Hedley
CONSULTING

Mind Over Matter

Published in Managing Partner magazine

October 2008

Ignore the importance of cultural fit at your peril when merging firms.

Culture clash is one of the most common reasons mergers fail. Within professional services, where the importance of common values and behaviours in creating cohesive firms is indisputable, getting the cultural aspects of a merger wrong can be disastrous. The 'Cultural Web' model, developed by Gerry Johnson and Kevan Scholes in their best-selling text Exploring Corporate Strategy, is instructive in illustrating the inter-relationship between hard issues, such as structure, systems and power, and soft factors like rituals, stories and symbols. It is clear that one is reflective of the other in a steady-state firm. They live in a symbiotic relationship, with the formal rules being crafted in a way (and at a level) that reflects the culture, ambition and personality of the partnership. However, in a merger situation, differences in philosophy and approach between the parties may jar uncomfortably.

Looking at a merger through a cultural lens is critical at three stages – when identifying potential merger targets, during the negotiation process and in post-merger implementation planning.

Initially, during the identification of potential merger candidates, huge emphasis is placed on developing a compelling proposition based on the hard facts of client fit, financial models, efficiencies, opportunities and brand position. There may be scant regard to the more difficult emotional and interpersonal aspects. However, when a merger is announced internally, the three immediate questions are (in rank order): "Is my job safe?", "What does this mean for my career?" and "What are the people in the other firm like?"

Of course, the negotiating teams must have a sense that the cultures will meld to produce something more exciting and attractive (to staff, clients and recruits) than the sum of the parts. Unless they firmly believe this to be the case, negotiations just won't progress further. But sometimes the senior management is not a good judge, or representation, of the character of the wider firm. Moreover, if they really want the deal to happen, they may underestimate the challenges they will face in creating cultural fit and driving change.

Even during early negotiations, hard structures and systems will provide clues as to the culture that is likely to be encountered, and allow planning scenarios to be developed. For example, it is likely that a firm with a pure lockstep partner remuneration system places great store on longevity, tradition and the concept of partners as custodians of the firm for the next generation. On the

Hedley
CONSULTING

other hand, a firm that is a pure meritocracy may take a more short-term view, rewarding today and having a more overtly commercial relationship with its partners. Neither is wrong, and both can deliver outstanding results, but they sit at different ends of the cultural spectrum. Such readily visible structural clues will be emblematic of far more wide-ranging cultural dissonance. Trying to effect a merger between firms at these extremes will be impossible.

In truth, there are few 50:50 mergers in professional services, and such deals are hugely difficult to deliver in practice. The vast majority are takeovers, dressed up in fine language to address the sensibilities of the junior party. What this means is that the merged entity will inherit a dominant culture. Without active management from the outset, this will define the new firm, for better or for worse. What is clear from research is that to impose an unwanted culture is not a good solution.

The smart leader will recognise the problems that this can create – the disenfranchisement of large sections of the firm, and the hardening of positions that will make desirable cultural change even more difficult to achieve. By using the 'golden six months' after a merger to create a third-way (or alternative set of values, behaviours and cultural norms) these issues can be avoided – and real opportunities for setting a new agenda created.

Clearly, the capabilities and style of the current leadership (and good judgment in making the right choices about the recruitment of leaders for the future) have a very significant impact on the ultimate success of a merger. An approach that can be highly effective is to begin by defining which culture and leadership capabilities are required to be successful in the sort of firm you wish to create.

Opportunities such as these need to be anticipated, and planned for, well in advance of any merger going live if the cultural potential is to be fully capitalised upon.

Andrew Hedley
Hedley Consulting
andrew.hedley@hedleyconsulting.com
+44 (0) 870 4862115

Hedley Consulting advises the leadership teams of professional service firms on business development and change strategies that deliver immediate and sustainable improvements in business performance.