

The Importance of Culture – a focus on M&A

**Alliance of CEOs
South Bay Regional Meeting**

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(in collaboration with the Stratam Group)

The Role of the CEO

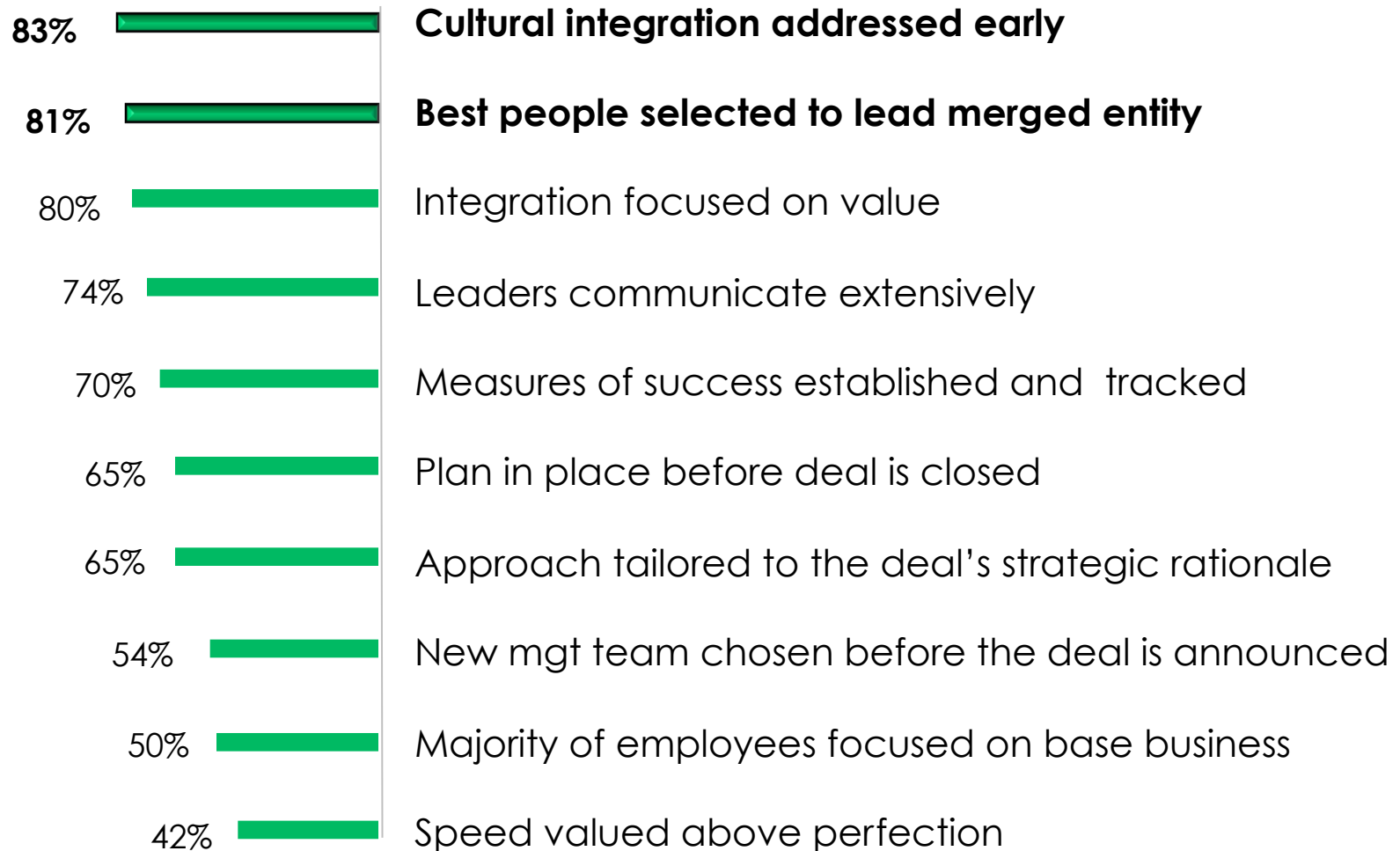
- According to my children: “to boss people around”
- According to me...it’s just 3 things:
 - ◆ To set and drive the strategy for the company
 - ◆ To define and drive the culture of the company
 - ◆ To hire the right people
 - ◆ ...and get out of their way...

Today we will talk about CULTURE

Culture – what is it?

- Most companies exist as a **network of people** coordinating action to provide **value** to stakeholders.
- The network is shaped by the underlying culture that is **mostly invisible**.
- The **value produced by the network** can be enhanced by:
 - ◆ Understanding how culture is shaped by *structural moods & organizational style*
 - ◆ Clarifying the *accountabilities* within the network
 - ◆ Understanding *who is trusted for what...*
 - ◆ Knowing where and how to make changes that *directly impact* culture

Integration Factors Rated as Most Important



Source: Bain & Company Survey

Some M&A facts

- A recent Harvard Business Review reports the failure rate for mergers and acquisitions (M&A) sits between **70% and 90%**.
Business Review Europe, Jan 28, 2015
- A KPMG study found that **83%** of deals hadn't boosted shareholder returns, while a separate study by A.T. Kearney concluded that total returns on M&A were negative.
CBS Money Watch, April 24, 2012
- In the average acquisition, **40% to 80%** of the top management and key engineers from the acquired business are **gone in 2 years**.
John Chambers, Cisco CEO, Harvard Management Update, Three Steps to Avoiding Merger Meltdown, March 2005

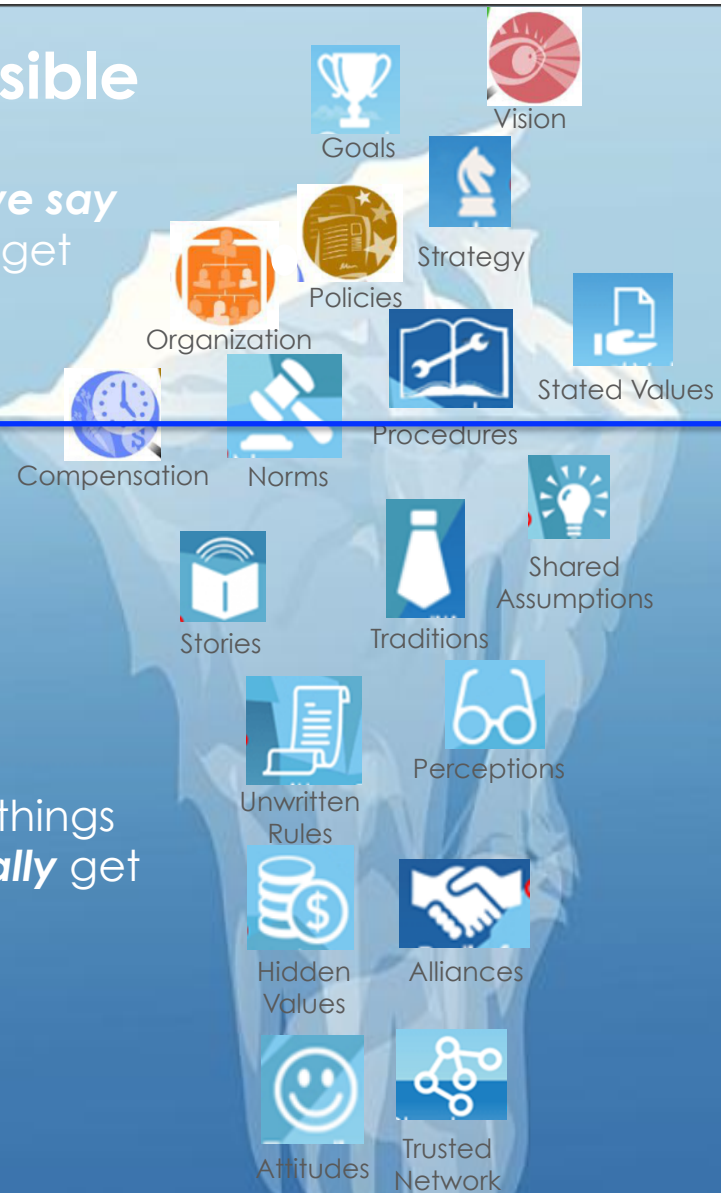
Culture is mostly.....invisible

Visible aspects of Culture

How **we say** things get done

Invisible aspects of Culture

How things **actually** get done



It is no surprise that most acquisitions don't achieve the deal thesis!

Style and Mood are the *least visible* but most important forces that shape Culture...

An iceberg floating in a blue ocean. The tip of the iceberg is above the water line, and the much larger base is submerged. Two overlapping circles are superimposed on the iceberg. The left circle is teal and labeled 'Style', and the right circle is light blue and labeled 'Mood'. The text 'Style' and 'Mood' are centered within their respective circles.

Style

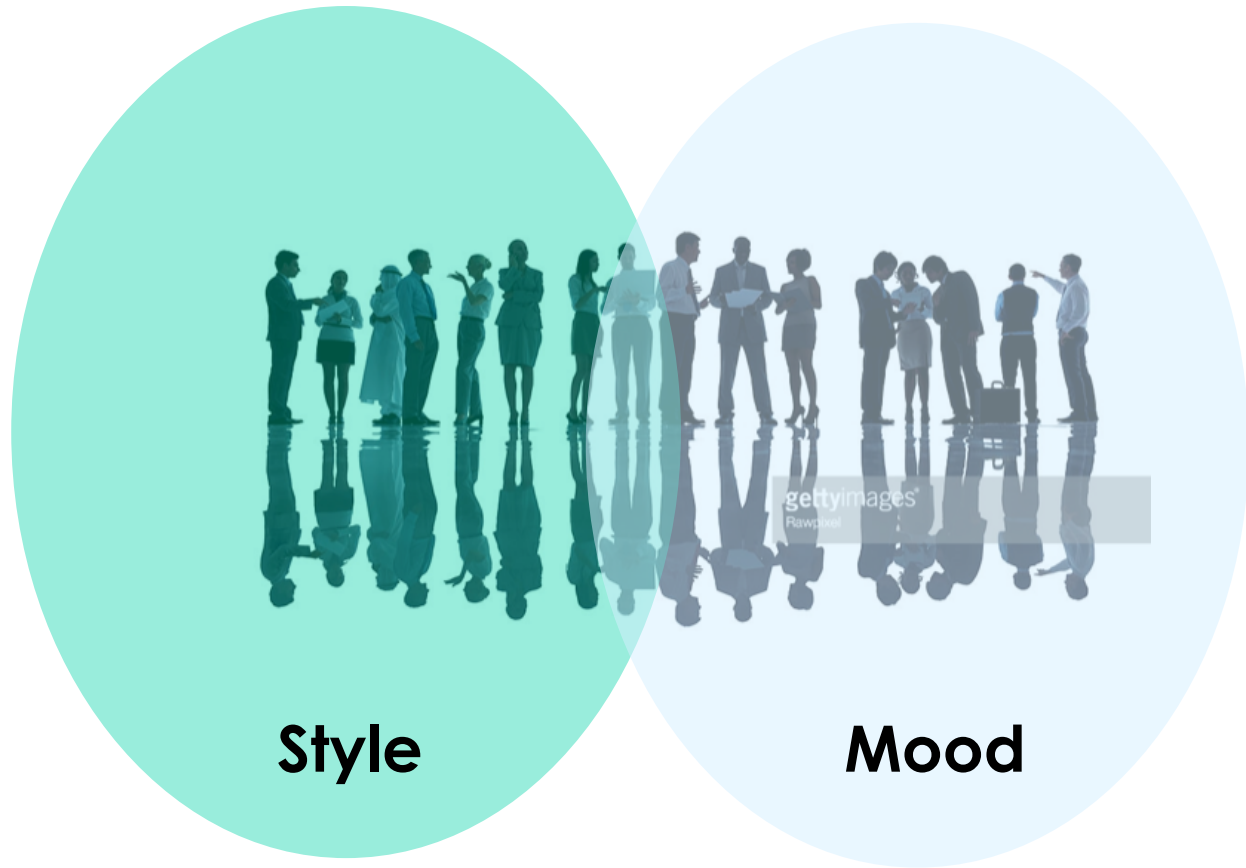
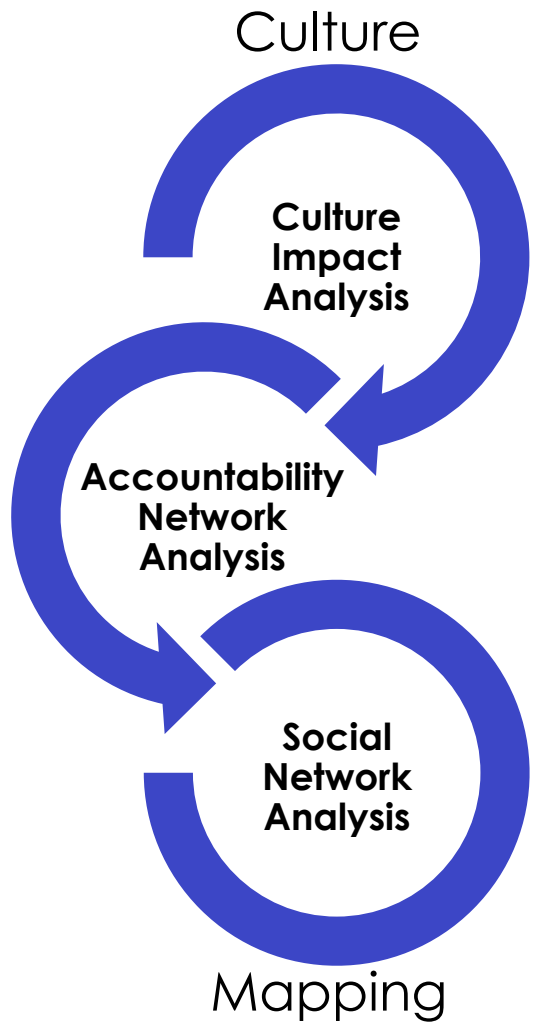
Mood

...and they have direct bearing on achieving the deal thesis!

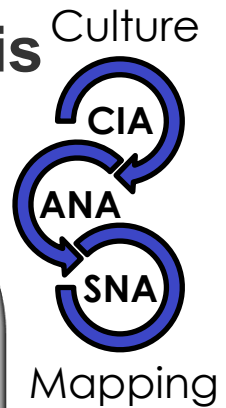
Distinguishing Style and Mood

- **Structural Moods:** determine how things matter, giving rise to the politics of the organization and our predispositions (feelings)
- **Organizational Style:** provides the context for how people and actions are valued; a style calls us to be a certain way

Making culture visible

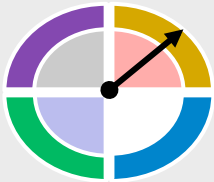


Cultural Impact Analysis Dashboard – How culture is shaped.



Structural Mood

What is the dominant mood and what politics does it give rise to?



Alignment

How well do people understand where the company is going and their role in it?



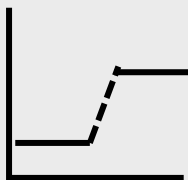
Satisfaction

How happy are people being in the company?



Adaptability

How easily does the organization evolve?
How readily does it innovate?



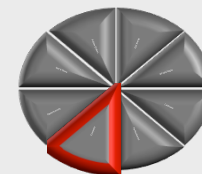
Coordination

How do things get done and how well?

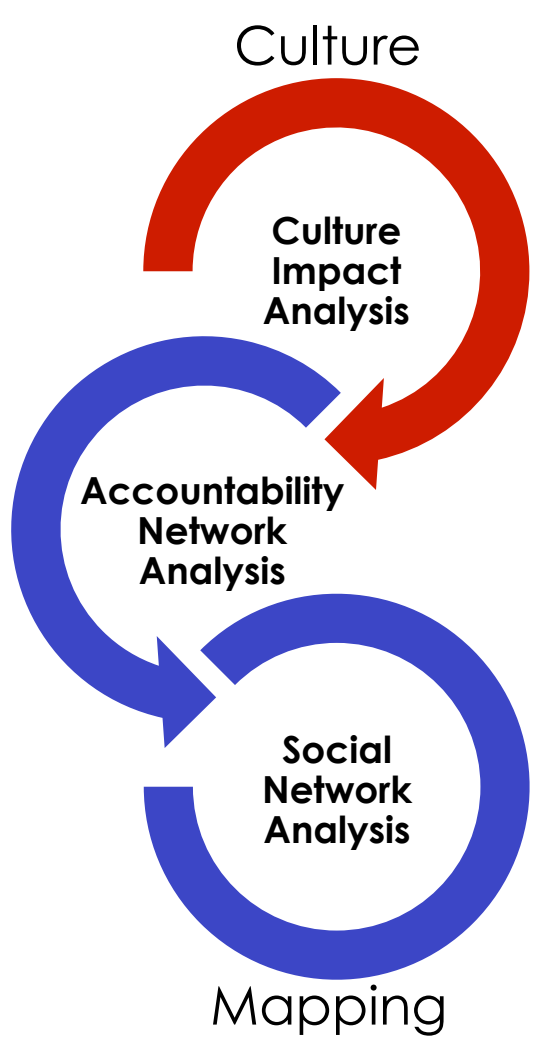


Values

How do people learn to behave to succeed there?



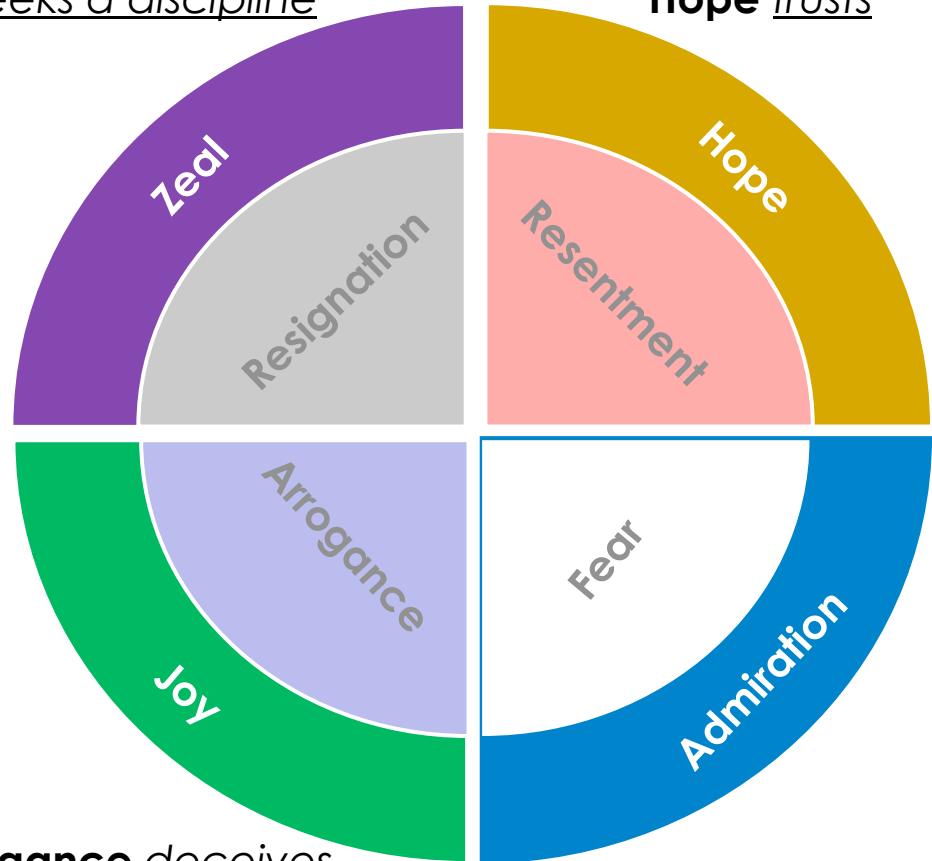
Structural Moods – most commonly observed



How culture is shaped...

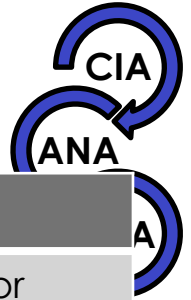
Resignation *appeases*
Zeal *seeks a discipline*

Resentment *blames*
Hope *trusts*



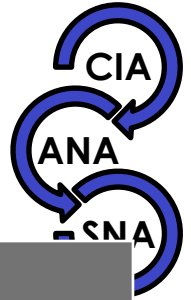
Arrogance *deceives*
Joy *improvises*

Fear *hides*
Admiration *celebrates*



Attributes of *Mood* – from our perspective 1 of 2

Mood	Predisposition	Politics	Fallacy
Resignation	Nothing can be done to change or improve a situation. The future holds “more of the same”	Appeasing behaviors aimed at meeting minimum expectations for avoiding scrutiny.	Mistaking opinions for facts. Never questioning the basis for conclusions reached.
Resentment	Someone or something is responsible for preventing an outcome that could have or should have happened.	Blaming, finger pointing, accusation, spin-doctoring efforts to defame or ‘get back at’ the person(s) thought to be responsible.	Assumed bad intent or lack of concern by the party held as responsible – based on hearsay, without concern for factual evidence.
Arrogance	Presumed superiority for understanding what is important	Deceiving others who are ‘not capable of appreciating’ what is thought of as important.	There is one ‘right’ view that should govern the way things are evaluated and dealt with.
Fear	Imminent danger lurks that could have negative consequences.	Hiding important facts, avoid being identified as accountable – allow others be scapegoated.	Assumed bad intent on the part of others. Failure to identify concerns that could be the basis for alignment.

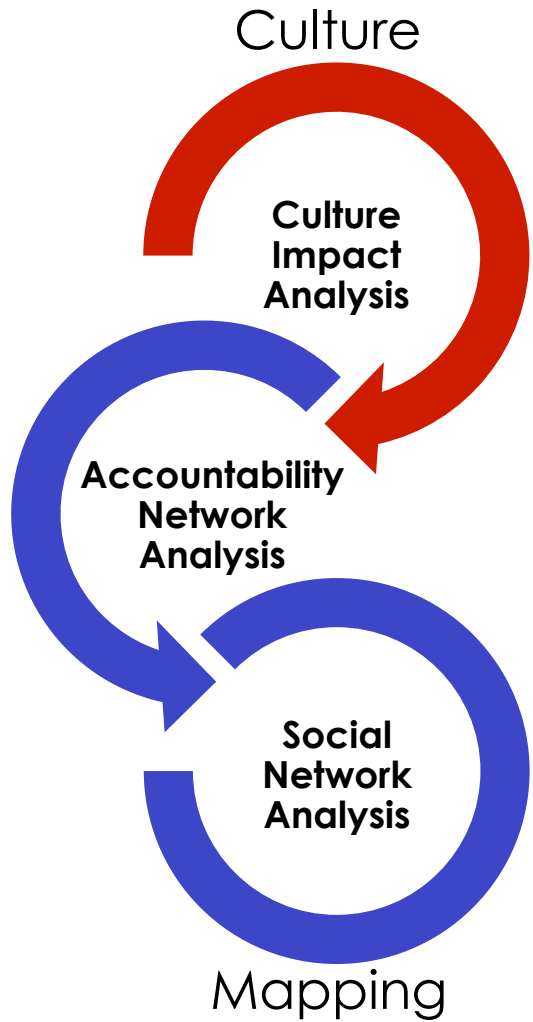


Attributes of *Mood* – from our perspective 2 of 2

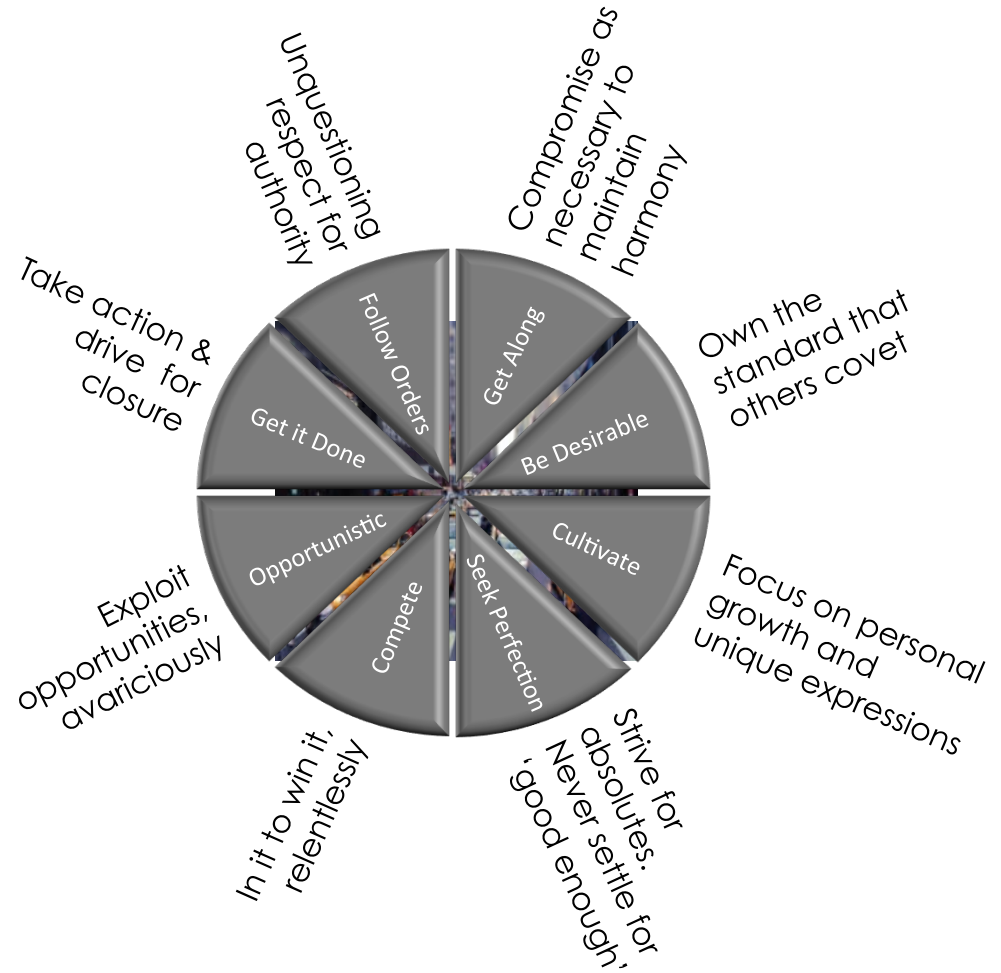
Mood	Predispositions	Politics	Potential Pitfalls
Zeal	The future is loaded with opportunity for those with ambition.	Strong commitment to a discipline will yield positive results.	This mood is appropriate for <i>all</i> organizations i.e. like a hammer seeking nails.
Hope	A better future is possible by establishing trusting relations with others.	Open, honest dialogue aimed at restoring and maintaining trust.	Naively extending trust without verifying the sincerity and real objectives of others.
Joy	Creativity comes easily and is abundantly available.	Collaboration is encouraged. All points of view are sources of innovation.	Becoming enamored with feeling good - losing sight of pragmatic realities of the moment.
Admiration	Accomplishment merits praise -- is motivational.	Celebrating and acknowledging noteworthy feats.	Over doing praise where it is not merited – lowers the bar of what is considered extraordinary.

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Organizational Styles – most commonly observed



How culture is shaped...





Attributes of *Style* – from our perspective 1 of 2

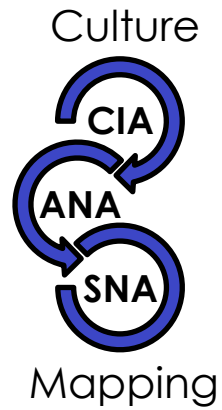
Style	Values	Capabilities	Tradeoffs
Cultivate	People are the most valuable asset. Getting better everyday is the way to increase value.	Co-designing individual growth goals and objectives. Disciplined feedback for improvement.	Focusing on mission in the world and shareholder value.
Seek Perfection	Never stop until the ultimate expression of something is realized. Continually challenge for sake of higher level of accomplishment.	Listening for what is missing, what is possible. Making big requests that are designed to trigger ambition in others.	Selling average products profitably.
Compete	Winning is everything. You're either first or finished last.	Clearly specifying criteria for success. Disciplined evaluation of results vs expectations.	Taking care of people.
Opportunistic	Recognize & exploit situations for gain. Nimbleness, decisiveness.	Moving quickly when opportunity presents itself.	Steady development of strategy and core competencies.

Attributes of Style – from our perspective 2 of 2

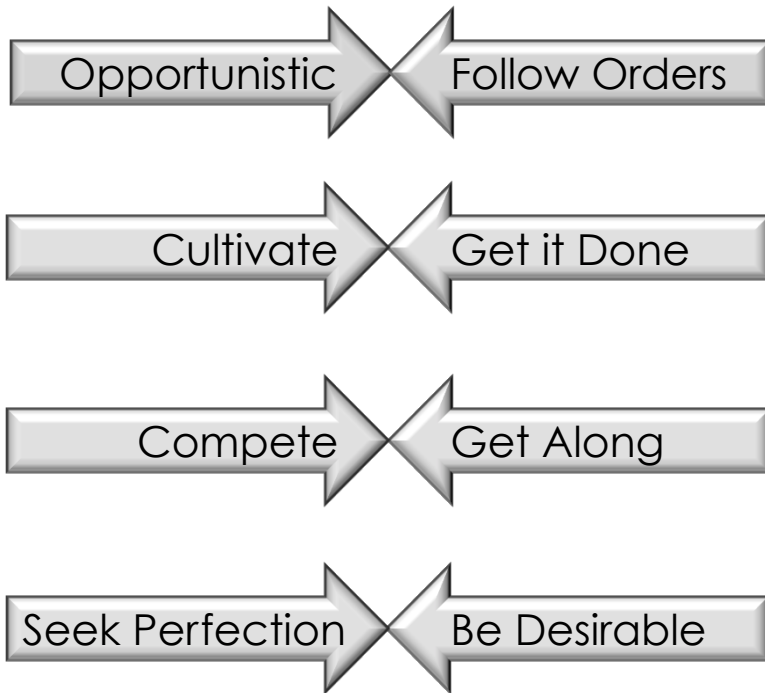


Style	Values	Capabilities	Tradeoffs
Get it Done	'Think less, do more.' Personal initiative and drive to finish win the day.	Acute attention on identifying and closing open items.	Ensure well aligned plans.
Follow Orders	Respect for authority. Unambiguous directives.	Highly aligned – everyone moving in same direction.	Individual responsibility re 'are we doing the right thing?'
Be Desirable	Elites want to work with you. People want your products. You have 'it'.	Highly tuned to constituents. Willingness to reconfigure as necessary to ensure positive feedback.	Commitment to long term strategy, loyalty.
Get Along	Keeping pleasant relationships, maintaining a safe environment.	Making people feel safe, not fearful. Higher employee retention and long term loyalty.	Focus on outstanding results.

Contrasting Organizational Styles

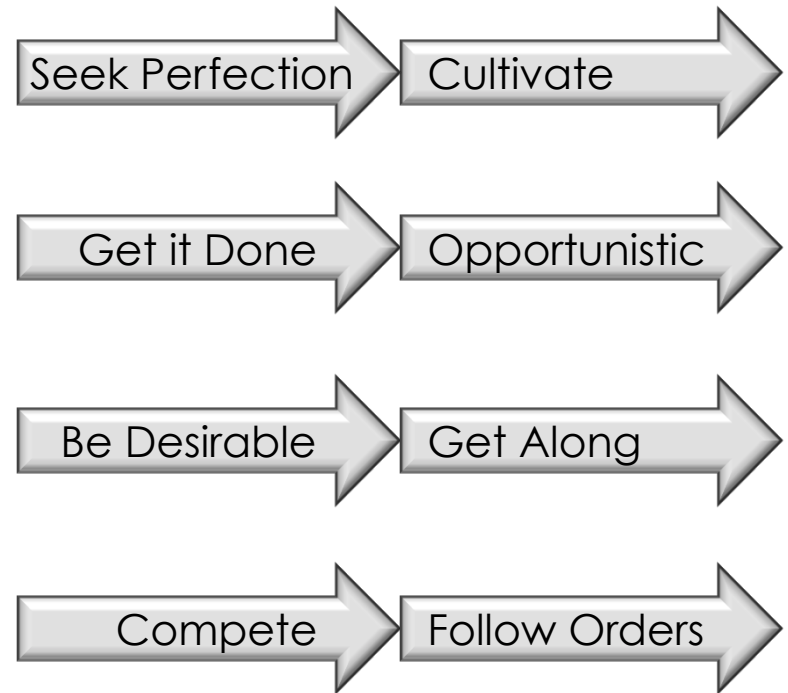


Conflicting



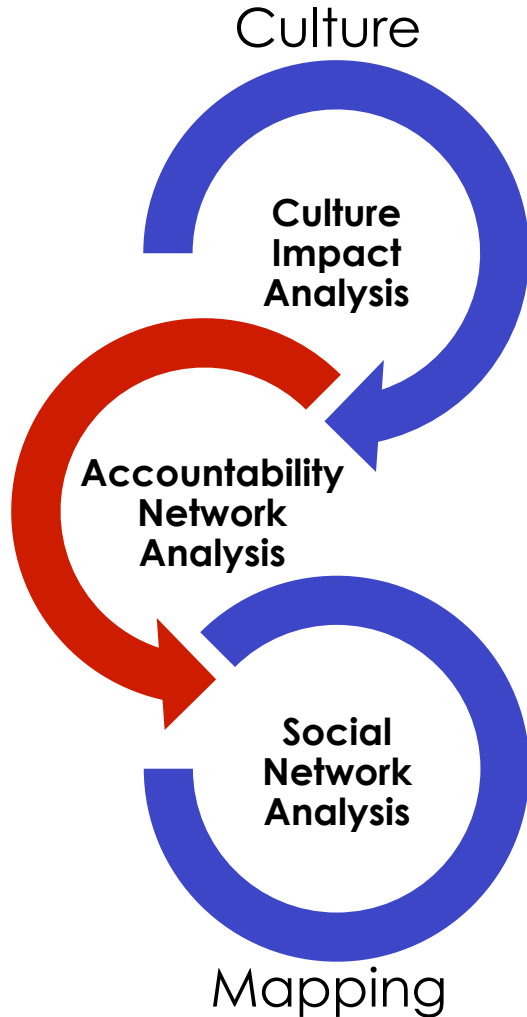
Clash of styles diminishes value if not managed properly

Compatible

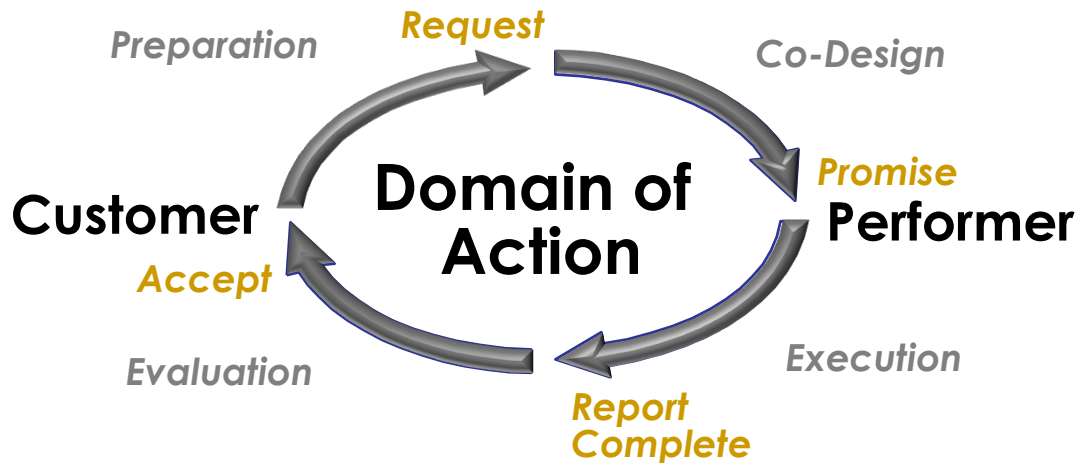


Allows value to flow, if combined intelligently

Accountability Network Analysis (ANA)



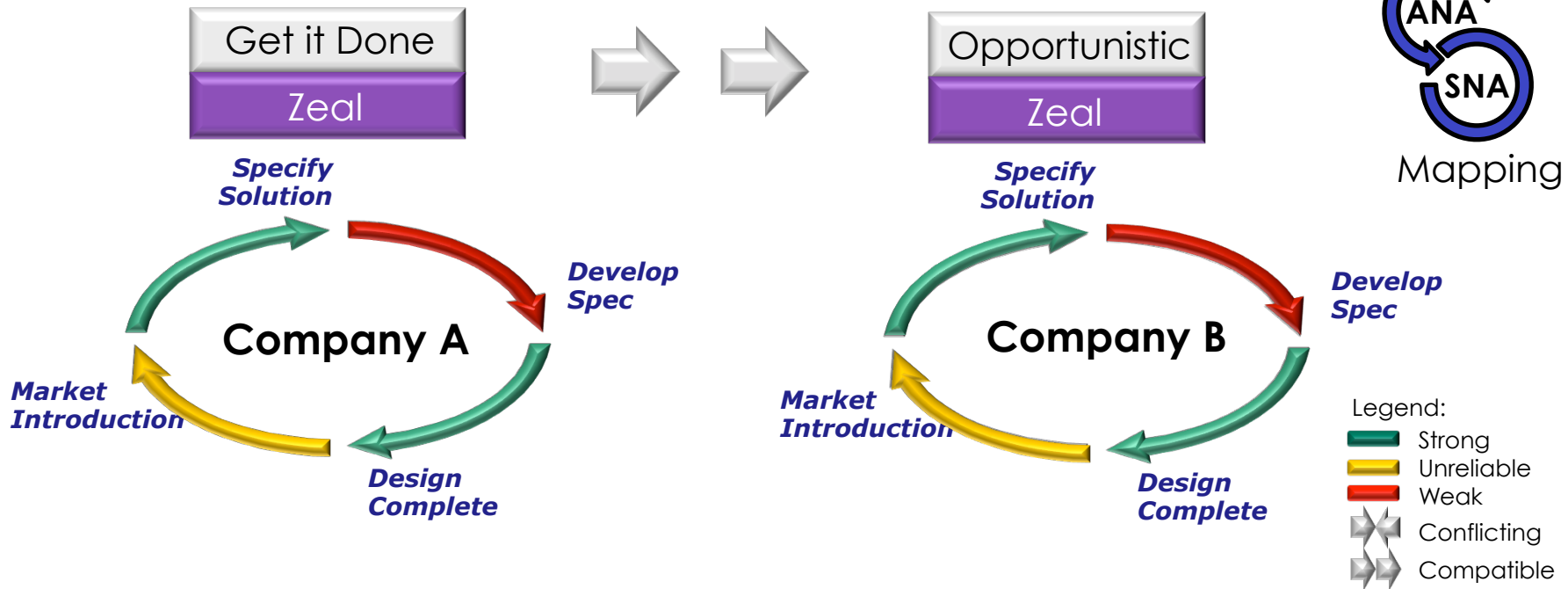
Universal Structure of Coordination



Style and Mood influence **how** coordination is carried out and the resulting value produced

Who is accountable for what...

Deal Thesis Case Study #1: Integrate Technology for Transformative Offer



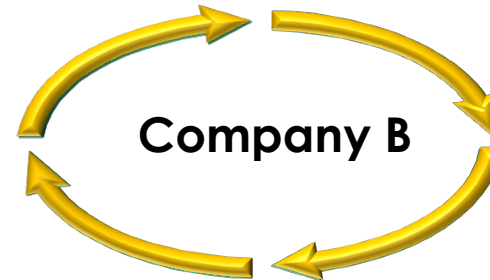
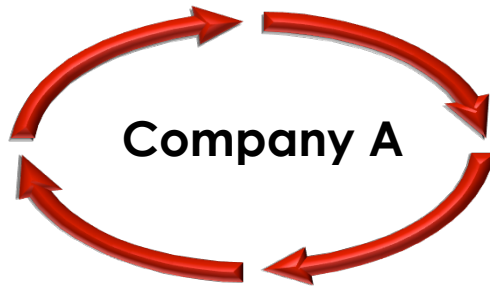
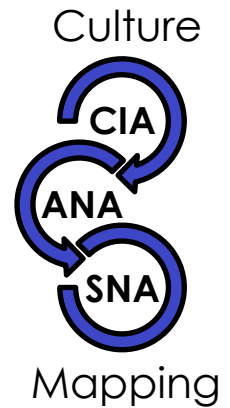
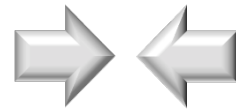
- The two companies' **compatible styles and mood align perfectly** for quick specification of a disruptive solution in big data analytics
- However, Company B's 'Opportunistic' style left doubts about hidden agendas in 'Develop Spec' commitments
- When spun out 2 years later, the **ROI nearly double** the initial investment, achieving the deal thesis – but could have been better

Deal Thesis Case Study #2: Grow Market Share via Technology Integration



- Company A envisioned stronger market share in semi conductor testing by **achieving breakthrough** technology with acquisition of Company B
- However, Company B's '**resigned**' style resulted in **uninspiring product development**. Company B executives inept at shifting their culture
- Market share did not grow appreciably as Company A was forced to seek less than optimal 3rd party substitutes. Share price took a hit as well

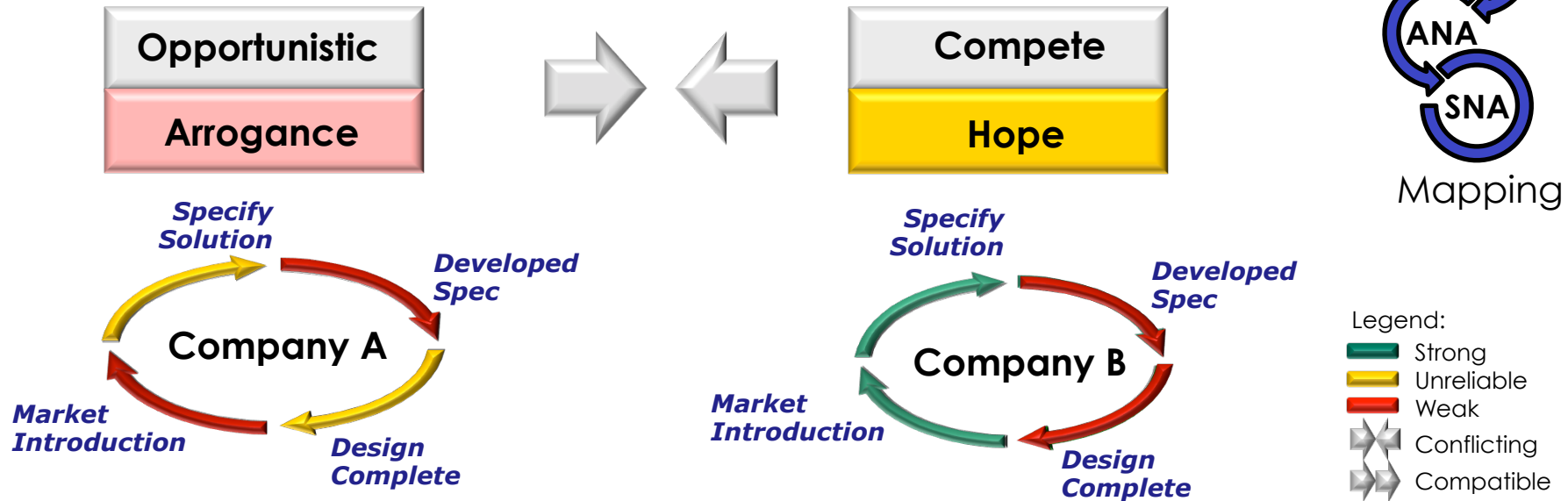
Deal Thesis Case Study #3: Protecting Market Share via Acquiring Rival



- Company A (Japanese) acquires successful rival Company B (American) to protect market leadership.
- Company A's **'Follow Orders'** style **produce confusion and decision delay** in Company B – significantly impacting critical processes
- Company A's entrenched style **gradually morphs** Company B into 'Get Along'. The mood gradually shifts to *Resignation* as **appeasing behaviors** are adopted
- Share price dropped 50% from initial \$18 within 2 years

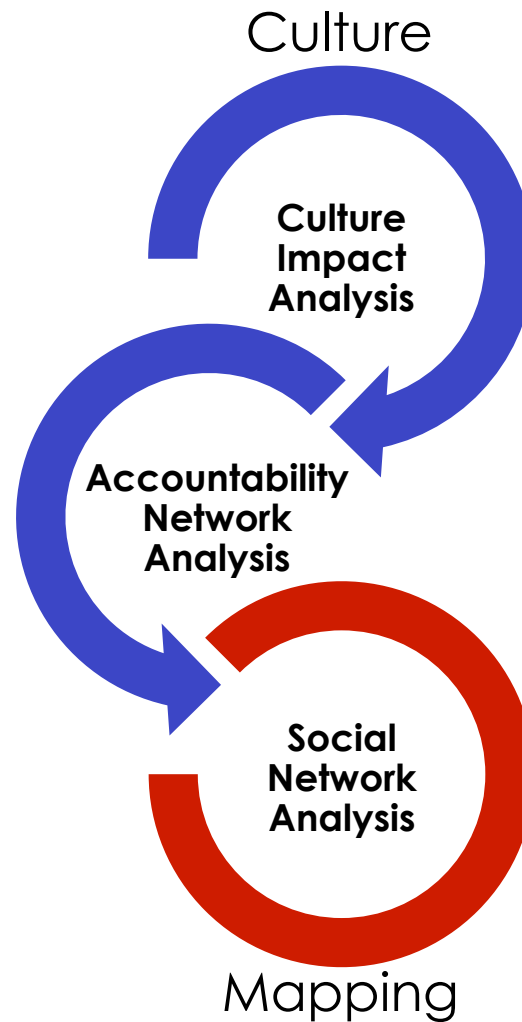


Deal Thesis Case Study #4: Synergistic Product Expansion via Acquisition



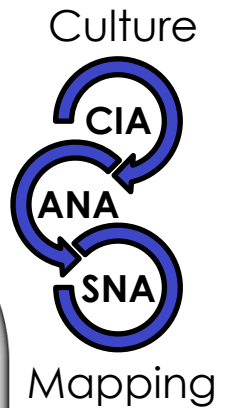
- Cash rich, insular Company A acquires financially distressed but highly motivated, entrepreneurial Company B to find growth segments in the semiconductor market
- **Company A's imperious attitude** perpetuates risk adverse, analysis heavy, second guessed decisions – **clashing with Company B's** desire for open, disciplined, metric oriented decisions
- **As Company A's culture prevails** and decisions are delayed, **valuation drops**
- Further acquisitions yield similar results. Board steps in; executive team replaced, focused culture shift programs follow. Initial valuation eventually recovered before being sold

Social Network Analysis (SNA)



Who is trusted for what...

Who is trusted for what...and the networks they influence



Networkers



Who do you **talk to most frequently** to get your job done?

Experts



Who do you go to for **advice** when you need help at work?

Direction



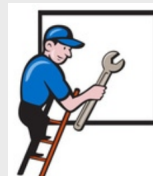
Who do you go to for finding out about the company's **direction**?

Intimate



Who do you talk to when you're **not happy** about how something is going in the company?

Key Performers



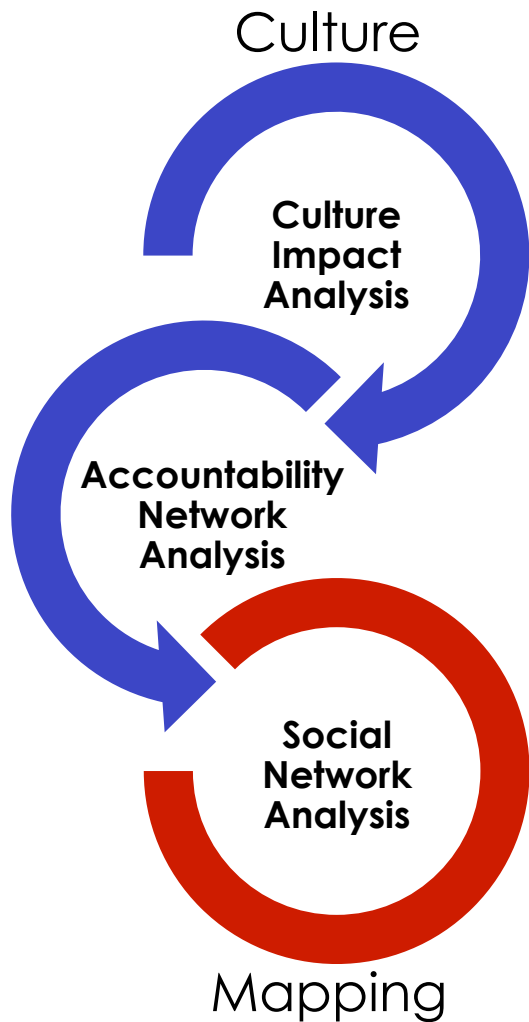
Who do you **rely on** to get your job done?

Key Customers

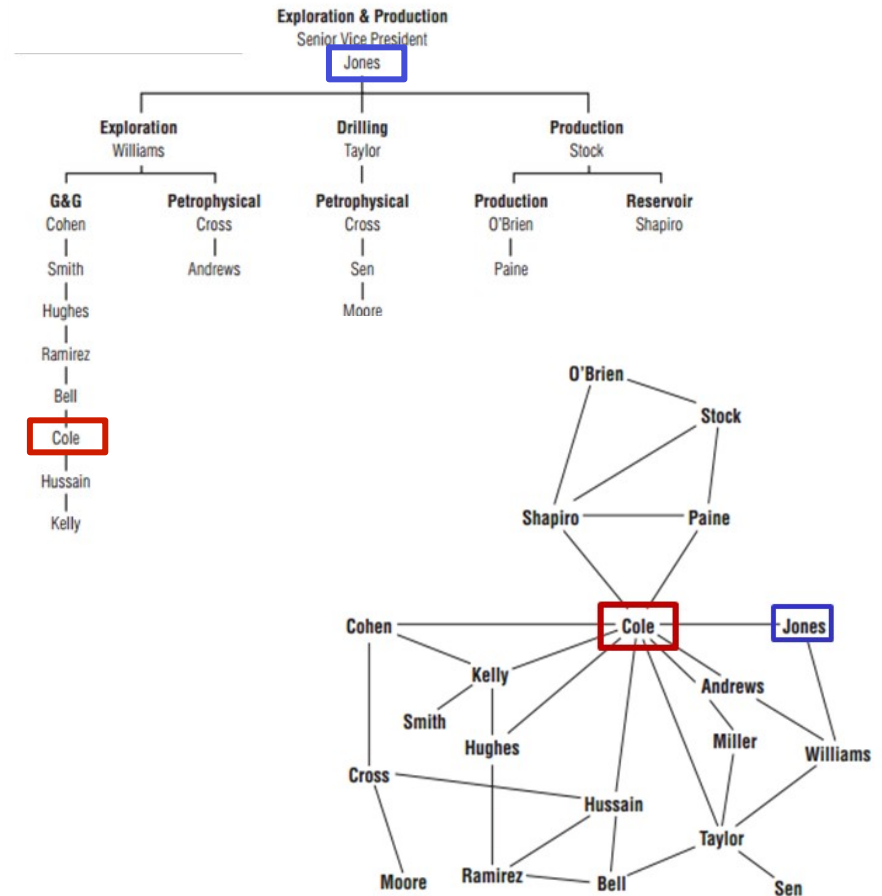


Who **relies on you** to get his or her job done?

Social Network Analysis (SNA)

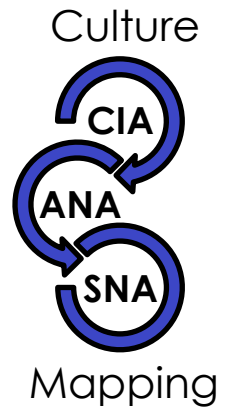
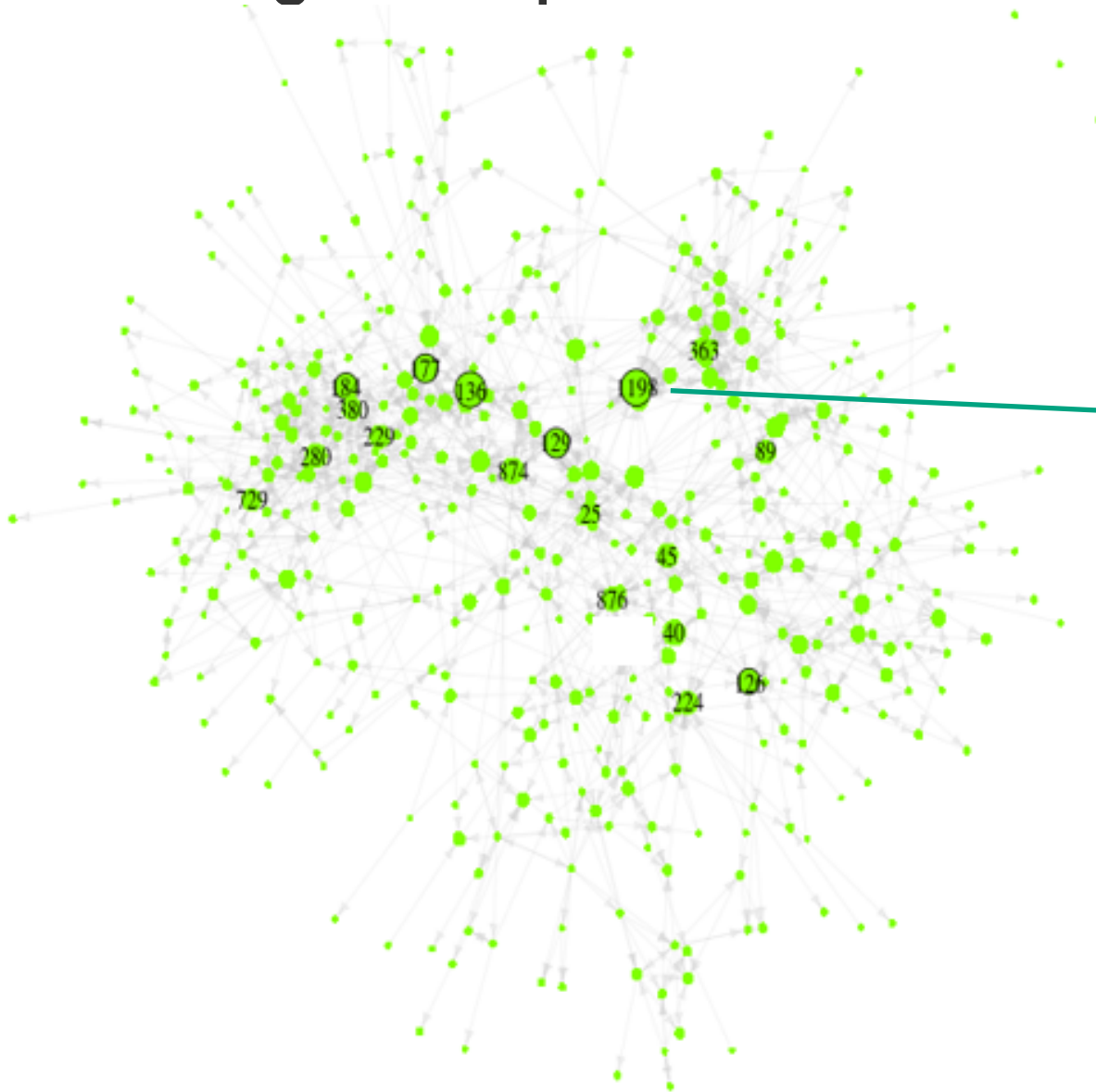


Organizational Structure



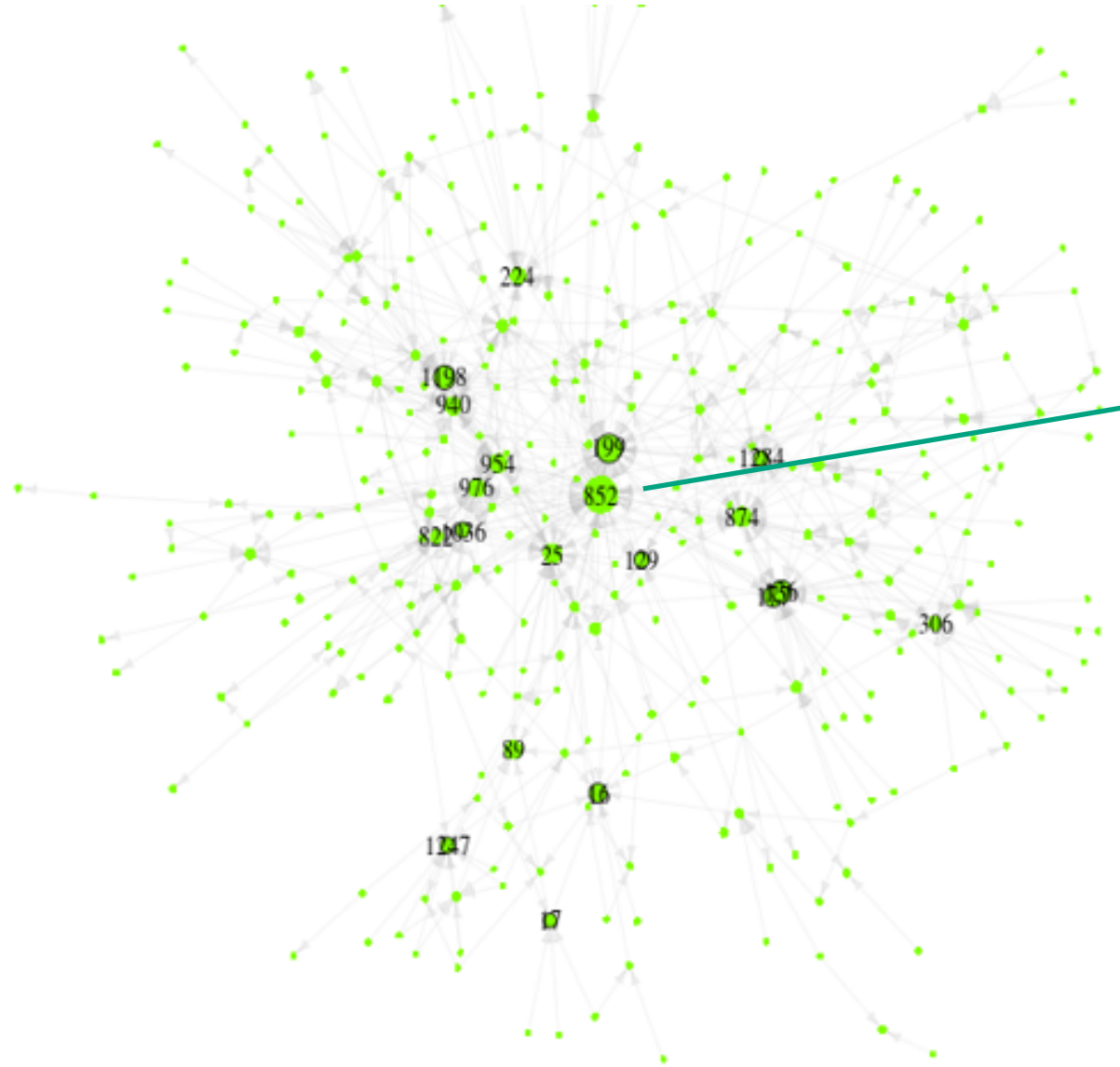
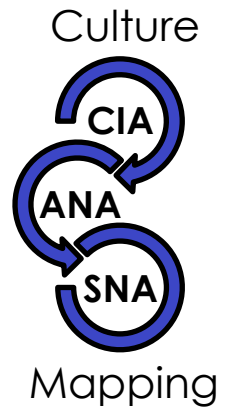
Social Network Analysis (SNA)

Revealing the “experts”



These SMEs embody IP that is critical to the deal

Who are the leaders?



These people are most trusted for setting direction

Culture can be made....visible

How **we say**
things get
done



Visible aspects of Culture

How things
actually get
done

To significantly improve achieving the deal thesis!

Our Offer

We help clients increase the probability of achieving the deal thesis by:

- **Making culture visible** using our unique ‘Cultural Mapping’ methodology
- **Designing** how to best configure bringing the cultures together
- **Mobilizing** the changes through execution of an operational plan



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Q&A