Executive Insights

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Culture Shock: Why Harnessing Organizational Strategy Is Key to Successful Mergers

When it comes to post-merger integration, many businesses focus on achieving synergy targets at the expense of understanding and aligning cultural differences. Yet failing to manage cultural integration creates serious issues, which can easily derail the best laid plans and destroy shareholder value.

Corporate culture is not abstract: It is the outcome of hard choices on organizational strategy. But it cannot be affected directly, and the only levers to influence it are the concrete choices that are made around the organizational design of the merged business — analyzing, understanding and aligning these choices is critical to preserve and drive value.

In this *Executive Insights*, L.E.K. Consulting outlines how integration planning teams can evaluate an organization's culture, build a clear picture of the decision-making that has formed an organization's "cultural blueprint," and determine the actions required to successfully manage cultural alignment during post-merger integration.

Classifying organizational culture

An ethereal characteristic of a business, company culture is often hard to articulate but easy to recognize. It is the outcome of prevalent behaviors and attitudes within a business — from the very top to the very bottom. The key is to understand that these behaviors are driven by tangible organizational choices.

When two businesses are merged, it is critical to identify, understand and manage these organizational choices. Failure to do so can lead to a loss of key personnel, a paralysis in decision-making and a failure to meet business-critical milestones — severely impacting the success of the integration program and its ability to deliver on expected value creation goals.

For example, GE's 2017 acquisition of Baker Hughes saw the loss of veteran Baker Hughes managers when GE refused to adapt its culture to suit Baker Hughes's oil and gas industry heritage, one that prizes relationships and handshake deals. Since the merger, strict cost-cutting and abrupt contract changes have resulted in supplier discord and a loss of business to competitors. Similarly, the 2015 merger between Kraft and Heinz resulted in a steep rise in staff turnover due to Kraft's rollout of its highly demanding culture and stretch targets across the group.

The recipe for success may be very different between two organizations, and a set of behaviors that is appropriate for one company may not suit another. An integration program must therefore find a way to successfully navigate cultural differences. This will include considering when it is most beneficial to find the middle ground, when there are obvious efficiency gains in one company's existing view, and when alignment would be detrimental and opposing elements should be left untouched.

Identifying the cultural blueprint

There are nine broad categories of corporate cultures. Each of these cultural blueprints has distinct advantages and disadvantages (see Figure 1).

Culture Shock: Why Harnessing Organizational Strategy Is Key to Successful Mergers was written by **Aubry Pierre** and **Philip Roux**, Partners at L.E.K. Consulting. Aubry and Philip are based in London.

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L.E.K.

Figure 1
Cultural blueprints

Structure: How we organize

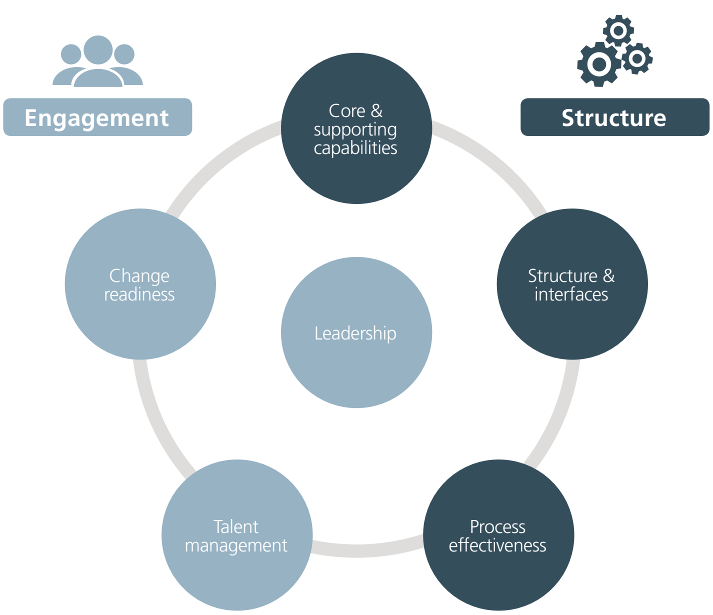
Engagement: How we interact

	Rigid	Structured	Loose
Functional	Strict hierarchy *e.g., Military organization* Ultimate process discipline Limited agility	Functionally driven *e.g., U.S. Multinational* Strong functional alignment Limited regional sensitivity	Siloed expertise *e.g., Conglomerate* Highly focused/knowledgeable within specific units Silos drive high inefficiency
Collaborative	Process-driven *e.g., Major capital programs* Effective cross-functional interaction Slow decision-making (decide by committee)	Agile experts *e.g., Professional services* Highly agile and focused Often lack efficiency in non-client-facing functions	Collaborative chaos *e.g., Startup* Harnesses collaboration Lack of structure can create some inefficiency
Social	Structured passion *e.g., Family-run business* Highly focused; efficient decision-making Limited ability to develop talent/capability	Harnessed passion *e.g., Tech company* Structure drives efficiency without stifling focus on outcomes Decision by committee can be a bottleneck	Driven community *e.g., Charity* Highly agile — share "hats" Lack of focus; inefficient in decision-making

Source: L.E.K. analysis and research

These cultural blueprints are the outcome of choices made in the two principal organizational areas of structure and engagement. To understand where cultural differences occur, leaders must explore why they are different, analyzing the choices that result in culture-defining behaviors. These are best examined across the six key dimensions of organizational effectiveness (see Figure 2).

Figure 2
L.E.K. organizational effectiveness framework



Source: L.E.K. analysis and research

Engagement:

- **Leadership.** The way an organization's leadership conducts itself is key to empowering the organization and driving desired behaviors. This can range from inspiring proactive and entrepreneurial behaviors to directing disciplined and structured execution.
- **Talent management.** How employees are managed and incentivized will drive the way in which they work, both as individuals and on collaborative projects. For example, organizations that punish underperformance often struggle to encourage executives to take risks. It is crucial to align how talent is incentivized, developed, measured and rewarded.
- **Change readiness.** This is exemplified by the firm's (particularly the leadership's) attitude toward change and the supporting structures and processes in place. Change readiness is critical to the overall success of post-merger integration, as it shapes the approach to change and the ability to implement it rapidly and effectively.

Structure:

- **Core and supporting capabilities.** This includes a structured view of what is required to win, a detailed understanding of current capabilities, a disciplined approach to building and maintaining core capabilities, a reactive approach to frequent change, and the ability to evolve the capability set.

- **Structure and interfaces.** Companies usually fall between the extremes of (1) hard reporting lines and organizational boundaries that create clear lines of decision-making, which is particularly effective in clear P&L-led businesses; and (2) very flat structures that encourage the formation of cross-functional teams. The correct solution for most businesses is somewhere in the middle and must be closely aligned with the corporate strategy and merger objectives.
- **Process effectiveness.** This includes decision rights (i.e., where decisions are made, whether it be at a senior level or further down in the organization) and decision support (i.e., whether decisions are made based on "gut feeling" or are evidence-based).

By developing a clear picture of these dimensions, the integration planning team can identify key areas of potential conflict — at a firm level and within specific functions and other employee cohorts — and the populations most at risk of disruption. High-impact business-critical misalignments become apparent and must be addressed early in the integration process. Teams can make informed decisions about risk and how best to reconcile differences or, where appropriate, decide not to implement changes. Furthermore, they can form a clear understanding of the level of resources required to make the integration a success.

To support the process, L.E.K. has developed a diagnostic tool called Culture Mapper. In Figure 3, a hypothetical example of two very different organizations illustrates how these drivers of cultural differences can be mapped.

Delivering a successful integration program

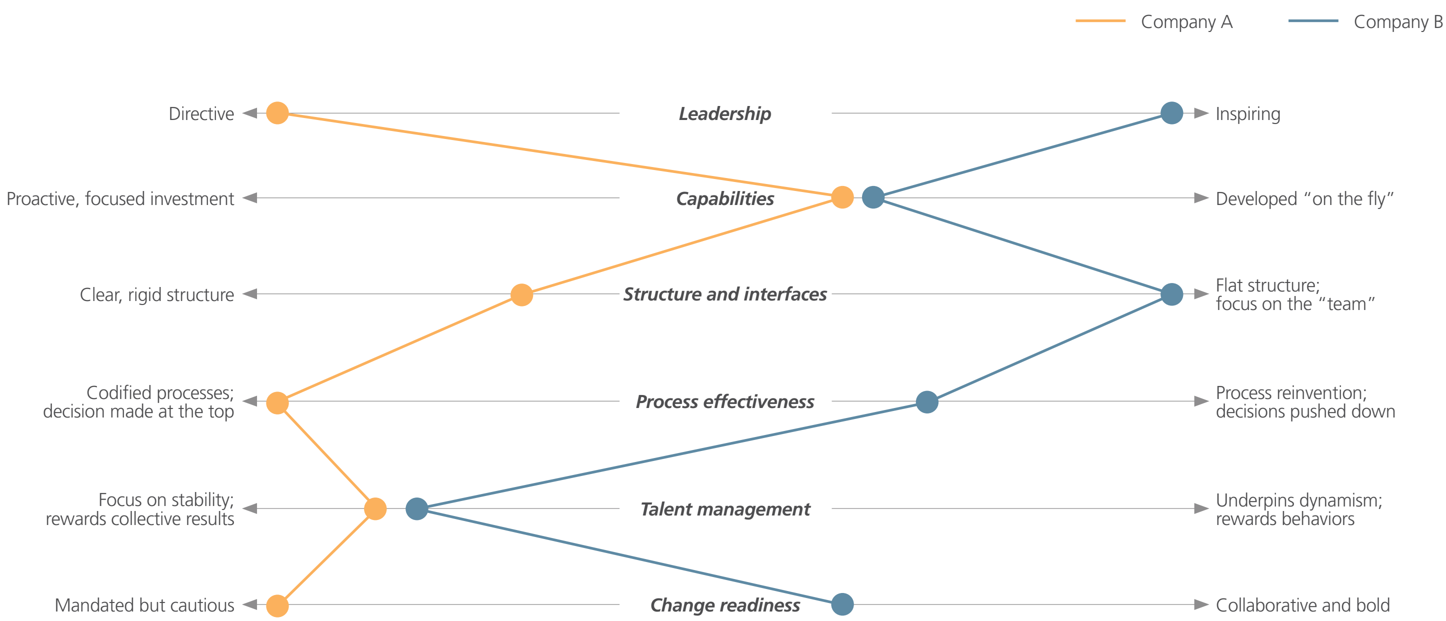
Material cultural differences between integrating businesses can have a significant impact on the success of a post-merger integration program.

By understanding each of the merging organizations' underlying organizational design choices, the key differences between the two can be identified and the cultural differences can be managed proactively. Ideally, this exercise should be completed pre-transaction, so that a clear picture of the merging organizations' cultural blueprints can be built ahead of time.

Once the merger is underway, ongoing review is necessary to track progress, and the leadership should continue to monitor and refine plans over time, taking care to run regular "pulse checks" with key populations.

Taking the time to identify each firm's behaviors and the organizational decisions that drive them enables integrating businesses to address cultural conflicts, harness preexisting strengths and secure the expected benefits of the newly merged entity.

Figure 3
Example of cultural differences



Source: L.E.K. analysis and research

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