

The power of change thought leadership series

04 How to avoid a head-on culture crash

# How to avoid a head-on *culture crash*

Bracing yourself for the impacts of  
change in mergers and acquisitions



**As economies shift and markets change, organizations are always looking for ways to adapt, evolve and become more agile – seizing emerging opportunities.**

**In changing times, mergers and acquisitions enable businesses to bolster core capabilities, expand their client base or shed cost structures that no longer contribute to the bottom line. Such seismic changes inevitably bring a change in company culture.**

**And cultural integration – or the lack of it – is a key factor in why mergers fail.<sup>1</sup>**

In this, the fourth of Cielo's *Power of change* series, we spoke to some of our own key thinkers about how business leaders can manage the impact – and avoid the fallout – of a potential culture crash. They share their experience on how getting it right ensures continued strength, stability and loyalty in their talent pool at times of great change.

Process, procedure and policy are the rational building blocks of businesses. It's company culture – those tacitly understood rules, customs and behaviors – that gives employees the sense of belonging we all crave.<sup>2</sup> The cultural change threatened by mergers and acquisitions challenges that sense of identity and the norms that allow us all to function as a group.

95% of executives describe cultural fit as critical to the successful integration of businesses in a merger.<sup>3</sup> In this report, we discuss how to plan for taking employees from different cultures with you on the journey and avoid the damaging clashes of culture that risk undermining the "more than the sum of our parts" vision that inspires most mergers.



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## Understanding culture

If people are at the heart of an organization, culture defines its soul, and to protect that soul you have to understand it. Erin Perry, Senior Vice President – Change Management and Transformation, recognizes its influence: "Culture is about how employees really operate: the rites and rituals of the everyday; the little things, the social norms. Not only how you work together, but how you play together, how you value people's personal time." She also warns against underestimating the scale of the task: "Going through a merger is disruptive. Changing a company's culture is incredibly difficult – and not typically successful."

Bringing two businesses together requires careful cultural curation. Hammering one party's square peg into another's round hole will only create friction, anxiety and disengagement. Consider which cultural components of the acquired business could be retained and augment the character of the combined company. In mergers, taking the best from both companies' cultures creates a new, shared sense of purpose and avoids one party disengaging from what feels more like an acquisition than a merger.

On a human level, speaking to employees on both sides of the merger or acquisition will clearly indicate what's important to both groups – and enable you to identify common values and attitudes.

Greg Summers, Chief Customer Officer, advocates for careful listening: "Culture is a living thing within an organization: you can't just turn it on and off. You have to be mindful of what it's telling you. Take the time to listen to what's different – empowering – about the cultures you have – and make decisions about whether changing those things is really necessary."





## Addressing the fear of culture shock

Cultures become deeply embedded in individuals' behavior. Mergers and acquisitions require people to rethink – even renounce – principles that have underpinned their purpose, which can leave even staunch loyalists feeling isolated and anxious. Dispelling fears is paramount.

Greg Summers says: "Culture is everything when you're considering mergers and acquisitions – you have to prioritize it as a key point of focus. Everyone is going to be concerned about their own job, so be clear in terms of when decisions are going to be made: what will stay and what will change."

Culture crashes can arise due to communication breakdowns, misinterpretations and ambiguities.

Sally Hunter, Managing Director – Advanced Manufacturing has seen this firsthand: "Lots of organizations under-index on communication. They don't spend enough time connecting with employees that are impacted or talk to them about what is happening. You have to give them as much clarity as you can – and do that frequently, in a way that's meaningful for them."

The minute you know what's happening, you need to have a good communication structure in place. And it has to be personal, because it impacts people's work and personal lives. Fear of the unknown is hard for human beings to grasp. That's why we advocate sitting down with individuals and having conversations about what they're nervous about – and what they're excited about.



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**Greg Summers**  
Chief Customer Officer

## Managing the transition

Erin Perry identifies three key actions to successfully mitigate cultural fallout during the integration of companies:

### 01 Act quickly

One of the key pressures of any merger is the speed at which things move. You only have one opportunity to address the coming impact, lay down the plan for bringing two cultures together and give yourself the best chance of a successful – and harmonious – integration.

"We hear a lot of businesses say 'Let's see how it shakes out,' but you can't afford to do that," says Perry. "You have a very small window to put the culture on the right path."

### 02 Communicate

People deal with change better when they have all the information they need to make the necessary adaptations. Put simply, people like to know what's coming and when.

Perry explains: "There's no such thing as too much communication. Attrition is inevitable in these situations, but the earlier you communicate your plans for the future, the better. And don't just say what is going to change, say WHY it's going to change. That level of candor and clarity is critically important. It builds trust and enables people to opt-in or opt-out early in the process. And it allows you to set the stage for culture change."

### 03 Influence influencers

Every business has its influencers: the people whose behavior shapes the cultural norms. They're the individuals that others look to for reassurance and who set the tone for your culture. They're also the indicators of how well things are going.

Perry advises knowing who these cultural leaders are: "Losing some of your key influencers won't just leave a hole in the culture, it can lead to an even larger mass attrition. People get skeptical when someone they look up to and respect has decided to leave. It implies that they don't have trust in the new business."

# There's no such thing as too much communication.

**Erin Perry**

Senior Vice President – Change Management and Transformation



**Clear guidance and support can have a dramatic impact.**

## Stemming an exodus

In any business restructuring, the level – and tolerance – of upheaval is different for everyone. Some employees will decide quickly that the new arrangement isn't for them and start looking for other opportunities. Others will sit tight and see what happens, but then later they'll jump ship. In some cases, people you want to retain will say nothing, but at the 11th hour they'll put their hand up for redundancy.

This exodus syndrome applies as much to business leaders as it does to the general workforce: a situation familiar to Greg Summers: "47% of key talent leaves in the first year after a merger. And after three years, 75% of key leaders are gone. If you want to manage it successfully, you've got to prepare for the inevitability of some leaders not wanting to stay with the business. You have to have honest, open conversations about whether or not they see themselves there."

Summers accepts that damage limitation is a reality of change.

*"It's inevitable that a good percentage of people will decide to leave. The only thing you can really do is get ahead of it by being transparent with those leaders about the role you have planned for them or the role they play in ensuring continuity and the retention of others."*

*"Your next best alternative would be to create packages to retain them for as long as you can, and then work quickly with your team to identify internal or external talent that can step in and take their place when they decide to go."* But clarity of intention doesn't always run two ways.

When people aren't entirely clear about what change means for them, you may think they're taking the "safe option" and planning to stay put when, in reality, they have no intention of leaning into the new strategy.

That risks a situation where a high proportion of individuals aren't totally committed to making the new business work. It's not really choosing to stay – it's procrastination: a ticking talent time-bomb at the heart of your business.

To counter the potential effect of shock departures, we advocate proactive workforce planning. Work through multiple scenarios to establish the cost and impact of retaining people essential to driving the integration through; manage duplication of roles; and develop external hiring strategies – particularly on how to sell a business in flux to potential candidates.

Sally Hunter says: *"Clear guidance and support can have a dramatic impact on making the transition more successful – otherwise, everybody's in disarray. I think that expert support from coaches or mentors really helps business leaders at these critical times."*



47% of key talent leaves in the first year after a merger.

## Conclusion

**Cultural change in all its guises is difficult for people to process. It requires a recalibration in the way they think, act and interact – often overriding deeply embedded social cues developed and reinforced over many years.**

Removing the comfort of a familiar working environment is unsettling. People fear that as well as needing to conform to a new environment and cultural context, they will somehow lose what has become their authentic self in the process. That's a very uncomfortable prospect indeed.

Bringing two businesses together without respecting the dynamics of their different cultures makes it difficult to pull through the essential goodwill of the people you need for it to work. Handled insensitively, there's a risk that even the most logical of mergers will leave one side feeling like it's a hostile acquisition and it can cost you your most influential talent.

To preserve the most value, acquirers should be mindful of the culture and ways of working of those they are acquiring. Try to incorporate some of their nuances, helping people feel they belong in their new home. It may even enhance your own culture.



# Clarity Direction Communication Pace

Delivered with clarity, direction, communication and pace, putting culture on your acquisition agenda is a sure way to realize the value that inspired your acquisition or merger decision in the first place.



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