Mergers and acquisitions – emotions at work

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The sudden cultural shock

Mergers are a unique situation culturally. During a merger or acquisition you have to manage culture in a different way. Mergers accentuate cultural issues which might have simmered along un-noticed in a 'business as usual' scenario. Anyone who has been holding lingering doubts about whether there really is such a thing as culture will have no doubt after living through the first few months of a merger or acquisition. Culture will jump up and hit you in the face!

In the case of normal organic growth, an organisation's culture grows and changes as its value-set evolves naturally over time. In the case of a merger, two cultures, each an intact and working value-system in their own right, are pushed together. It is like an arranged marriage. The parents got together and worked out a deal, and suddenly the children find themselves lifting their veils to see a complete stranger. The underlying value set of this new partner will not be immediately visible. What are apparent are the behaviours, symbols and systems – the outward manifestations of this value set.

Mergers and acquisitions are high risk for those involved: large sums of money have been spent, reputations are at stake, shareholders watch intently and there are rarely immediate benefits for customers. In most cases a great deal of planning occurs before merger-day to mitigate these risks and ensure the expected return on investment is delivered. Research has shown that a large percentage of mergers and acquisitions – figures are quoted at around 70% - fail to deliver their anticipated benefits because of "cultural issues". However, the rigor applied to anticipating and managing the cultural issues is often considerably less than that to other elements, such as technology and product rationalization. It is uncommon to have an M&A team advisor with cultural expertise, paralleling the contribution of the investment bankers. Mergers are undertaken for financial reasons, and those with financial expertise tend to outweigh those with cultural expertise both before and after the decision is made.

A common mistake is to confuse culture with people, and to lump the cultural planning in with the people planning stream of an integration team. There are two sets of "people" challenges afoot which come together during a merger, and each need outstanding leadership and emotional intelligence to navigate successfully. Whilst they overlap, they need to be considered separately as well as together, because the plans to address each will be different.

The first challenge concerns how people feel. The second the differences in the two value-sets. The first impacts climate, the second culture. Many of the difficulties associated with mergers and acquisitions emerge because all the normal cultural change challenges exist but in a situation of heightened emotions and short time frames.

How people feel after a merger or acquisition

It would be great if everyone saw the opportunities which were in the minds of the merger-designers, and embraced them with open arms. Unfortunately, these people are in the minority. Everyone knows there will be some rationalization, and therefore people are competing with each other for jobs. Under these circumstances it is understandable that the other side is seen as the enemy. Most people feel one or more of the following emotional states during the first three months.

Insecure	Will I have a job? Will I have to move? Will I lose my friends, status, perks, and opportunities? What will happen to my projects, plans, performance, and customers?
Angry	Why did they do this? Why is no-one consulting us? How come those people are being more advantaged than me? They're making a real mess of this
Unvalued	Doesn't anyone care about my customers, projects, plans, experience? Why is no-one telling me anything? How come I'm not in the "inner circle"?
Grieving	I don't want to lose our name, identity, team, rituals, friends
Arrogant	I'm better than them, we've come out on top here, we're invincible

Insecurity, anger, grief, feeling undervalued are emotions you will recognise. Arrogance you may not see as an emotion, but under these circumstances it most definitely is, and becomes a very important element you will have to manage going forward.

A merger will test the level of maturity of each person involved. Some are inherently less insecure because they have a quiet inner confidence. We refer to these people as more conscious. They are more able to choose their responses to situations, less reactive, less defensive. This makes them less dependent on outside circumstances for their personal satisfaction and security, and consequently less fearful of change or loss. They are able take personal responsibility for their feelings and their future. This will bring out the best behaviour, and you will notice these people are constructive and productive in their day-to-day affairs. They waste less time complaining about management, blaming the other organisation for their problems, playing games of one-upmanship and holding onto the past. This has always been true of these people, but you really notice it at times of high emotional stress and threat. So any development work you have done previously to help you organisation become a 'conscious business' will pay big dividends at this time.

The people stream of a good integration team will address most of these emotions through change management planning. Involvement, frequent, factual communication and speed are the basis of good change management during mergers. These all serve to reduce uncertainty and the emotions associated with being in the dark. Work on the vision and future will help to lift people out of their negative emotions and increase their excitement.

Manage the culture

To effectively manage yourself and your organisation through a merger, you must be able to separate the management of these feelings from the management of the culture. The first is urgent, and important; the second can appear less urgent, but in the long term is even more important.

Let's return to the analogy of the arranged marriage. The bride and groom may not like the fact that it occurred, or be angry about the manner in which it took place. However, it has happened. After few months they are left with the reality of having to make a life together. At this point, it is their ability to understand and work with each other's values and beliefs about what is important that will make the real difference. Most relationships have their frustrations as a result of different personalities rubbing up against each other. But it is the values conflicts are the deepest of all. The reason some of the deepest arguments in relationships centre on money is because how an individual spends their money is an outward expression of what they value. Align around your values, and you become a strong partnership. The same is true when two cultures are merged together.

During the first few months, emotions are high and most people are busy settling down their own personal circumstances and re-establishing some kind of order in their lives. They are not thinking about values, they are thinking about personal security. Abraham Maslow's Hierarchy of Needs shows us that until the basic needs of security and survival are met, people do not tend to focus on other, deeper issues.

Your challenge, as a leader and a culture champion, is to find a way to focus on culture whilst simultaneously dealing with your own personal feelings, and those of others, about the merger. If you wait until things have settled down, you will find that a de facto culture has emerged which may not produce the best outcome for the future performance of the business. Most of the key decisions made in the first few months of integration have a cultural impact. Some of those made prior to the actual event have the most impact of all. For example, the choice of CEO and from which organisation this person comes. So the earlier culture gets onto the agenda in a meaningful way, the better chance you have of ending up with a culture that will support future plans and deliver the benefits laid out in the original merger proposition.

How culture operates in the first three months

Two organisations come together. The veils come up. Each group gets to see what the other looks like. Specifically what you see are the behaviours, symbols and systems of the other organisation. They may look like you, even talk like you. On the surface they may be in the same business, and therefore undertake the same activities. But very quickly you will notice that they are not the same as you. Of course you will have heard some information already about how the other tribe operates. Some of your members will have been involved in due diligence activities, or planning for the future acquisition. Others may have worked there previously in their career. Perhaps the other tribe was a past competitor, or someone you met at industry functions. They might have been a customer, or a supplier. You may share a parent, and be two divisions of the same group. They will have a reputation, and you will know what it is.

There is a large distinction between the observation of differences, and the formation of judgments about those differences. In one merger we worked on, one company had a strong verbal culture. Decisions were made in meetings, face-to-face, based on debate and presentations. The other had a written culture, based on extensive documentation. Decisions were made by individuals once all of the relevant information had been submitted. Both cultural systems worked. Both made mostly good decisions, and a few not so good ones. However, the judgments each made about the other were damning. "They're so bureaucratic", said the verbal tribe, describing their new colleagues, "They take so long to make a decision most of the good opportunities pass them by. No wonder they're struggling in the marketplace". "They're cowboys" retorted the others, "they take insane risks and make subjective decisions. We are fact based and considered and this is best for business".

Based on previous reputation, and rapidly cemented during the first few weeks of direct exposure, each tribe formed a view of the other which is primarily negative. You will notice that I have been using the word "tribe" to describe each organisation. I have found mergers to bring out very tribal instincts in almost everyone involved. People's view of their own tribe is enhanced, whilst the other is seen in a negative light. They are the enemy, and we are the heroes. We the victor, they the vanquished. Or we have been taken over, the victims, but will fight to retain our true identity as the superior race. Why should this be? The acquisition is a threat, and therefore tends to bring out defensive feelings and behaviours. Attack is an effective form of defense. It is common to belittle those we feel threatened by, and to build up our own position. The other tribe is strange, they are different from us, and that makes them more of a threat because we don't understand them. The more defensive each becomes, the less clearly they see the others, and the more likely they are to describe what they see them do in a negative light. People spend more time blaming the others. At the same time you will find that people who were quite negative about your own organisation in the past suddenly start to see it much more positively, and to consider it to be superior to the other one.

Many people are surprised by this irrational and emotional description of what happens during a merger. I myself found the behaviours surprising when I first started working alongside merging organisations. However they are so consistent from merger to merger, that I became convinced that we were not dealing with a rational situation, and therefore the emotions and the ego defence system had to be involved.

As a leader in an acquisition or merger, your role is to help move yourself and your people past this stage as fast as possible, whilst simultaneously creating the culture you want.

There are five mental models that can potentially exist during a merger, and people have to go through at least the first four to reach the point where the culture becomes an asset.

1	My way is the only way	Ignorance that other organisations are not like mine
2	My way is the best way	Arrogance, superiority
3	You have some good ways too	Understanding, objective observation, respect
4	Let me learn from your ways	Open-ness, benefits realisation
5	Let's build a new way together	New identity, best of both

Our experience has been that almost EVERYONE involved starts at levels 1 or 2, even the most senior leaders whose jobs have been secured before the merger commenced. Some may only spend a few days at level 1 or 2. Others are still stuck at level 2 five years later. Many move up and down, jumping from 2 to 4 and back again as they come to terms with the new situation.

This seems to apply to all types of situations when two or more groups come together to work as one – mergers, acquisitions, joint ventures, two business units merging together. As an individual, you need to move through the levels as soon as you can if you are going to be a useful contributor in the merged organisation. As a cultural leader, you can to help others progress to a mental attitude which will facilitate your objectives.

Plane and manage the human dimensions

The process of building the right culture, and supporting people through their early emotional turmoil, is made much easier by planning and leadership. Provide data on the two organisation's culture, train managers in how to lead in these unique circumstances, provide the forums for teams to understand and learn from each other and build respect. Neglecting this work can result in departures of key people, poor communication and slower integration. In the flurry of the early days, dedicate time and resources to this critical dimension of success and you will be rewarded by a community of people who are able to grow and contribute during this period.