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When cultures collide

They're often seen as a fast-track to boosting capacity, but M&As can go seriously wrong when two businesses' work ethics just don't marry up. *David Waller* reports

When Steve Case walked away from AOL Time Warner in 2003, he must have been scratching his head and wondering what went wrong. Just three years previously he had engineered a brazen and headline-grabbing $166bn merger in which America Online, a darling of the dot.com boom, had absorbed media behemoth Time Warner. It was billed at the time as the 'biggest deal in history', the perfect marriage of old and new. Time Warner had the content, and Case's upstarts had the technology to take it forward. Yet the relationship soon hit the rocks. In 2002, shares in the new company dropped as much as 75%, and AOL Time Warner posted the largest annual loss in US history: $100bn, roughly the equivalent of Israel's GDP. And this was a deal that Ted Turner, the new company's vice chairman, had described at its inception as 'better than sex'.

Case's demise is an extreme example, but it's by no means unique. In the first three months of 2007, merger and acquisition (M&A) spend in the UK totalled £5bn. Last year, global M&A deals came near the £2 trillion mark, exceeding even the frenzied activity of 2000, when the runaway dot.com bandwagon was at full lick.

Acquisition fever

The print industry is no exception to this trend with headline-grabbing deals including Williams Lea's acquisition of The Stationery Office, French book group CPI picking up Fulmar and Pindar swooping to take control of struggling magazine printer Cooper Clegg.

The appeal is easy to understand: in an increasingly competitive market, the quickest way to consolidate your position and to raise your production capacity and cost efficiency, is to buy up your rivals.

Yet M&As are said to destroy shareholder value in more than half of cases. Their downfall can be attributed to any number of factors, from a poorly managed handover to an →

unforeseen change in market fortunes. If you're considering a merger or acquisition, the sagest piece of advice may actually be 'don't bother', especially when, as in the case of AOL Time Warner, the whole thing can be brought tumbling down by something as intrinsic yet intangible as company culture.

Looking back, it is easy to see why, for all the bluster, the AOL Time Warner merger was doomed to fail. Time Warner's executives were veterans of the old media world, seasoned in traditional business modes. Suddenly, in marched a bunch of young, brash computer heads, ready to take on the world.

The hard fact of the matter is that culture clash in M&A activity is virtually unavoidable. Any deal, successful or otherwise, can suffer from various problems of synergy, so anyone contemplating merger activity must keep in mind one core truth: it's much better to pick a partner or target that already has a largely compatible culture, than to charge in saying you'll rectify the issue later. "It is very important for both managing directors to ensure the companies have a synergy in ethos and personnel," says Paul Holohan, chief executive of Richmond Capital Partners, who ranks culture clash as the single biggest cause of failure in M&As. "If the company cultures are dramatically different, we would advise aborting the acquisition. It really is that important."

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Human cost

Too often, the management on both sides ignores the human issue, concentrating instead on covering their backs in legal and financial terms. They only think to look at human resources after serious problems arise. By then, of course, it's often too late. Differences in working culture can breed competition between employees and destructive attitudes of 'us against them'. Mergers can become threatening to some employees, with uncertainty breeding absenteeism, poor performance and an exodus of talent.

It's important to pinpoint exactly what is meant by the term 'culture clash'. This banner term should not just include matters of procedure, such as the compensation system or how to file expenses. The problem is actually far harder to identify. "Culture is really a company's values, beliefs and norms," says Phanish Puranam, assistant professor of strategic & international management at the London Business School. "These are rarely written down, yet they're widely accepted and understood. That's what makes it hard."

Points of contention, he says, can include anything from which technology is best, to whether it's acceptable to ditch the tie on a Friday.

As a result, "both the acquiring and the acquired organisation should conduct a cultural audit," believes John Gillibrand of Unity Chartered Accountants. "They will then ascertain not only their own culture type but that of the acquired organisation. The audit will allow the parties to assess the 'goodness of fit' of the two organisations and to foresee possible barriers to the acquisition. It will also allow the parties to determine what elements in both cultures are worth retaining."

Hearts and minds

Once the deal has been done, problems can of course emerge in how the changeover is managed. Simply steaming in and imposing new rules on an existing company is bound to cause problems. Nothing is more important than winning the hearts and minds of all involved, by taking the best of both sides and incorporating them into a common culture. Deals are often derailed by a lack of such business basics as openness and integrity. Roles aren't clearly assigned, and everything seems to happen in the opposite way to how it was planned.

The experience of car giant Daimler-Benz's $36bn merger with Chrysler provides a salutary lesson. The 'merger of equals' quickly proved to be a massive misnomer, with Jürgen Schrempp, the German co-chief executive, actually admitting as much in an interview with the *Financial Times*, shortly after the deal was signed. Instead, he said, his company had acquired Chrysler.

Predictably, this didn't sit too well with the American employees. The partnership soon turned into a debacle of international bickering, jealousy and mistrust, a situation not helped by the fact that two American Chrysler bosses were sacked in the space of 19 months, and replaced by a German (a friend of Schrempp's, to boot). The partnership, which was doomed from the start, is now finally coming to an end, with Daimler in talks to sell the ailing US wing to private equity. Its lasting legacy: a glaring lesson in how not to conduct a merger. ■

David Waller is a section editor at leading business management title Management Today.

TOP TIPS AVOIDING CULTURE CLASHES

Culture clash is virtually unavoidable, but there are steps that can be taken, both before and after the deal, to ensure your M&A doesn't become another AOL Time Warner or DaimlerChrysler

- Select the right company. Culture is almost impossible to change, so check the potential partner's culture is similar to yours. How will the two fit together? Find out how the other company would handle a particular problem, and see how that squares with your own methods
- Conduct HR due diligence. Identify the key areas of cultural difference; where the new organisation will be positioned; any changes to be made to policies in the acquirer target; how long the process will take; and what resources will be needed for the change
- Be open. Tell people what to expect from the acquisition. Fear of change is a lot worse than knowing what's going to happen, so pre-empt any rumours by being open from the onset
- Support your line managers. These are the guys in the front line, but often know nothing more than their team. Let them know you trust them to make difficult decisions
- Create a united vision, and do it fast. When Hewlett-Packard acquired Compaq, it launched a two-week campaign to rid the company of Compaq-branded items, donating $80,000 worth of coffee cups and shirts to charity. Teams need a common goal to pull together
- Build networking opportunities. The chance to make new contacts makes it more personal and real for people. Give them the benefit of meeting like-minded fresh blood and getting a chance to learn
- Know who's doing what. Keep competition between employees and hostile feelings to a minimum by mixing employees as much as possible. And identify managers who'll be able to motivate employees after the deal
- Keep hold of your people. M&As often cause major staff turnover. Offer key people the proper incentives to stay
- And finally, the most important thing: be true to your stated values. Fail to do that and it will cause cynicism and mistrust. Show you've stuck to your values and people will accept other changes