

Mergers & Acquisitions, Cultural Due Diligence, and Implications for HRD Practitioners

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Abstract

Despite the seminal research pioneered by J. Robert 'Bob' Carleton when he introduced the corporate world of mergers and acquisitions to his idea of cultural due diligence (CDD) in 1997, many mergers or acquisitions still fail due to the lack of willingness on the part of 'dealmakers' and others involved in the process to do what is needed to ensure success. Practitioners, including those from the disciplines of performance improvement, human resources development (HRD), human resource management (HRM), and organization development (OD), still need to step up, take responsibility, and provide needed guidance and direction for those executives or senior managers responsible for the integration of two or more cultures coming together in a new organization following a merger or acquisition. Those practitioners with knowledge of and experience in cultural integration need to also step up and develop newer talent unaccustomed to the rigours of culture clash and cultural integration to move toward a successful merger or acquisition (Craig, 2022, p. 1).

Keywords

Mergers • acquisitions • cultural due diligence • performance improvement • human resources development (HRD) • human resource management (HRM) • organization development (OD)

The M&A Roadmap for Success

In the final 3–4 years of its 35-year history, Vector Group, Inc. Principals J. Robert 'Bob' Carleton and I published numerous articles and presented topics at several conferences concerning issues surrounding the success or failure of mergers and acquisitions (M&A). We shared insights, experiences, and best practices on how to prevent critical deal value from being destroyed by cultural and other organizational issues. Our target audiences were 'dealmakers' (owners, bankers, lawyers, key executives, and others who make the merger or acquisition deals) along with those tackling human capital challenges (performance improvement practitioners, including those from the disciplines of organization development, human resources, or training and development).

The *M&A Roadmap for Success* evolved from an original design called the *M&A Blueprint for Success*, (Craig & Carleton, 2011) for a specific client to define and leverage the role of their Human Resources (HR) team in driving the success of present and future acquisitions and bringing desired results more clearly. Undoubtedly, performance improvement

practitioners, including those engaged in human resources, organization development, and in training and development, are in the best position to lead aspects of the acquisition process centred on the people issues (organizational culture) that so oftentimes cause failure. They can act as advisers to those initiating the merger or acquisition (dealmakers), including key executives, management, and others involved in the process.

The people strategy for the *Roadmap* poses Objectives and Deliverables that identify and surface possible challenges with intended outcomes. HR was the identified group to lead the process for that client but as mentioned, performance improvement practitioners from many disciplines and other functions may direct M&A activities (Craig, 2022, p. 2).

The *Roadmap* is a guide for the merger or acquisition process beginning with target identification of potential new businesses to buy and ending with the successful cultural integration of the acquired or merged company. Just as a building plan would work, the *Roadmap* brings logic and a

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means to successful creation of a new entity. Be aware that the *Roadmap* is not prescriptive but does offer numerous tactics and tools that an integration team can use in assessing the potential risks and increasing the potential benefits of a specific acquisition. Portions of the *Roadmap* do provide some systematic directions but overall bring a way of thinking and doing in terms of introducing a new organization to any company (Craig, 2022, p. 4).

The original *M&A Blueprint for Success* identified nine phases in the process, but we easily customize this generic model for any company who has a dedicated team for mergers and acquisitions:

- Phase I - Target Identification
- Phase II - Target Evaluation
- Phase III - Pre-Go/No Go Decision Meeting
- Phase IV - Due Diligence
- Phase V - Integration Planning
- Phase VI - Go/No Go Decision Meeting
- Phase VII - Share/Asset Purchase Agreement
- Phase VIII - Integration (First two weeks)
- Phase IX - Integration (First year)

Each Phase starts with a description of the Phase followed by short sections covering Business Perspective, Business Deliverables, HR Objectives, and HR Deliverables. We include a general Hints section that provides guidance and subtleties involved in successfully completing each Phase (Craig & Carleton, 2011, pp. 5-23).

Each phase also outlines roles and responsibilities. We believe the use of an identified Integration Manager (IM) is crucial for the success of the merger or acquisition. Once the company chooses the IM, HR must work in tandem with the IM (Phase III) to support and develop the IM. The IM plays a critical role in making the integration work. Each phase has deliverables but just as importantly, each phase has references to documents and tools that will be of extreme benefit in bringing those deliverables. Figure 1 illustrates this relationship.

We created the original *M&A Blueprint for Success* about 15 years ago for a global engineering company that was headquartered in Canada. This company was growing dramatically by acquisitions of other companies but was experiencing several challenges when it came to cultural integration because of 'culture clash.' They lacked understanding of organizational culture and did not have the people with the appropriate skills needed to successfully acquire another company and integrate the two organizational cultures. A couple of years later we made some revisions and renamed it the *M&A Roadmap for Success*.

What is *culture clash* anyway? Culture clash is no more than differences in opinions and assumptions as to the proper

manner and behaviours involved in pursuing the business plan. Culture clash occurs when two (or more) groups have different beliefs about:

- Observable differences between the companies involved in a merger about: *What is believed; what is important; what is valued; what should be measured; how people should be treated; how people treat one another; how decisions are made; how to manage and supervise; and how to communicate.*
- The disruption that occurs when the way one company conducts its business and treats its people is folded in with another company's way of doing business.
- Differences of opinion, disagreements, arguments, and different assumptions regarding the internal process of implementing the new business plan and strategy.
- Perceived differences in organizational beliefs, values, and practices.
- Perceived differences between the two companies in degree of formality in style of dress, language, workspace, communication, and so forth.
- Winner-loser language used by either organization's people (Carleton & Lineberry, 2004, pp. 13-14).

What Dealmakers and HRD/HRM/OD Practitioners Should Know about Cultural Due Diligence

Looking at the success rate of M&A about five years ago, we found that internationally, the success rate of M&A was quite poor. We found at that time that the last 30 to 50 years of M&A activity had a success rate of less than 30%.

As Kenny (2020) noted, "According to most studies, between 70 and 90 percent of acquisitions fail. Most explanations for this depressing number emphasize problems with integrating the two parties involved" (Deloitte, 2020).

As pointed out in a more recent *Forbes* online article, "No, Mergers Are Not Doomed to Fail," and as we look at the future of M&A, it's important to address the elephant in the room. Many of us have heard that "70% of mergers fail." This view was popularized by David Harding and Sam Rovit in their book *Mastering the Merger*, which cited high-profile failures like Daimler-Chrysler and AOL-Time Warner. However, the M&A world has changed dramatically over the past decades. Recent research by Harding and Bain & Company shows that nearly 70% of mergers now succeed, and even those that don't still create some value (Harding & Rovit, 2004).

What's become increasingly clear is that the absence of a strong integration strategy is one of the top reasons deals fall apart. In fact, a 2023 analysis by Bain & Company found

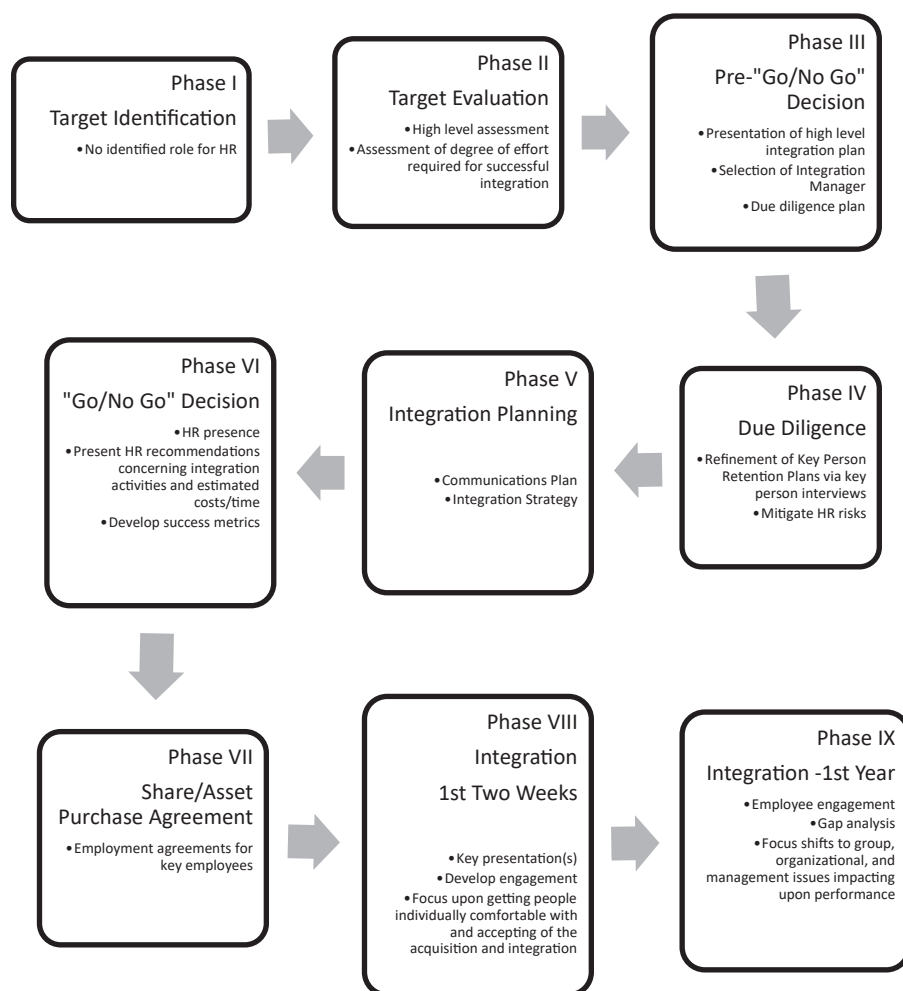


Figure 1. M&A Roadmap Flowchart. ©Vector Group, Inc., 2011

that 83% of practitioners involved in failed deals cited poor integration as the primary cause. Among the top contributors to failure were the inability to retain key talent, misaligned or siloed integration teams, and the failure to realize anticipated revenue synergies. Simply put, even the best-laid plans on paper can unravel quickly without a thoughtful, people-centred approach to integration (Ratanjee, 2025).

This is a dramatic positive turn in increased success in cultural integration over the last several years. According to most grading scales at universities, 70% is equivalent to a C- or something less than average. Why can't the success rate be even higher?

This is where the dealmakers and the HRD, HRM, and organization development (OD) practitioners, as mentioned earlier, "need to also step up and develop newer talent unaccustomed to the rigours of culture clash and cultural integration to move toward a successful merger or acquisition" (Craig, 2022, p. 1).

In an earlier published article, I shared ten critical elements that dealmakers and practitioners should know including the following:

1. Culture clash is the most common cause of eventual M&A failure, including failure to achieve financial targets or prolonged inefficiency.
2. There are no two or more corporate cultures that cannot effectively align and integrate.
3. People behave differently when in groups than they do when acting individually. Corporate culture is a group behavioural norm that is not based on individual beliefs but on organizational group norms.
4. Managing change for individuals is fundamentally different from managing change for groups. Cultural due diligence (CDD) is a process for gathering necessary data to design a focused group change effort in achieving overall strategic alignment.

5. Strategic alignment assures us that people (and functions) in an organization are generally approaching customers and the business in a strategically consistent and cross-functionally supportive manner.
6. CDD and strategic alignment can be successfully undertaken at any point after making the acquisition decision. Even if full-blown culture clash happens post-acquisition, the organization can still achieve successful alignment and integration.
7. The number of people and locations involved in implementing an alignment effort drive the costs for a CDD. Effectively, the costs for a CDD and achieving alignment are irrelevant to the overall cost of an M&A. In our experience, the combined costs have never exceeded 1% of the overall M&A costs and are often considerably less.
8. Off-the-shelf (prepackaged) culture surveys will not generate data useful for developing and implementing strategic alignment. Because every organizational situation has unique elements and ways of talking about the business, consultants must meet face-to-face with people in interviews and focus groups to capture those unique and nuanced bits of information.
9. CDDs should take no more than 30 days to complete. Change efforts should begin delivering observable and measurable results within 90 days of starting the change effort.
10. Go or no-go decisions regarding target acquisition should be based upon traditional issues of revenue generation, technology acquisition, competition, market, products or services offered, and potential synergies. Don't worry about the people. Get the rest right and the people can always be successfully aligned (Craig, 2018).

CDD is simply a diagnostic process to ascertain the degree of alignment between two or more different groups of people and the business plan. CDD provides the base data to develop an alignment and integration plan. It is a mandatory step if anything involving the people and their behaviour in the organization needs to change to achieve success.

In short, CDD provides an actionable report that would enable a dealmaker's client to align and integrate successfully. It would also allow the dealmaker to focus on the rest of the business and not worry about the 'people issues.'

Considering its relatively low cost and minimal time commitment, shouldn't CDD become a routine component of deal making? Think about it (Craig, 2018).

Who *should* worry about the people issues? This is where the HRD, HRM, and OD practitioners need to step in since their common focus should be dealing with people issues or the 'human side' of change.

The Role of the Integration Manager and Cultural Integration

Whoever is involved on the Integration Team (which probably could or should include performance improvement practitioners including Human Resource Development (HRD), Human Resources Management (HRM), Organization Development (OD), Training & Development (T&D), they must lead aspects of the acquisition process centred on the people issues (organizational culture) that so often cause failure. The IM works closely with the Executive and Management Groups. The IM fills a critical role. They should be constantly assessing and evaluating the cultural fit between the two organizations. The IM should be sensitive to and take note of how people verbally and physically behave in response to the following:

- Discussing and making decisions concerning business direction and results.
- Discussing, responding to, and tracking 'key' measures (meaning formal or informal things needing attention because of real or perceived consequences).
- What business drivers (and why) are considered important enough to track and respond to in terms of daily activity?
- How the company is physically organized, how are responsibilities, accountabilities parcelled out and structured – and how rigid is adherence?
- What are the organizational practices – policies, procedures, processes, and authority? (Who or what function must review, approve, or be advised of what. And why?) And how rigid is adherence?
- How and how well are the management/leadership needs of the company being met?
- What are the characteristics involved in supervision of the daily work? What is the nature or demeanour of supervision? Anticipating good, anticipating bad, looking for what is wrong, looking for what is right, suspicious, trusting – issues of general demeanour. Does staff feel that supervision is a help or a hindrance to getting the work done. Is supervision considered to be supportive of the work or irrelevant?
- What are the acceptable behaviour patterns in terms of doing the work?
- Do technology considerations have a bearing on how things are done or how and what kind of decisions are made relating to getting the work done? Is it important to be 'state of the art', is it important not to be state of the art, when there is a trade-off between technology and personalized contact which way does the company err?
- Elements of the physical environment that have a physical or emotional impact upon the work and people. High security/

low security, easy people/information flow versus restricted or controlled people/information flow. Open environment or compartmentalized environment.

- When staff talk about work, what are the patterns of expectations and perceptions?
- When people think of heroes or villains in the company what comes to mind, what are the stories told and what are the conclusions or morals of the stories? What kinds of things, or artifacts (awards, mementoes, formal acknowledgments) are treasured or honoured and why? (Craig, 2022, p. 7).

Key Integration Manager Role and Other Responsibilities

The Integration Manager will:

- Lead and manage the overall integration planning and implementation.
- Develop their integration project team and mobilize other project teams as needed.
- Serve onsite at the new acquisition as the 'eyes and ears' to constantly monitor and evaluate the relative progress of the integration effort.
- Act as the primary reporting resource for successes and potential failures.
- Identify cultural challenges and provide strategies and/or tactics to ameliorate or mitigate them.
- Be conversant with and well-grounded in the acquiring company's culture while being sensitive to the new acquisition's culture in identifying and leveraging synergies and dealing with divisive situations.
- Facilitate meetings, task groups, 'tiger teams' or other activities as needed to resolve conflict and/or solve problems.
- Design, develop, and disseminate an ongoing communications package that is modified as needed in meeting the specific needs of the newly acquired company's employees.
- Conduct management, leadership, and team assessments and provide feedback on results.
- Identify key metrics for the success of the integration; communicating, measuring, and reporting relative achievement.
- Lead client engagements and work streams related to process and strategy improvement including project management, integration assistance, and change management.
- Execute process transformation, measurable improved operational performance, and organizational restructuring.

- Establish client value propositions that tie financial metrics and Chief Financial Officer (CFO) focus areas directly to business improvement.
- Lead proposal development and other new business development activities by leveraging new and existing relationships with C-level executives.
- Provide oversight of highly skilled client and company work teams throughout the project lifecycle and help ensure timely execution of project deliverables.
- Provide input into engagement decisions including work plan and timeline, project management, and resource allocation.

The Integration Manager is an evolving role that must rise to the needs of the integration to ensure its success. The IM must be present. There are failures of distant Integration Managers who did not stay on top of things daily. This can be tantamount to failure of the integration (Craig, 2022, pp. 7-8).

HR's Role in Creating Effective Mergers, Acquisitions or Alliances: Overwhelming to Most HR Practitioners?

Numerous mergers and acquisitions or strategic alliances fail completely or fail to deliver expected results. HR practitioners may contribute to those failures by not being aware, failing to pay attention to or not properly advising senior leadership about the human behavioural issues related to organizational culture surrounding mergers, acquisitions, or alliances. With their unique role in the organization, HR practitioners are best equipped to focus on cultural (behavioural) or human capital issues and *should* play a key role in ensuring the success of such endeavours.

Internationally, the record of accomplishment of M&A activity results remains quite poor. Multiple studies analysing the last 30 to 50 years of M&A activity have documented a business success rate of less than 30%. One McKinsey study of 30 years of M&A activity concluded that 77% (and some studies show this at 90%) of the acquisitions failed to meet their intended business objective, over half failed to ever recover the documented costs of the acquisition and roughly a third were later divested or completely shut down. Any company's own data, while maybe better than international averages, may still show a less than desirable success rate (Craig, 2022, p. 2). Why so many failures? Most often, the reason is *culture clash* or the inability of merged organizations to work together. When companies battle each other over "the way we do things around here," they waste valuable time and energy. It's better to focus on the things that matter, like customers, profits, and keeping stockholders happy.

The bottom line here is to effectively manage or avoid the potential of *culture clash*. Our constant refrain is that in our 35+ years of dealing with M&A's globally, we have yet to see two organizational cultures that cannot be successfully integrated. M&A failure due to *culture clash* is just a way of describing management negligence, arrogance, ignorance or some mix of the three. Dysfunctional *culture clash* need never occur.

HR's Role

HR professionals certainly could contribute to the financial and legal due diligence process (*Whether* we do the deal) but should more appropriately properly advise senior leadership about due diligence around the human capital issues (*How* we do the deal). What do HR professionals need to know about the potential for culture clash and what they can do in preventing it or mitigating it? When it comes to integration following a merger or acquisition, the HR practitioner needs to determine what needs to be integrated and what does not and advise organizational leadership accordingly.

All too often, we see HR practitioners left out of any strategic planning whether it be for a merger or acquisition or just the day-to-day strategic planning for the business itself. We hear the plaintive cry for "a seat at the strategic table" but the invitation may never come. Why is that?

Several years ago (2005) Keith H. Hammonds, *Fast Company's* deputy editor, wrote a scathing article entitled, *Why We Hate HR*. It caused quite a stir in HR circles at the time. In short, he placed blame on HR for focusing too much on policies, procedures, performance appraisals and the like and less on making the business better. HR tends to focus on expediency and efficiency possibly at the cost of effectiveness. Despite the disparaging rhetoric blaming HR for all organizational ills, there was light at the end of the tunnel (Craig & Carleton, 2016, p. 2).

An excerpt from Keith Hammonds' article clearly demonstrates some key issues concerning HRM and HRD: After close to 20 years of hopeful rhetoric about becoming "strategic partners" with a "seat at the table" where the business decisions that matter are made, most human-resources professionals aren't nearly there. They have no seat, and the table is locked inside a conference room to which they have no key. HR people are, for most practical purposes, neither strategic nor leaders (Hammonds, 2005, p. 40).

It's no wonder that we hate HR. In a 2005 survey by consultancy Hay Group, just 40% of employees commended their companies for retaining high-quality workers. Just 41% agreed that performance evaluations were fair. Only 58% rated their job training as favourable. Most said they had few opportunities for advancement – and that they didn't know,

in any case, what was required to move up. Most telling, only about half of workers below the manager level believed their companies took a genuine interest in their wellbeing (Hammonds, 2005, p. 40).

Over the years I have shared Hammonds' article in the undergraduate and graduate courses I've taught, at conference presentations, and with a couple of local chapters of the Society for Human Resources Management. It still raises emotions and causes a stir.

My take on the article is that it is both damning *and* hopeful. For many engaged in the HRM or HRD field, I contend the article is very much on target. Here is an observation that I routinely make over time. Those in the field of HR who become the most incensed, righteously indignant or angry about it are the ones who cannot see the reality of HR in terms of how many in business perceive the HR function. The ones who sit back, reflect on these perceptions and make a conscious effort to take sustained action are the ones who will change the field and will hold themselves and others accountable.

Yes, the fields of HRM, HRD, OD, and Human Capital Management (HCM) have flaws but so do sales, marketing, finance, engineering and everything else out there. Those working within HRM/HRD/HCM/OD are under a great deal of pressure and must follow the law and policies. Management looks toward HR to solve several problems and if those problems go unsolved, who gets the blame? Of course, HR gets the lion's share of the blame.

Conclusion

Despite the noticeable improvement in successful cultural integration after a merger or acquisition, there is still a need for more improvement. Business leaders are learning more about CDD, how it works, how it can be implanted, and who needs to be involved in the process. Dealmakers and key business executives face several challenges, and their focus needs to be on the larger issues of profitability, employee and customer satisfaction, gaining marketplace advantages, and the overall goal of achieving strategic intent.

With the noticeable rise in the success rate of mergers and acquisitions, there is still room, as shared earlier, for continued improvement. This presents an opportunity for a call to action for those practitioners engaged in HR/HRD/HRM. They need to focus on developing the organization's employees by increasing their knowledge and strengthening their skills and abilities within the processes of CDD and cultural integration. Practitioners in HR undoubtedly need to shift their focus from the organization's efficiency to the organization's *effectiveness*. This could offer a real opportunity for those in HR to become "a strategic partner" and finally "have a seat at the table." Those in HR must *earn* that seat at the table.

In my professional career, I have worked within the HRM field as an external consultant concerned with change management, leadership and management development, organizational development, and cultural assessment/change/CDD but I have never worked 'inside' as an HR Generalist. I would probably find that work too confining and too regimented for me. Working side by side with HR in several situations, I found numbers of people out there doing their best to do good HR work every day. These are the heroes of the field. There are others, however, who are more than inept and do not know what they do not know. Others may cut corners or not follow ethical guidelines. They give us all a bad name. This holds true for some consultants out there as well.

I have been a member of the Society for Human Resources Management (SHRM) for over 35 years. My credentialing recently changed from SHRM-SCP to SHRM-SCP (Retired). I do not wish to cast aspersions or voice disparaging comments about the HR profession but would like to offer these questions as a final thought. I have often posed these questions to a variety of HR audiences.

You Have a Choice: What Do YOU Wanna Be "When You Grow Up?"

- An "HR Weenie?"
- A Member of the "Personnel Police?"
- An "HR/OD Crystal Healing, Past Life Regression, Touchy-Feely Change Cheerleader?"

OR

A Competent, Courageous, Caring, Concerned, Confident, and Committed Champion of Change Professional Dealing Effectively with M&A Cultural Due Diligence and Cultural Integration?

The choice is YOURS.

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About the Author



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Gary W. Craig was a Senior Consultant and became Managing Partner for Vector Group, Inc., a global boutique consulting firm. He has more than 40 years of experience in individual and organizational change management, performance improvement, human resources development,

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