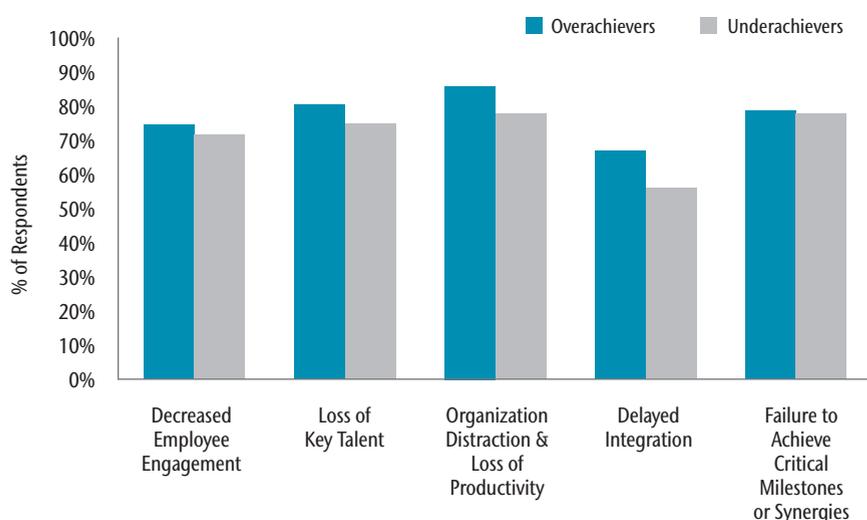


Cultural quicksand makes doing deals a very risky proposition

Companies responding to Aon Hewitt’s most recent global survey, Culture Integration in M&A (executed in association with The Deal magazine), have confirmed that **transaction activity is on the rise**, is **increasingly global** and **predominantly about growth**, but culture is still getting in the way.

What are the impacts of an unsuccessful cultural integration?



Sixty-nine percent of organizations anticipate an increase in M&A activity in the next two years and a 38% increase in joint ventures. Over 60% are focused on global deals, particularly in Asia Pacific. Over 80% are focused on revenue growth in new geographic markets or in new or adjacent products.

This increase in deal activity is encouraging as it reflects a rebounding economy. However, the rate of deal failure is alarming with nearly 50% reporting a failure to achieve transaction objectives. Further, 56% of those that have been involved in a deal report that they are losing critical talent at the same or higher rate as non-critical employees. Aon Hewitt continues its comparative analysis of “Overachievers” (those organizations that exceeded some or all of their deal objectives and targets in past deals) to “Underachievers” (those that did not) to understand the contributing factors to transaction failure.

Culture is a primary driver of transaction failure

Eighty-seven percent of organizations report that cultural integration was important or critical to transaction success. Unfortunately, cultural integration is cited as one of the top three reasons for transaction failure by both Overachievers and Underachievers. It also is a contributing factor to other causes of transaction failure (as shown to left).

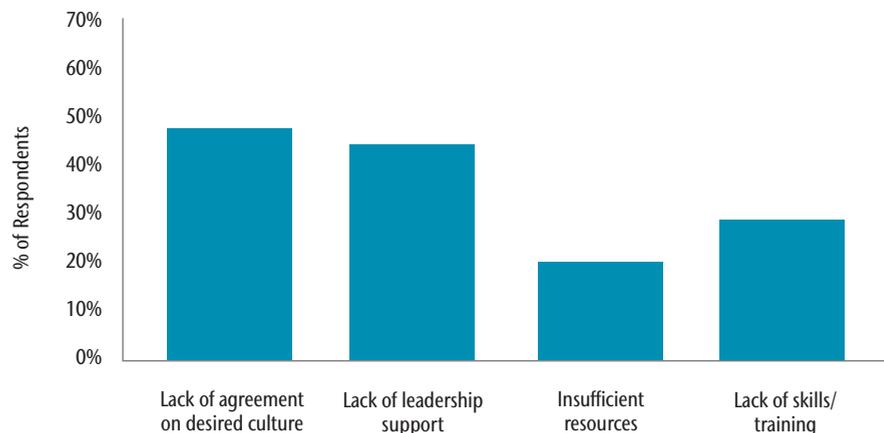
Organizations do not have a game plan to address cultural integration

Both Overachievers and Underachievers took a broad view of culture including business strategy, decision-making/governance, leadership expectations and organization values and norms. **However, 58% percent reported that they did not have a specific approach to assessing and integrating culture in a deal. Further, none of the responding organizations reported that its cultural integration practices were effective.** According to Elizabeth Fealy, Aon Hewitt Merger and Acquisition Solutions Americas leader, “This is very telling. The bottom-line is that while organizations understand cultural integration is critical to deal success, they continue to struggle to

translate their assessment into actionable initiatives that drive cultural integration forward.”

Interestingly, while both Overachievers and Underachievers rank culture assessment and integration in the top three areas of importance in due diligence (30% rank in top two priorities), we see a drop in prioritization during integration (only 24% rank cultural integration in its top two priorities), exactly when an organization has more access to information and employees. Based on this declining focus, it is also no surprise that we see the following as the top contributing factors to unsuccessful cultural integration (as shown to right).

What are the top contributing factors to unsuccessful cultural integration?



What are Overachievers doing better to drive cultural integration?

While Overachievers do not yet believe they have the final answer on cultural integration, their approach has certain distinctive characteristics that make them more successful.

- Overachievers’ timing and effort around cultural assessment and integration is better aligned to the transaction lifecycle with more meaningful results. While Underachievers rank culture as a higher priority in due diligence than Overachievers (37% vs. 21%), Overachievers actually spend more time on culture during due diligence. Further, cultural issues influence the transaction model at a materially higher rate for Overachievers than Underachievers: the purchase agreement (40% vs. 20%), financial modeling and pricing (31% vs. 18%) and integration strategy, planning and pacing (86% vs. 73%).
- Overachievers spend more time managing culture while Underachievers spend more time assessing culture. Underachievers focused on assessing current state cultures (89% vs. 75%), defining future state cultures (89% vs. 70%) and identifying gaps between current and future states (89% vs. 75%) while Overachievers focused on making changes to organization structure (100% vs. 78%), redesign of HR programs/practices (90% vs. 67%), team building

sessions (90% vs. 78%) and communicating around culture (85% vs. 78%).

- Overachievers spend more time communicating and managing change during a transaction. Overachievers rank communication and change management as one of their top two highest priorities after leadership and key talent during integration (53% for Overachievers vs. 31% for Underachievers) and invest their time in supporting the cultural integration.

Aon Hewitt’s Point of View

While organizations recognize that culture is important and a top contributor to transaction failure, they struggle with how to successfully integrate two cultures. Aon Hewitt recommends the following approach to achieve a successful cultural integration.

- **Have a point of view on culture.** While culture is not good or bad, there are certain high performing culture profiles that are more supportive of specific business strategies. Organizations should try to implement a cultural profile that is aligned with their specific business strategy during integration.
- **Focus not only on the “what” but the “how” of culture.** Often we see organizations focus on comparing the cultural traits (what the culture is) and ignoring cultural drivers underneath those

traits (how culture works). By analyzing the drivers of culture, organizations will have concrete data on cultural opportunities and obstacles and will be able to develop an action plan to drive cultural integration.

- **Actively manage the cultural integration process.** Develop a holistic plan for managing the cultural integration process. This includes defining specific targets to gauge progress, ensuring cultural work streams are aligned and relevant to business processes, conveying how and why culture is experienced at the employee level and developing a comprehensive change and communication plan.
- **Take Action.** Address the cultural drivers identified in the assessment and take action accordingly at the organizational, program or individual level. Ensure that these activities are visible, coordinated and driven to demonstrate your commitment to building an action-driven culture (a cultural trait that is universally shared by companies with high performing cultures across all strategy types).

To learn more about this study and Aon’s Merger and Acquisition Solutions, please contact your local Aon Hewitt consultant or e-mail: humancapitalconsulting@aonhewitt.com.