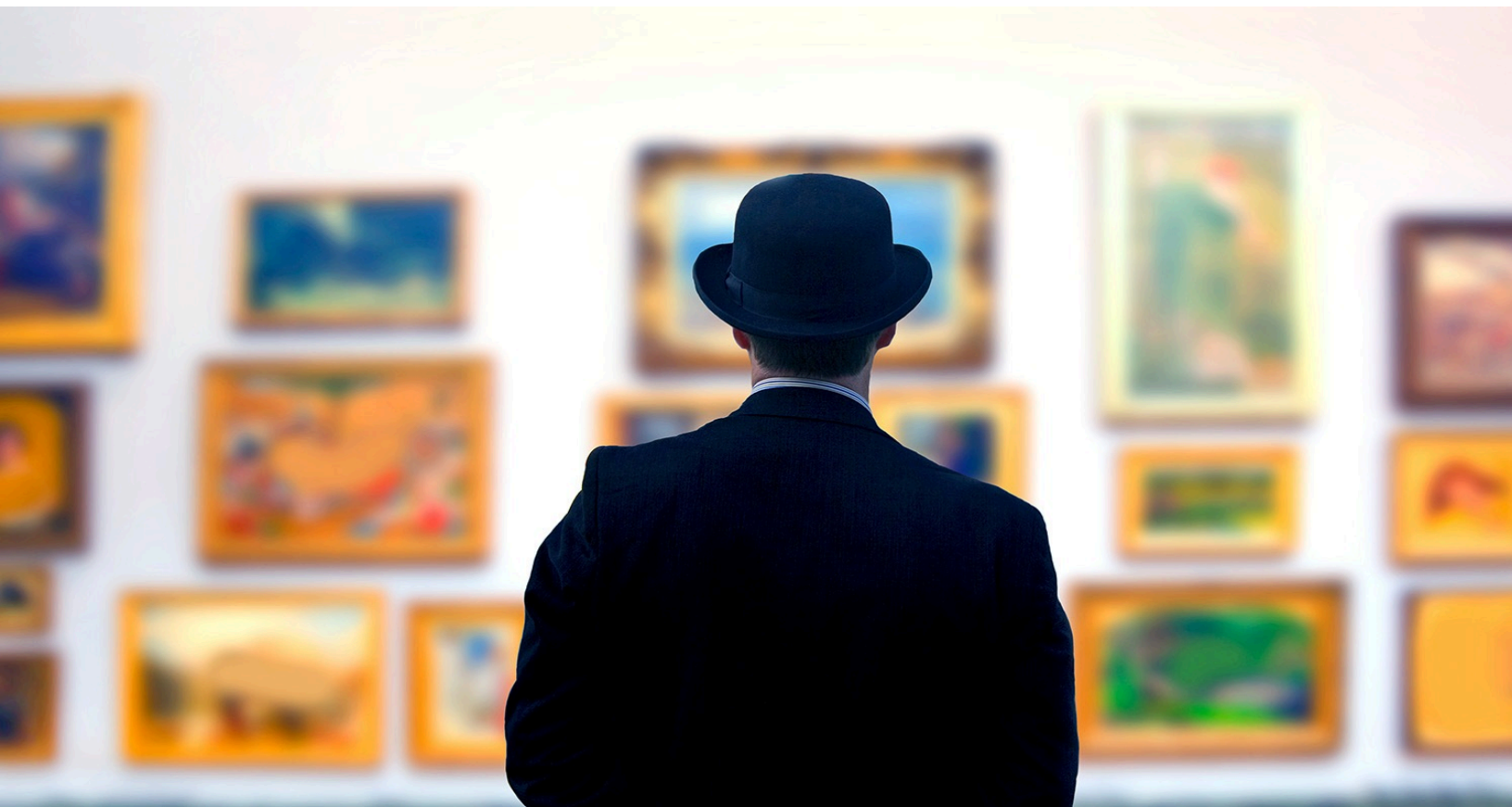


M&A Practice

# The culture compass: Using early insights to guide integration planning

The huge impact of culture on M&A performance means that culture should be factored into integration planning from the start. We recommend focusing on five cultural attributes.

*by Jocelyn Chao, Rebecca Kaetzler, Kameron Kordestani, and Emily O'Loughlin*



**Culture has outsized impact** on M&A performance. In our January 2023 survey of almost 1,100 M&A leaders, 44 percent cited “lack of cultural fit” and “friction between the acquiring and target companies” as top reasons that integrations fail. Even when the impact is less severe, cultural issues can delay value capture and prolong the integration effort. Many M&A executives have admitted to us that they gave culture too little attention, too late.

Early attention to culture—starting even before a deal is announced—can prevent these problems and enrich integration planning. Integration success requires conducting a thorough diagnostic that compares company management practices and ways of working and then developing a plan to combine company cultures. But efforts to manage culture during integration planning can launch before that diagnostic is complete. Specifically, we recommend focusing on five cultural attributes of organizations that our Organizational Health Index research has found to correlate with positive TSR and to minimize friction when managed effectively:

1. *Talent.* Identify, attract, develop, and retain mission-critical talent—high performers who are producing value and can ensure top-quality integration planning and leadership of the future organization.
2. *Role clarity.* Establish clear objectives and accountability for each critical individual and the overall integration effort.
3. *Performance management.* Provide attractive incentives and clearly link rewards to performance.
4. *Customer focus.* Maintain and grow external/customer focus to establish and

expand business momentum and keep integration planning focused on what matters.

5. *Decision making.* Make effective decisions efficiently.

These attributes should be top of mind when standing up the integration planning team and throughout the team’s planning effort.

## Talent

Strong integration planning requires putting the right people at the helm and in the right roles. The integration effort needs self-driven leaders who are comfortable setting and achieving stretch goals and operating in an uncertain environment. This means tapping top talent for integration roles, not just handing roles to people who are available and have capacity.

Top talent is often reluctant to join the integration team and may require an attractive, tailored value proposition to do so. These leaders will also require onboarding and preparation to guide the full integration team, interact effectively with target company leaders, and set the desired tone for the integration effort.

One integration sponsor launched the effort to integrate a small but highly successful, fast-growing company into the acquiring company by sharing a few guiding principles on interacting with the target company’s leaders. These principles included “learn before judging” and “pay extra attention to making key design decisions jointly, as a team.” The principles did much to avoid overwhelming and distracting the target company’s leaders.

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## Role clarity

Role clarity looms especially large when a deal brings together two very different organizational structures or involves at least one heavily matrixed organization. The effort to organize the integration planning team should anticipate and address potential confusion about the scope of integration leadership activities (versus functional/business unit responsibilities, integration deliverables and due dates, and stakeholder engagement requirements). The integration plan should specify the scope of each leader's responsibility and rewards for strong performance.

Acquiring and target companies often have very different perspectives on leadership. One recent integration planning team sought to establish clarity and consensus from the start. Before any announcement of the combined company's leadership team, the planning team consulted the CEO, chief human resource officer, and select business leaders to create a detailed overview of the roles and responsibilities assigned to every member of the new top team. Making this effort well before the deal's close prepared the combined company to overdeliver on its ambitious growth goals after close.

## Performance management

Integration planning should consider how the two companies set and manage performance targets. Company philosophies on setting targets may vary tremendously—from setting ambitious targets that people rarely meet to setting low targets that people always exceed. The integration plan should set clear expectations for meeting cost and revenue targets and define rewards and consequences that reflect accountability for meeting or missing those targets.

One consumer health merger required addressing differences in setting and managing performance expectations to secure buy-in to the deal. Both companies were high-performing, but the acquirer's CEO set top-down stretch goals that were often hard to meet. Missing a target was acceptable as long as people made their best effort. The other company set targets collaboratively, informed by extensive data and debate. People never missed their targets; in fact, they often overdelivered. Bridging these differences required leaders of the combined company to embrace a more consensus-driven approach that involved rich discussions before setting and rolling out targets for value capture to the integration teams.

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## Customer focus

Even when both organizations believe they are highly customer focused, they probably differ in how they define their customers and how they focus on them. The integration plan should address these differences when setting customer success metrics and determining their priority compared with other performance metrics. To sustain business momentum, the plan should also lay out a tight integration process that requires comparatively few people to execute it, keeping most of the organization focused on customers. The integration steering committee can help keep customers at the center of integration planning by including customer impact in its criteria for evaluating decisions (see sidebar, “No regrets’ actions to include in every cultural integration plan”).

Two industrial companies planning to merge made customer focus a particular priority in their integration planning because the two organizations shared many customers. The integration plan included not only a culture diagnostic of both companies but also interviews asking customers about their experience working with each organization and their aspirations for the

integration. These interviews shaped the rollout of the sales and customer service model and created significant goodwill, as customers felt valued and excited to partner with the new company.

## Decision making

The process and speed of decision making affect the pace of integration planning. Differences between the two organizations—especially the collision between top-down and consensus-driven decision making—often cause early friction and frustration among integration planning leaders. Thoughtful setup of the integration steering committee, including a clear process for bringing decisions to the committee, can go far toward forestalling these problems.

When a small but nimble basic materials company acquired a much larger competitor, different styles of decision making clashed from the start. The acquirer’s CEO made quick decisions, and the company culture had a strong bias toward action. The target’s leaders favored collaborative decision making and walked the halls to preview major decisions and get input from executive committee members before finalizing a decision.

## “No regrets” actions to include in every cultural integration plan

**Early culture insights** should shape the overall integration plan, beginning in due diligence before announcement of the deal. Experience has taught us that every acquirer’s cultural integration plan should include five “no regrets” actions:

1. *Pick the right people* to lead the integration effort and give them the right tools—such as integration boot camps, tutelage on ways of working, and a guide for leadership interactions—to facilitate collaboration with leaders of the target company.
2. *Learn from customers* how to sustain business momentum—for example, organize advisory panels to hear how customers feel, what excites them, and what concerns them.
3. *Define decision rights* and the process for making integration decisions, including the business case and data required and contingency plans to break through gridlock.
4. *Factor differences* in how the two companies set and achieve targets into the target-setting process, taking a thoughtful approach to reconciling differences.
5. *Listen to and learn from employees* of the target company—establishing an executive presence on the ground, tapping all appropriate communication channels, and creating joint advisory committees for critical integration initiatives.

The acquirer’s CEO recognized that the operations of the combined company would be ten times larger, far more global, and much more complex. His decision making style would jeopardize the combined company’s success. The integration planning team encouraged the acquirer and target leaders to clarify the decision making process, especially how integration decisions would get made, who would be consulted, and when they would be consulted. The effort also identified five decisions that the CEO would continue to make and ten decisions that the executive committee would make, delegated to appropriate subcommittees or individuals. The leaders agreed to hold each other, including the CEO, accountable for adhering to the new approach.

### Activating the culture compass

Using culture to guide integration planning requires open-minded, even-handed understanding of the five key cultural attributes in both organizations and potential sources of friction that might threaten value capture or talent retention. Successful serial acquirers reflect on and revise these dimensions of their company culture as needed in their downtime between deals; that way, they are always ready to make acquirer–target comparisons. As soon as they have a target in their sights, they take advantage of every opportunity to gain insights into that company’s culture. Other dealmakers should follow their lead.

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