Tong Schraa-Liu & Partners

Culture, Business, Organization and Mergers & Acquisitions integration

Successful global companies have recognized the crucial contribution of culture to business performance and profitability. Culture is a broad term describing the attitudes, beliefs and personal ways of functioning that determine how organization, people, technology and financial resources interact to meet customer needs in different national contexts. This soft side of the business very often explains what distinguishes the highest performing companies from those that lag behind and what effectively binds together the various business units of an enterprise operating in different locations or industries.

When separate operating companies are combined through mergers and acquisitions, each carries with it a cultural legacy that can act either as a powerful impetus or impediment to growth. Therefore, it is now common practice for global corporations to include programs designed to foster cultural integration as part of a complete business integration package. This is a constructive, but limited approach that achieves only minimum results.

Culture cannot be effectively managed as a separate element of a business. A company's culture is inseparable from its organizational structure, systems, human resource policies, technological processes and relationships with suppliers and customers. Corporate culture determines how individual human beings and teams interact within an organizational environment, how they exercise and respond to authority and freedom, how they utilize and are directed by systems and procedures, how they accept and exercise responsibility, etc. Culture defines the conditions under which people release their maximum energy in work and the conditions under which the organization can most effectively channel that energy to achieve maximum results. Each of these factors has a direct impact on profitability. *The company can view the process of cultural integration in this wider context to align corporate culture to release maximum energy in the organization and generate maximum profitability.*

Creating the Integral Corporation out of M&A activities

The most recent global wave of mergers and acquisitions has highlighted the importance of effective integration between newly combined business operations. *But the term integration is commonly used in a limited sense to mean efficient combination of corresponding parts of several businesses.* Thus, business strategies are aligned; organizational structures are partially centralized, ,merged or abridged; common systems and procedures are applied to all operations and projects; human resource policies are standardized as far as appropriate; and occasionally efforts are made to establish a set of common values across business units. Integration usually stops here and falls short of achieving its full potential.

In practice, strategy, structure, systems, people and culture do not exist and cannot be effectively managed as separate elements. Each depends on and interacts with the others. Strategy determines structure, structure effects operational performance, people's skills and attitudes determine how effectively any structure functions, culture defines how human beings interact within an organizational setting and how they respond to challenges and opportunities, etc. *All of these elements are in potential and actual conflict with each other.* Structure not only supports but obstructs the execution of strategy. Operational systems stifle individual initiative and impose standardized solutions on unique situations. Corporate or national culture can reduce people's motivation and curtail their creativity. *Maximum performance and profitability is achieved by a company only when all these elements are perfectly **aligned** and **reconciled** with each other and with the overall purpose of the business.*

Thus, integration in this wider context is the process of reconciling divergent goals, values, structural, functional and cultural differences. The meaning of 'integration' is to make whole, it is to synthesize strategy, structure, operations, people, and culture into a single integrated whole which also includes the economic, social and cultural context in which the company functions. Taking the perspective of the company as a whole, the company can identify how these elements can be aligned and reconciled to generate maximum performance.

Companies have cultures because they are living organisms, not just inanimate machines or mechanical organizations. Life means energy. The efficiency, productivity and profitability of a company depend on the amount of energy it releases and on its capacity to convert that energy into productive results. The human energies within an organization are released and directe for accomplishment by the goals, values, strategies, plans and attitudes of management, converted into productive power by the structure and systems of the organization, and transformed into growth and profitability by the productive skills of people. High performance companies are those with organizational cultures that release and convert the maximum energy into productive results. M&A integration work provides great opportunity to devise methods to release the maximum energy and vitality of the organization for self-generating expansion. The scope for enhancing energy generation and conversion even in the best performing organizations is 100 to 200% or more.

Values, Corporate Culture and Profitability

Corporate culture is a very broad term, which includes the orientation of the company and its people to all the qualitative dimensions of business performance. Values represent the most conscious core of corporate culture, rather than the effort of management to consciously elevate some aspects of corporate culture to a higher level of performance. A systematic effort to raise operational performance on key corporate values can serve a powerful lever for integrating separate business units into a cohesive group and energizing an organization to multiply its profits.

While many companies espouse high corporate values and urge their people to realize them, these efforts are usually limited to an initial sponsoring by top management, communication programs to staff, and with some companies the effort to include values in the performance appraisal process. *In practice, the result is usually more talk than action and embedment of operational systems, the actual levels of value implementation achieved remain far less than optimal.*

Values lend themselves to systematic implementation just as readily and completely as the quantitative objectives covered by the strategic planning process. A comprehensive approach must also include formulation of quantifiable and measurable standards for each value in each area of operations, assignment of responsibility for achieving these standards to people all the way down the line to the production floor, systems for implementing and monitoring performance on the values, and essential skills to elevate performance. *Company can use value implementation as a higher-level strategy to energize organization and make it come alive, dramatically improve corporate performance and profitability.*