The trouble with culture: unlocking merger value is really about business behavior
In our experience assisting technology companies with deal integration, we have been puzzled by a seeming dichotomy. Survey after survey of deal leaders cite “culture” as the most important cause of deal failure. Yet most technology buyers disdain the very topic and refuse to spend time or money on it during integration.

Why?

It turns out that “culture” is too broad and amorphous a term to be helpful in delivering deal value.

As technology dealmaking soars in response to companies’ need to keep up transformational change, technology dealmakers will be better served by greater precision in describing their concerns about the underlying obstacles to successful deal integration.

We encourage technology dealmakers to focus integration communications and actions on the few business behaviors that truly make a difference.

Identify business behaviors critical to deal success
You cannot avoid the language of culture entirely, as we discuss in “The trouble with culture” section. However, we do our best to convince technology buyers to be more precise in their communications. We encourage them to focus integration communications and actions on the relatively few business behaviors that truly make a difference to a successful deal outcome. We believe success in deal integration comes through:

- Identifying the business behaviors that matter in terms of driving value from the deal
- Focusing on any changes required to promote these behaviors
- Fostering those changes during deal integration and – most important – in subsequent operating model redesign

Align the integration messaging and the operating model to provide incentive for behavioral changes
“You only want to change the behaviors that are necessary to success,” says Dean McCauley, Principal, Transaction Advisory Services at Ernst & Young LLP. “And you need to be proactive about those particular business behaviors in two ways. First, in messaging about change, culture, communication and retention issues – that activity is prominent from deal announcement until about three months after close. Then, in the longer term, the focus shifts to redesigning relevant aspects of your operating model to encourage the necessary behavioral changes on an ongoing basis.”
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The trouble with culture

“One reason culture is so often the fall guy for failure is the broad array of things executives mean when they cite culture as a challenge,” says McCauley. Some primarily think of organizational power issues, such as which senior executives get what roles or where the combined company headquarters will be located. Others think of symbolic issues, such as dress codes, use of legacy brands and logos, or company-provided meals and other perks. And still others are thinking about national cultural issues, i.e., the differences in societal norms from country to country.

Samy Walleyo, Principal, Transaction Advisory Services at EY Germany, adds: “In particular, in Europe, where you have many cross-border integrations, national culture and its intangibility is often used as an excuse for failure.” Employees often feel a lot of passion around such organizational power, symbolic and national cultural differences, so handling them badly can certainly cause problems. But McCauley believes getting them right is not especially difficult if they are addressed with honesty and compassion backed by good communications.

Dealmakers’ primary problem: aligning people around the right business behaviors through an effective operating model.

And yet, although getting these “side issues” right is important, it is not sufficient for successful deal integration. Instead, success often rests on addressing the most important and challenging issue – which is often masked by the word “culture.” This issue is the ability to drive meaningful change in specific business behaviors such as customer responsiveness or degree of cost consciousness. Identifying and changing these critical behaviors should be the focus of an integration plan.

“Solving most so-called cultural issues doesn't solve the primary problem dealmakers have, which is getting people aligned around the right business behaviors through an effectively redesigned operating model,” says Iddo Hadar, Technology Transaction Integration Advisor, Transaction Advisory Services, Ernst & Young LLP.

Using a behaviors-based integration framework can help deal leaders determine when it is – or is not – important to insist on change

Deals between Japanese and US companies are frequently cited as difficult culturally. Yet most of the cultural differences – dress code or title structure come to mind – don’t matter much to results. However, where we consistently see important differences at Japanese firms is in communications and the speed of decision-making. “If you’re in a fast-moving industry like technology, it’s not okay to say ‘indirect communications and slow decision-making are national culture issues that should be left untouched.’ Leadership needs to understand when these are key business behaviors that impact competitiveness, and take steps to effect change, even if it forces people to be uncomfortable and act differently from what is usual in their national culture or previous company,” says Hadar.
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Identify the most impactful business behaviors

Of course, a variety of organizational and symbolic issues must be addressed for the overall health of a deal.

But leadership should focus beyond these, on the specific business behaviors that will have the most impact on the success of a deal. “Selecting the most important business behaviors to focus efforts on has an enormous impact on the success of the integration. You must select the ones that are directly linked to the value drivers of the deal,” advises Walleyo.

The truly impactful behaviors are typically few and unique to each deal. Key questions that can lead to identifying those behaviors include:

- What behaviors best support our new business strategy post-deal?
- What behaviors most reinforce our unique advantages over our competitors?
- What behaviors best support the way we plan to provide value to our customers as an integrated company?

Start with customer expectations

“It’s always important to examine customer wants and expectations because the most impactful behaviors are usually around what the customer wants to receive from you as an integrated company. That's going to determine the business behaviors you want,” says McCauley.
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Align “3CR” activities during integration

Changing important business behaviors – without causing undue disruption or even attrition – requires thoughtful and coordinated actions.

Unfortunately, the various activities around change, culture, communications and retention management (sometimes referred to as “3CR”) are often managed independently by multiple functions – HR, operations, investor relations, corporate communications and marketing. (See Figure 1.)

Such fragmented management can result in conflicting and confusing messages being delivered to employees, partners and customers. The resulting conflicts may create confusion, or even divisiveness, that can delay adoption of the necessary changes in business behavior and increase attrition.

One plan to coordinate them all

The solution is simple: assign a focal point – usually just one person – to coordinate the overall 3CR plan. “We find companies need one senior point person who has a master plan that links the individual 3CR plans,” says McCauley. “That way, even though actualization of those things will be done in many places in the company, it’s all consistent, properly sequenced and aligned. Announcements from one department won’t contradict something somewhere else in the organization.” Adds Walleyo, “A decisive factor in successful integrations is convincing people with consistency of word and action. One cannot afford to risk such consistency by allowing misaligned messaging.”

Figure 1: Communication, change, culture and retention all need to be linked

Communications
Typically done by:
• Communications department
• Investor relations
• IT support
• Legal

Key integrative role for the integration management office

Culture and change management
Typically done by:
• HR
• Training and development
• Operating executives

Retention
Typically done by:
• HR
• Operating executives

Source: EY analysis
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Redesign operating models to provide incentive for the right behaviors

When it comes to behavioral change, the redesign of the operating model is the larger, long-term necessity.

For behavioral change to take hold, all elements of the company’s operating model must support the new behaviors. When deals fail to realize their full potential, it often can be traced back to a lack of alignment between needed business behavior changes and the operating model’s explicit or implicit incentives.

“Many companies think that talking about necessary new business behaviors in a town hall meeting is sufficient. It is not. Employees need to see that all elements of the organization are truly aligned to support the behaviors or they will quickly decide that senior management is just paying lip service to the change effort,” says McCauley.

All elements of a company’s operating model must support the new behaviors.
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Operating model elements send messages
Because the operating model is a very broad concept, a significant effort is required to get it fully aligned (see Figure 2). Some of the many elements requiring alignment are:

- Key performance indicators: the metrics you measure communicate what matters.
- Reward structure: compensation should be linked to the key metrics and behaviors.
- Skill sets: the skills you hire or develop need to be linked to the necessary behaviors. For example, you can’t say you want data-driven decisions if you refuse to hire big data scientists.
- Internal communications: the topics executives discuss in weekly or monthly emails, meetings, etc. reinforce priorities for employees.
- Systems, policies and processes: you should adjust the “plumbing” of your organization to enable the future success drivers. You can’t expect employees to have high customer responsiveness if you cut their travel budgets or have a poorly performing CRM system they can’t easily access from the road.
- Facilities: your assets should reinforce and support your strategy. The design of your office space, for example, should align with the needed level of collaboration.

Aligning operating models for tech industry needs
McCauley explains: “If a company wants innovation, it needs to track metrics around the percentage of revenue from new products and time-to-market — not low-cost leadership. It needs an organizational structure built around product categories, not geographies. It needs to design facilities that locate engineering and manufacturing close to each other and to implement software and processes that support collaboration.”

Hadar adds: “Supporting rapid time-to-market as a key company behavior also requires explicit clarity as to who in the organization has decision rights on product design, pricing and marketing issues and how quickly those decisions must be made.”

Designing an aligned operating model is not a minor undertaking. For a recent large technology deal, developing a new operating model for the sourcing function alone required 80 employees and consultants to spend 16,000 hours defining 31 new processes and delivering 37 training modules to more than 225 people. “No wonder most management teams prefer to think ‘culture’ can be fixed with a few newsletters and town hall meetings. Unfortunately, it can’t,” says McCauley.

![Figure 2: Complete operating model alignment supports necessary behaviors](image-url)

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**Necessary behaviors and changes**

1. Reframe the conversation from “Which culture is better?” to “What behaviors are required?”
2. Develop an operating model that reinforces the behaviors
3. With this foundation in place, change initiatives have the support necessary for success

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Source: EY analysis
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Conclusion:
laser-focus on value

Technology companies face unprecedented levels of disruption at never-seen-before speeds. Last year, technology M&A activity rose to a level topped only once before – in the year 2000, at the peak of the dotcom bubble. Things didn’t end well then, but we have learned a great deal about enabling deal success in the intervening years.

Between the speed of disruption and the constant challenges of deal integration, technology companies often require an external partner to stay competitive. The alignment of behaviors with operating model incentives is simple in concept, but complicated in practice, and there is no universal formula – especially when large, established companies are acquiring smaller, more entrepreneurial ones. Each deal-integration situation is unique, requiring individual analysis and solutions.

Our investigative toolkit
EY has leveraged knowledge derived from our experiences with multiple clients to develop a framework for assisting technology executives in effective operating model redesign and implementation, as well as in coordination of 3CR plans during deal integration.

“For more information:

To discuss our framework for enabling technology executives to assess and overcome deal integration challenges and effectively coordinate 3CR plans, contact Dean McCauley at dean.mccauley@ey.com or +1 415 378 3445.

“It’s not that our approach ignores what technology companies label as culture. But by looking at the deeper details and specifics that make up culture, we help technology executives stay laser-focused on the prize – what will help their organization succeed as a business.”

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