

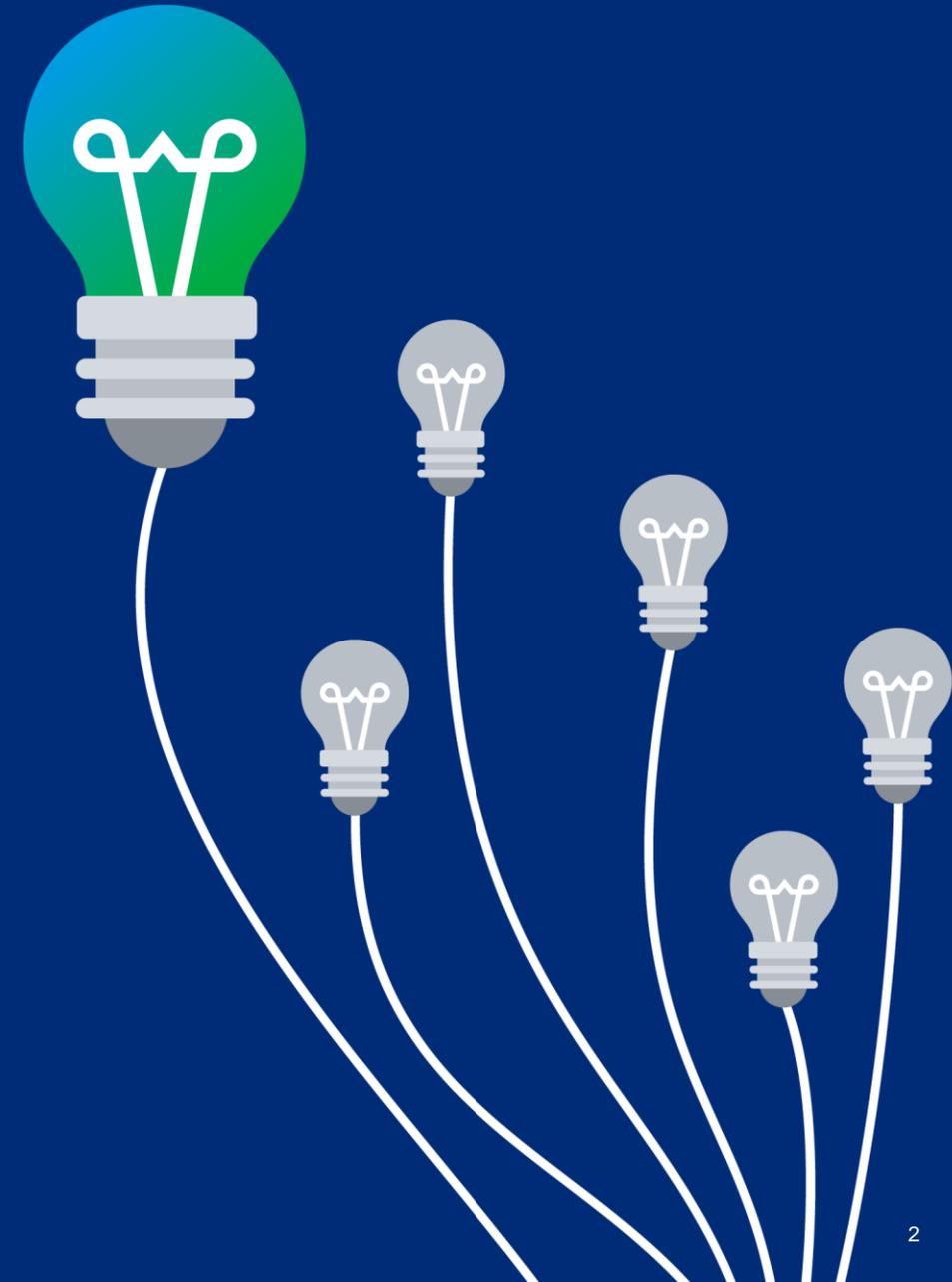
Culture risk in M&A

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**What type of
people challenges
have you
encountered post
deal close?**



Top 3 people issues impacting post close value creation remain consistent

leadership alignment

21%

Misaligned teams responsible for missing financials

organizational culture alignment

19%

Hampers post-close value creation

key talent retention

40%

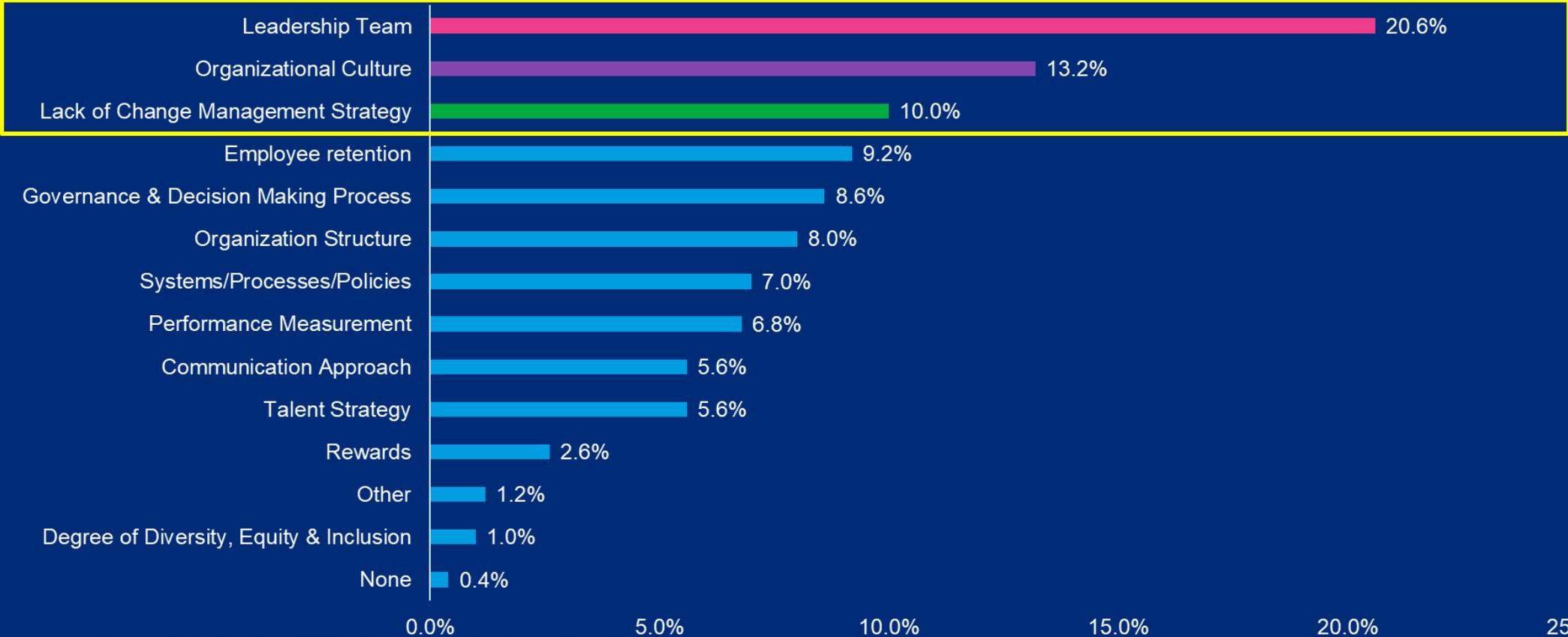
Attrition of critical talent 18–24 months post-close

Source: Mercer M&A Research: Delivering the deal: The unrealized potential of people in deal value creation (2021)

Emerging issues: Cultural diligence, future work skill match, ESG/DE&I diligence

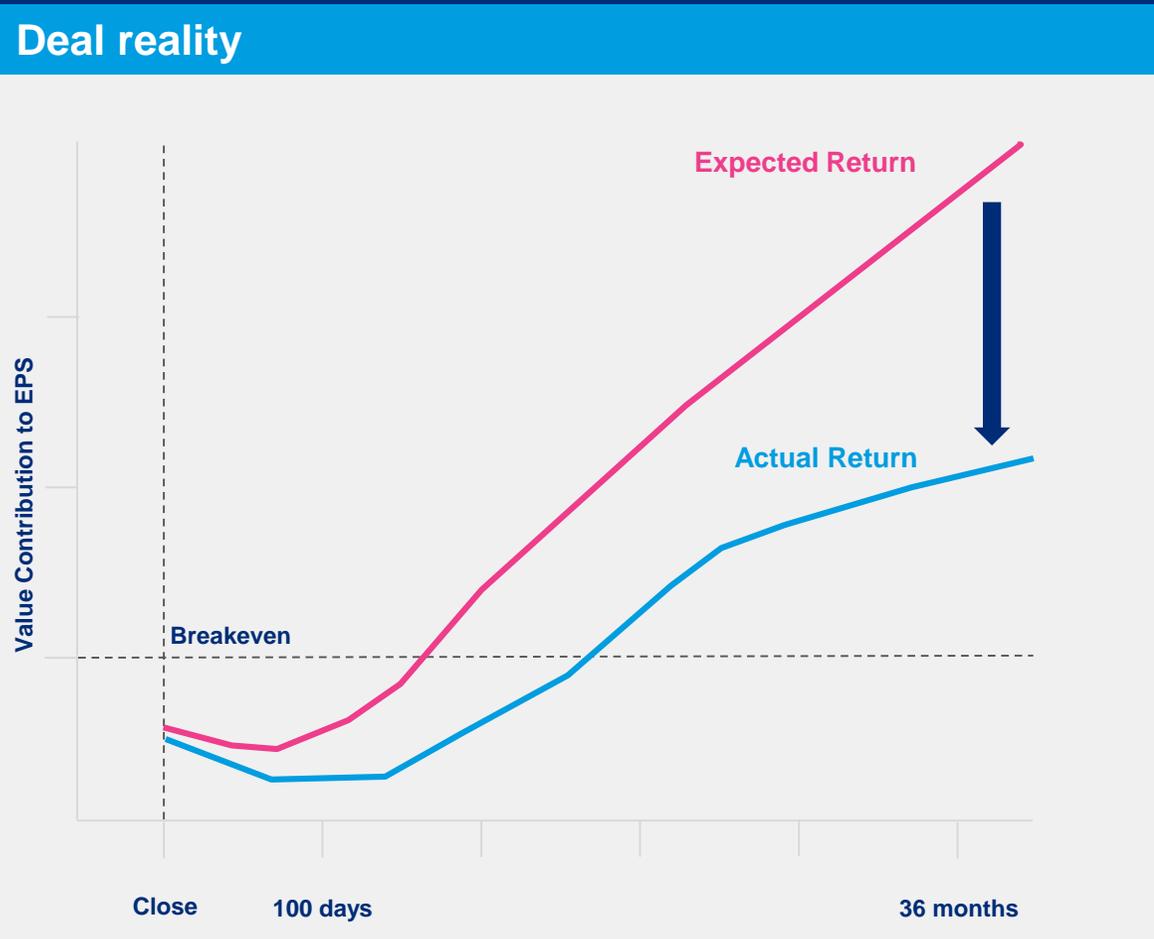
Key aspects of people strategy that derailed deals when left unaddressed

Primary causes of a failure to meet financial targets outlined in deal modeling



Source: Mercer - Culture Left to Chance Will Derail Operations in M&A. (Authored by B. Heslop)

There are financial consequences of not addressing culture in transactions

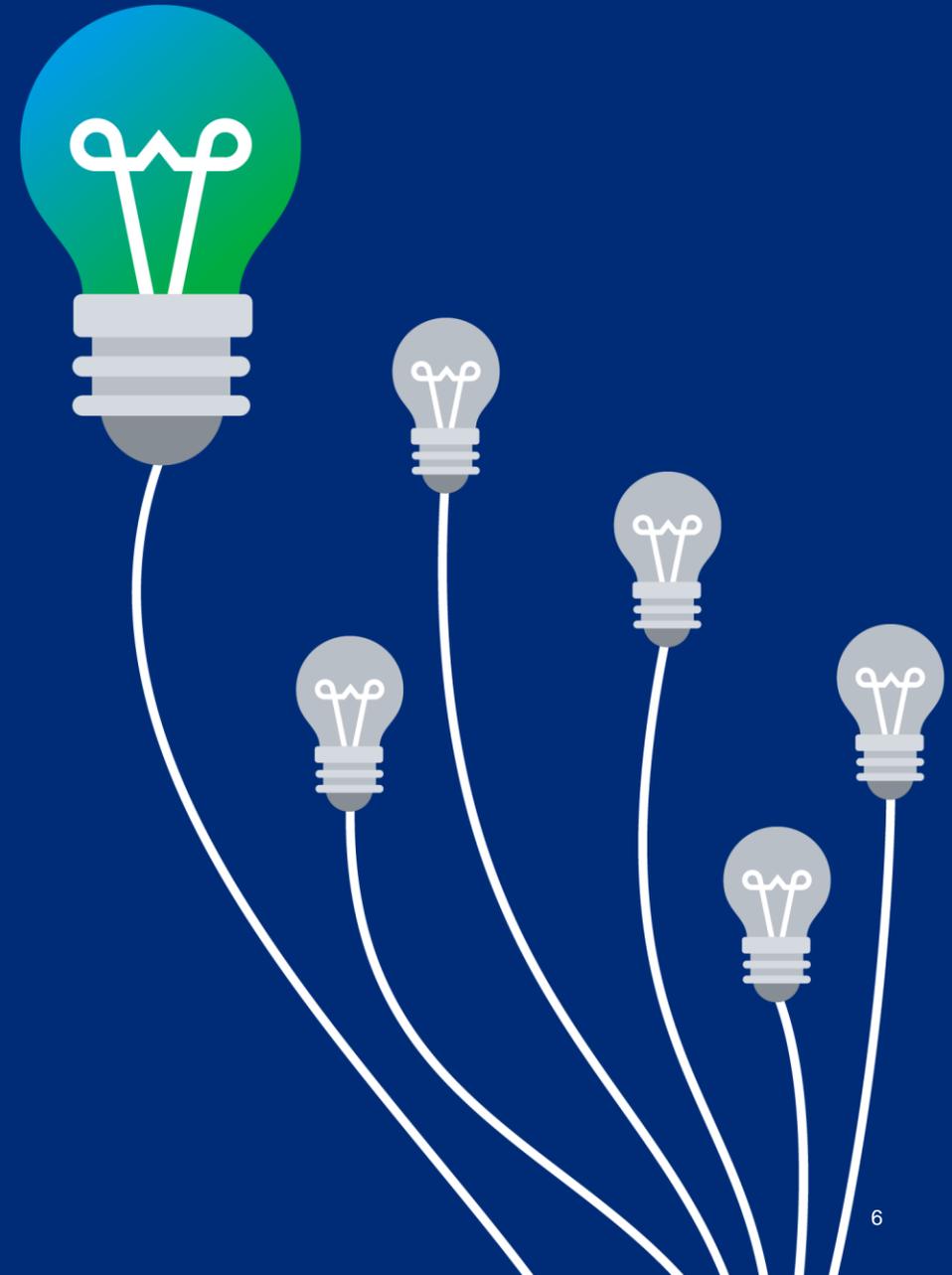


Most prevalent and costly operational derailleurs:

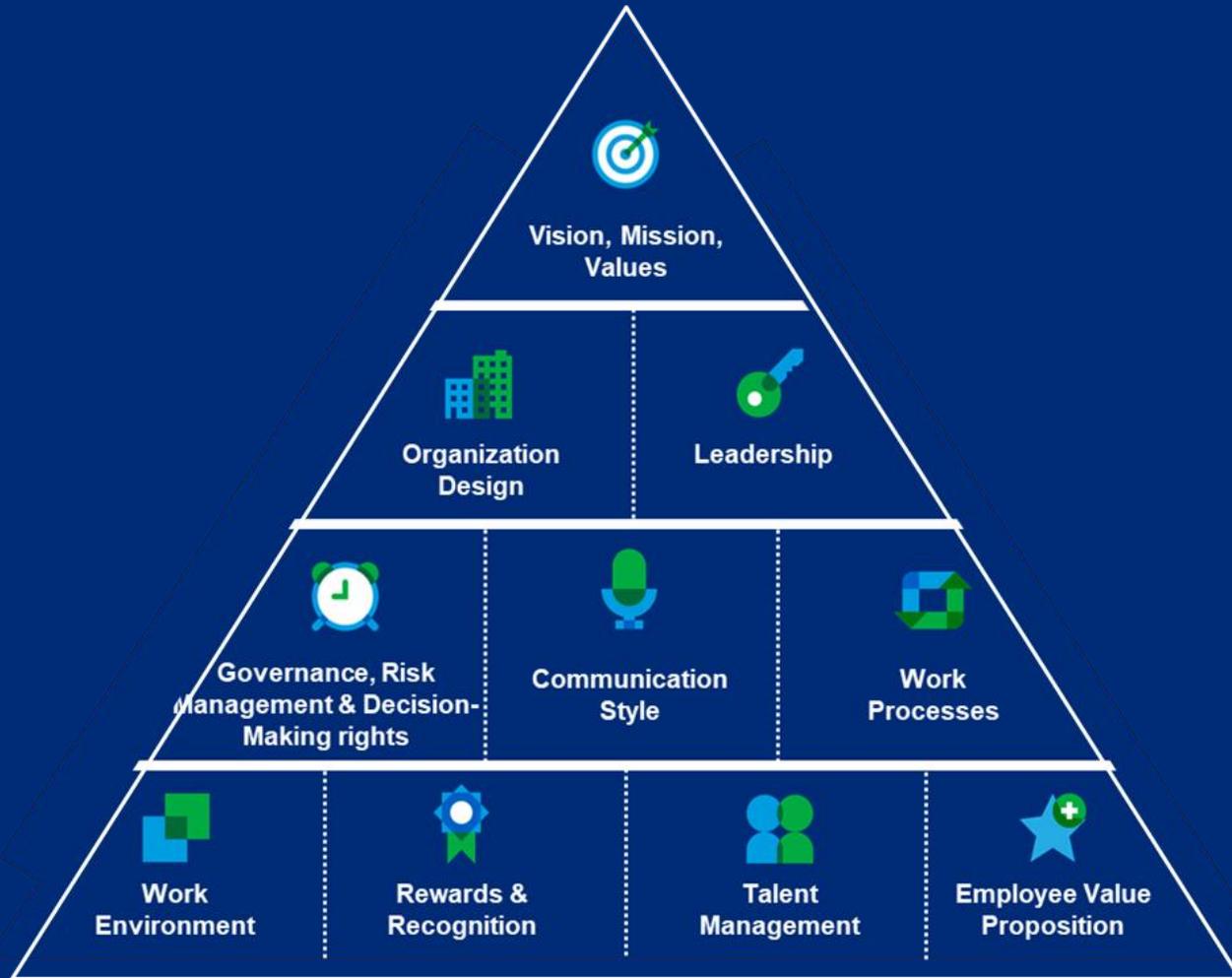
- Productivity loss
- Customer disruption
- Flight of key talent
- Delayed synergies



**Which are the
top 3 people
aspects when
undertaking
culture
integration?**



Culture in your operating environment



30%*

of transactions fail to meet financial targets due to culture issues

67%

of survey respondents experienced delayed synergy realization due to culture issues

43%

of survey respondents experienced culture issues that caused a delayed close, no close or impact to the purchase price

What works when addressing culture in deals?

A practical and executable approach driven by talent data insights

If retaining and engaging acquired employees is critical to deal success, culture assessment findings should inform your overarching integration strategy.



Understanding the current state

Diagnose the current operating environment across the organization to understand what is critical to maintain and adapt.



Align leadership

Align leadership on what culture is in relation to the transaction, and align on the facilitators and inhibitors of the operating environment and model of today and tomorrow



Develop & execute targeted 100-day action plans

The work completed during the assessment and align phase will inform immediate actions to drive the change. Develop a tangible, practical plan with the findings.



Maintain progress and implement longer-term actions, and monitor

Build upon short-term actions to create sustainable change and a long-term, executable culture integration strategy. Culture risks are tied to deal risks.

Integrated Communications & Change Management

Leadership drives culture integration from the top

Accountability required for culture success

Executives

Shape the culture and **Drive** it from the top

Business Leaders

Drive culture from the top through all formal and informal day to day operations, communications, decisions and processes

Functional Leaders

Address culture risks within their purview and supporting teams

HR Teams

Support leaders and employees and equipping them to bring critical behaviors and drivers to life for the intended end state culture

Comms & Change Teams

Support identified interventions that can be managed through key messaging and communications – both culture specific and business as usual

Employees

Experience the culture and understand what is expected of them



Linking the “Three Cs”

Culture, Communications, and Change Management are **key vessels** for a Company to influence employees’ ways of working. These areas are the **environment, language, and actions** employees experience from a Company.

Culture, Communications, and Change are often **viewed and deployed separately** – but to maximize effectiveness of organizational change, **the “three Cs” need to be considered and used in tandem.**





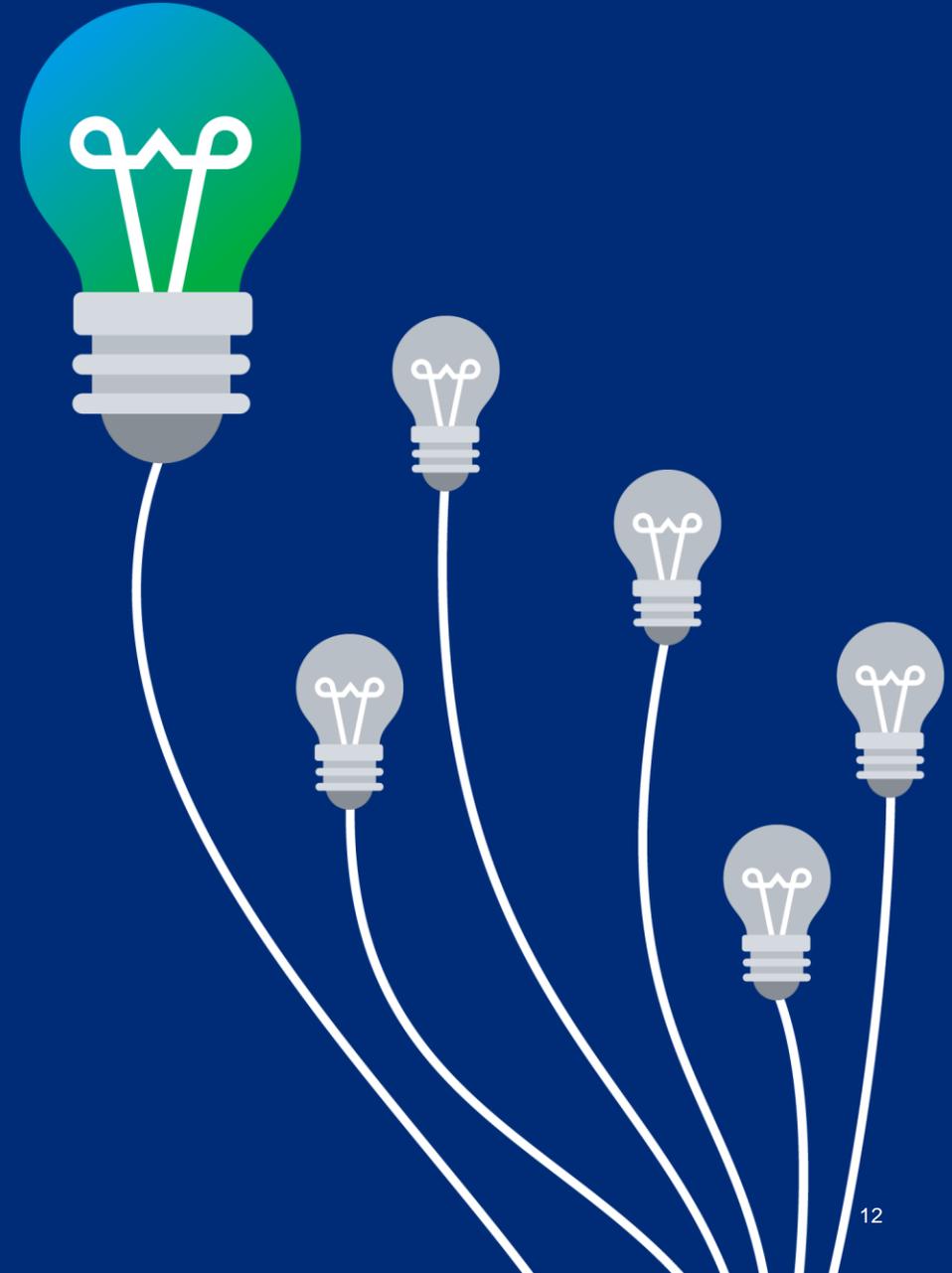
Culture is less about the five values painted on the lunchroom wall. It's more about how we operate, how we treat employees and how we treat our customers.

– Global PE Operating Executive



Case Examples

Pre and Post Deal



Case Study 1

[Client industry - Financial Services & Geography – APAC]

Client: Buyer

Leading mid-market private equity firm based in Singapore

Target

Leading financial services provider in APAC

Goal

Further increase market share and regional expansion of Target business



PROJECT BACKGROUND



Countries in Scope

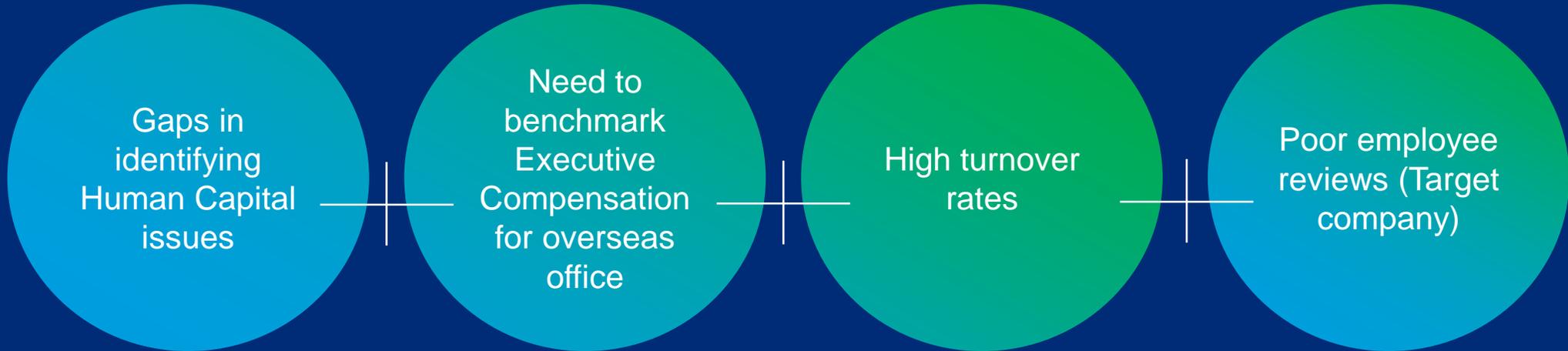
Countries in Scope				
Singapore	Malaysia	Hong Kong	China	Australia

Case Study 1

[Client industry - Financial Services & Geography – APAC]



KEY CHALLENGES



Case Study 1

[Client industry - Financial Services & Geography – APAC]



APPROACH



Case Study 1 – Sample Due Diligence Report

Dimension	Data Review / Interview Insights	Rating	Recommendations
Vision, Mission, Values	<p>Organization's Performance Management is not directly aligned to its Corporate Values, and as a result there will not be any consequences in acting differently from the organization's values.</p> <p>Organization's Brand Purpose, Brand Promise and Values are not consistently communicated across key stakeholder platforms (e.g. Corporate Website lists Brand Purpose as 'Unrivalled Partner'; Brand Purpose not articulated within the employee handbook)</p>	Yellow	<ul style="list-style-type: none"> Ensure consistency of Brand Purpose, Brand Promise and Values contents across all Public and Employee-Facing documents Ensure embedment of Corporate Values and Brand Personality within all Employee Handbooks Consider cascading of Corporate Values within Performance Management
Governance & Decision Making	<p>Based on the interviews conducted with two CEOs, distinct approaches of decision making can be seen between Australia and that of the other 4 countries.</p> <p>Governance - All countries: <i>There is clear documentation at a Group level that sets out the roles and decision making rights of the Chairman & Group CEO, Board and Management.</i></p> <p>Decision Making - <i>There is clarity in P&L accountability and in the Decision Making process</i></p>	Green	<ul style="list-style-type: none"> Clear quantifiable KPIs and approval process to be provided for each management team member and included within the Job Description
Communication Style	<p>Interviews with CEOs and HR Director indicate a good number of communications mediums in place for the purpose of top-down communications e.g. mini town-halls, employee newsletter, CEO message.</p> <p>Tone of voice articulated within Employee Handbook: Direct, Clear and Humane</p> <p>Further sighting of exit interviews have indicated a lack of bottom-up communications where concerns from front-liners are not made known to management.</p>	Yellow	<ul style="list-style-type: none"> To obtain Employee Engagement Surveys (or equivalent) to understand communication style and its effectiveness To create to validate views made by management or to obtain on-ground realities)
Org Design	<p>SG/MY/CN/HK Business Unit heads are responsible for gross margins with costs for Business Unit Enablers not being factored in. This is not the case for AU where BU heads are in charge of P&L overall. Strengths and challenges as follows...</p>	Yellow	<ul style="list-style-type: none"> Document clear KPI targets for each BU Regional and in-country Head Provide visibility for BUE costs and attribution to each BU Current Job Descriptions of BU Heads have 'Scope and Impact' section empty
Leadership	<p>The ability of Leadership and their ability to lead seems to be a key concern amongst past employees. No tangible records exist from current employees due to the lack of a specific, time-based and measurable Employee Engagement platform. Further 1-1 interviews with key leaders have shown a distinct weakness in their ability to coach and develop their direct reports on core skills in favour of providing technical training to ensure proficiency in their outputs</p>	Red	<ul style="list-style-type: none"> Review of all Performance Appraisals for Senior Management esp. in Core and Leadership Competencies Leadership development programmes to be planned and executed Conduct of Anonymous Employee Engagement Survey to ascertain current challenges in cultural and leadership aspects Conversation with CEO on the performance of HR Director, targets set and outcomes achieved



Legend
 Green: Low Risk
 Yellow: Medium Risk
 Red: High Risk

Case Study 1 – Sample Leadership Competency Assessment Summary

		Group CEO	Country CEO	Group COO	Group Biz Devt	Group CTO	Group CHRO
Creates Strategy	High performing leaders are able to think in long-term scenarios. Consequently, they can identify the appropriate strategy for positioning the organization in future markets. The ensuing strategy is based on a thorough analysis of facts, figures, and qualitative aspects of the internal and external environment. High performing leaders do not only focus on developing the best strategy, they also implement it and balance short term and long term needs.	3	3	Not evaluated	Not evaluated	Not evaluated	Not evaluated
Drives Results	High performing leaders are willing to deliver outstanding results and to perform at a level of excellence. They create a performance culture where all managers and employees are fully accountable and focus on continual performance improvements by defining challenging goals for themselves and for others.	3	3	1	2	4	1
Coaches & Develops Others	High performing leaders are personally committed to developing their people. They identify the developmental needs of others (individuals, groups, or levels), and implement the necessary measures. They make sure their employees receive support either from them, from other managers, or through formal development programs.	1	3	1	3	3	1
Innovation	High performing leaders are eager to develop new ideas and concepts for identifying better solutions to current and future problems. They create a climate in which new approaches are not only welcomed but also expected from everyone in the organization to continuously improve overall performance.	Not evaluated	Not evaluated	Not evaluated	Not evaluated	3	Not evaluated
Customer Focus	High performing leaders are eager to translate customer perspectives into actions. They have a deep understanding of current and future needs, are willing to meet their expectations, and to solve unique problems, acting as trusted advisers and reliable business partners.	3	3	1	3	Not evaluated	Not evaluated
Collaborates with Others	High performing leaders do not only focus on their own functional responsibility, they are also willing and able to build up cross-functional as well as external relationships. Their overall goal is to share information, to improve collaboration throughout and beyond the organization, and to identify opportunities for improving company performance. High performing leaders do not let horizontal, vertical, external, geographical, or personal boundaries restrict the scope of their activities.	Not evaluated	Not evaluated	2	2	3	1

Case Study 2

[Client industry – Oil & Gas]



PROJECT BACKGROUND

Client: Buyer

One of the largest public petroleum and natural gas company based in Dahrhan, Saudi Arabia

Target

Leading chemical manufacturing company based in Saudi Arabia

Goal

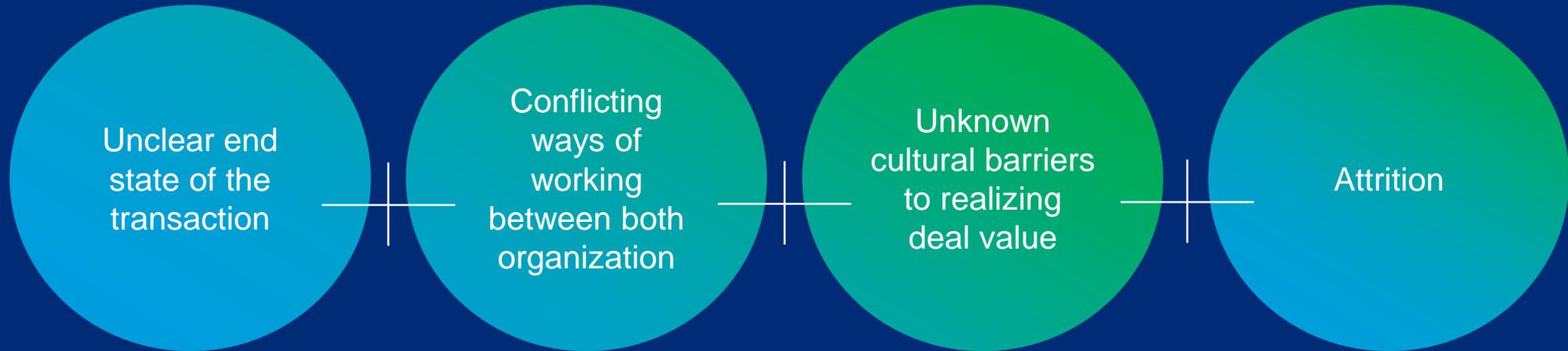
Create a new giant in the Chemicals sector leveraging capabilities of both organization

Case Study 2

[Client industry – Oil & Gas]



**KEY
CHALLENGES**



Case Study 2

[Client industry – Oil & Gas]

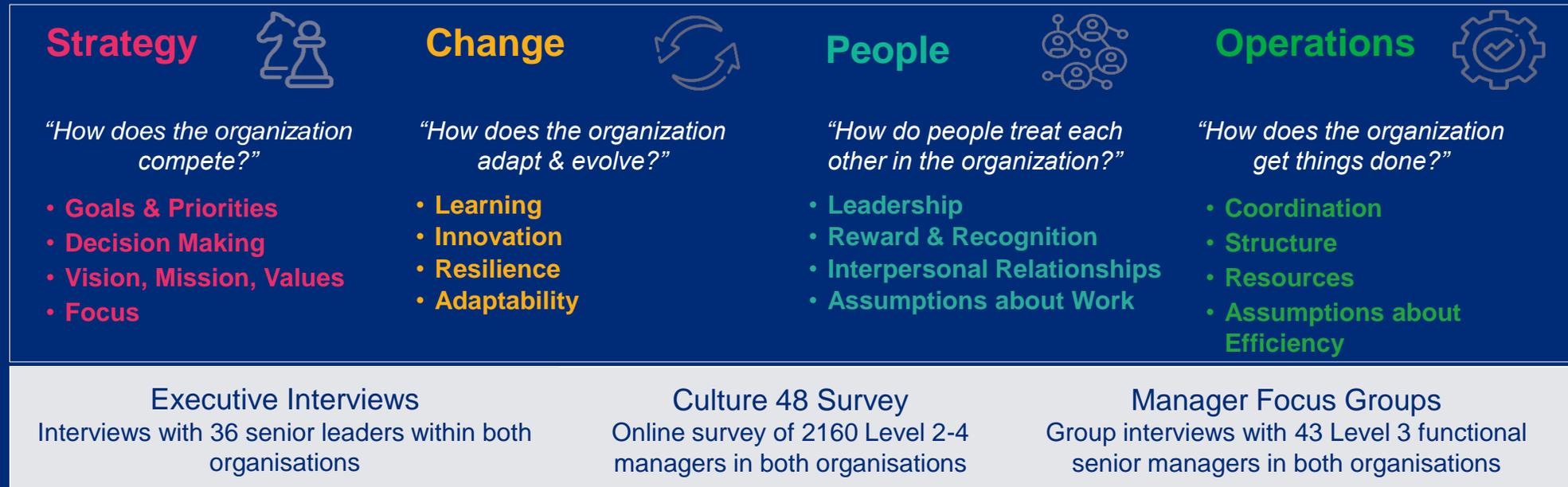


APPROACH



Utilizing Mercer's model to obtain consistent measures of culture: from executives, managers and employees

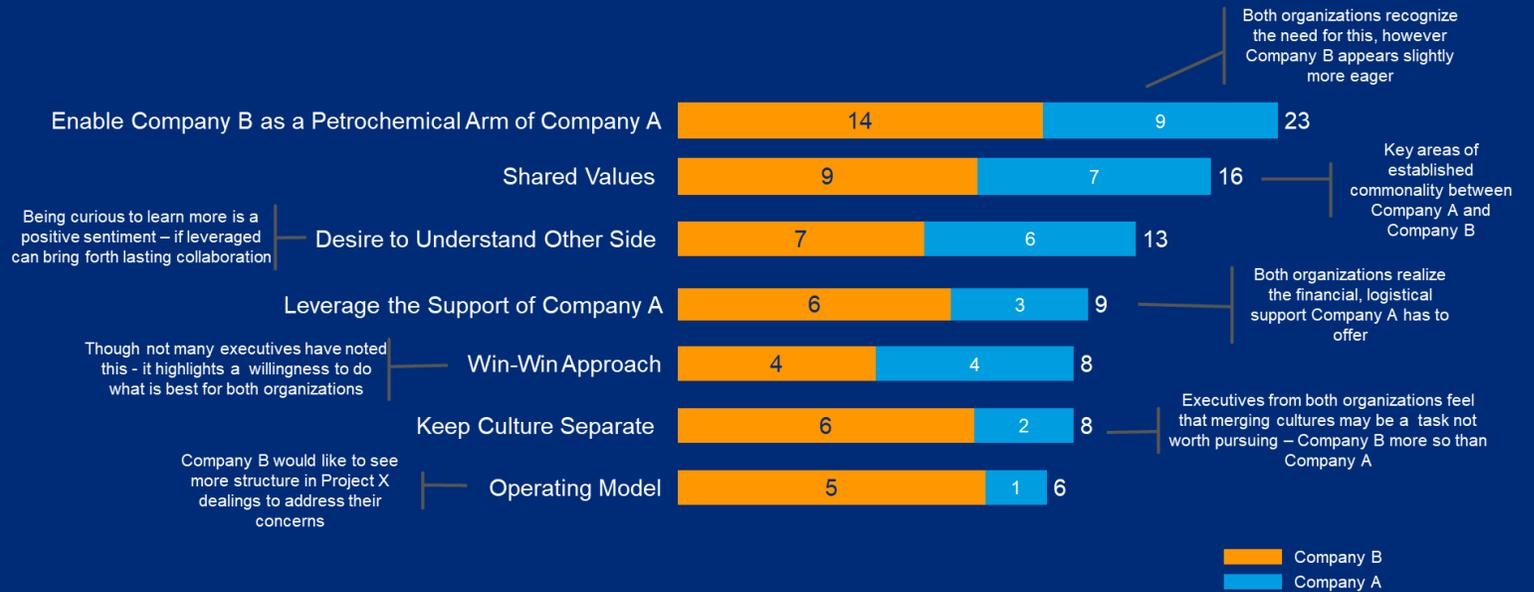
Model to Assess Culture



Company A	<ul style="list-style-type: none"> • Sr. VP x2, VP x9 • GM x1, Exec. Dir.x3 	15 executives	• 1347 respondents	5 Focus Groups Conducted • 20 Managers
Company B	<ul style="list-style-type: none"> • CEO x1, EVP x6 • VP x7, GM x7 	21 executives	• 813 respondents	5 Focus Groups Conducted • GM x5, Director x18

Executives were aligned on some Cultural aspects

The things where they agree, which could be further leveraged



But mainly spoke about barriers and issues...

The things where Executives note issues that impede progress or divide culture

Greater cultural alignment could flow from these areas of aligned thinking

Areas of alignment	Culture drivers		
Focus on Strengths	Shared values	Enable Company B as the petrochemical arm of Company A	Openness to leverage support from other side
Establish Common Ground	United in supporting the Kingdom	Common domains such as Safety and Sustainability	Shared Project X value capture objectives
Adopt a Learning Mentality	Shared objectives: Win-Win Approach	Leadership Co-Location	Increased risk appetite
Maintain Individual Identities	Define and strengthen boundaries	Keep cultures separate	Culture of collaboration and partnership
Governance	Clarification of Operating Model	Clarification of information and data sharing	Engagement model driven by governance body

Can be further leveraged
 May impede progress

We need to find ways to overcome these perceived barriers, to safeguard future Project X Value delivery...

Areas of misalignment	Culture resisters		
Transparency	Lack of Leadership Alignment	Mistrust	Lack of clarity on end state
Working Environment	Competition rather than collaboration	Different levels of accountability	Low levels of collaboration
Decision Making Processes	Different distance to power	Speed of decisions creates frustration	Disconnect between subordinates' level of to take decisions and empowerment
Communication Style	No clear communication governance	Nature of and approach to sharing information	Ego's
Working Style	Rhythm of operations	Process versus customer focus	Silos

The themes emerging from Company A and Company B focus groups – and what would resolve many of these issues...

Themes Captured from Company A

More Planning Before Executing
Room for More Alignment
Too Process Oriented
More Supportive Stakeholders
Focus on Bigger Picture
Concerns about Roles
Talent Management

Themes Captured from Company B

Lack of Clarity
Decision Making / Management Style
Empower Company B
Leverage Mutual Benefit
Poorly Conducted Talent Management
Concerns about Roles
Talent Management

Suggested Key Enablers



Transparency and leadership alignment



Governance and operating model for Project X



Project X working style



Project X employee value proposition

Operations People

Similarities and Differences

Main similarities between Company A and Company B	Main differences - Company A	Main differences - Company B
People		
People perceive each other as collaborative partners	Reward and performance decisions based on subjective information	No consensus over reward and performance decision objectivity
Leaders prefer when employees accept and support decisions	Leadership style more formal and reserved	Leadership style more formal personable and approachable
Managers focus on employees understanding responsibility	People compete and protect resources	People collaborate and share resources
Workplace perceived as no-nonsense and formal	People motivated more by pay than the mission or work	No consensus over whether motivation is driven by pay or the mission
Operations		
Hierarchical structures with many layers	Hierarchical structure with many levels	Collaboration with other parts of the business is
Power based on a person's level, position, or title		
Meetings tend to start on time		
Policies and procedures established centrally		

Main similarities between Company A and Company B	Main differences - Company A	Main differences - Company B
Change		
Approval needed to take risks	Disagreements more likely to lead to competitive debates	Disagreements more likely to lead to collaborative dialogue
Focus on continuous improvement verses breakthrough solutions	People more likely to be guarded and defensive when receiving feedback	People more likely to be open and eager to feedback
Structures and reporting relationships often reorganised	Development of new products, solutions and services more likely to be influenced by internal experts	Development of new products, solutions and services more likely to be influenced by customers and clients
Focus on preventing mistakes versus generating ideas	More prefer when work is calm, stable and routine	More prefer when work is active, dynamic and new
Strategy		
Decisions tend to be made based on global trends	Performance goals and objectives focus more on quality	Performance goals and objectives focus more on quantity
Competition are opponents to be respected	Most decisions consider the long-term	No consensus over whether decisions consider the long-term or short-term
Decisions usually made in top-down way by those in charge	When seeking new ideas Company A tends to look outside of the organisation	No consensus over whether Company B tends to look inside or outside of the organisation

