CEOs, executive teams, and
management, but also their shareholders, employees, customers, suppliers, and residents of the communities in which they do business.

While this book speaks directly to the deal makers at the Board, executive, and senior management levels, it is also intended as a provocative and informative “over the shoulder” read for all stakeholders with a vested interest in the success of a merger or acquisition and in the fate of the new company created by it. By presenting the data and research findings from mergers and acquisitions over the last fifteen years, and by identifying the key issues related to assessment of cultural dynamics and the planning of cultural integration, we intend this book to be a source of informed tough questions that should be asked early in the merger or acquisition, before it is too late to respond with the answers. In our practice, we use the Cultural Assessment and Integration Flowchart shown in Figure I.1 as a blueprint and the means for discussing cultural assessment and integration within an organization. The flowchart shows all the steps that we use as we consult to merging organizations.

The processes for cultural assessment and cultural integration presented here are the result of several years of research into the success or failure of mergers and acquisitions in companies of all sizes, in all industries, and involving domestic, international, and global companies, as well as our involvement as consultants in a number of mergers, acquisitions, and strategic alliances over the last fifteen years. While our focus in this book is on mergers and integrations, the processes described here are also appropriate when considering possible strategic alliances, joint ventures, partnerships, and other types of organizational collaboration.

We intend the book to be a “how to” guide to achieving post-merger success through attention to cultural assessment and cultural integration planning at the conceptual and tactical level, detailing what to do, in what sequence, and why. It is not a prescriptive step-by-step guide. In something as complex as the assessment and integration of organizational culture, how these two critical activities are accomplished must be determined by the organization involved, based on its own unique characteristics. Throughout the book and on the CD that accompanies it, numerous operational-level tools, checklists, worksheets, and samples are presented as “how to” resources. The book is organized into three parts:

• Part 1: Mergers, Acquisitions, and Organizational Effectiveness
• Part 2: Cultural Due Diligence and Assessment
• Part 3: Cultural Alignment and Integration
The accompanying CD presents a summary of the key concepts of each chapter and a library of operational-level tools, samples, and information.