Cultural Intervention during M&A and Major Organizational Changes

Webcast: 29 October 2013
Speakers

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Ake Ayawongs is a Principal and Head of Mercer’s Mergers & Acquisitions Consulting Services in Asia, Middle East, Turkey and Africa. His focus is in advising organizations and executive teams on the human capital issues resulting from business transformations and M&A from pre-deal to post-merger integration stages.

He is a frequent speaker on M&A, culture integration, and leadership. He is a Mercer Certified Leadership Faculty in Asia. Ake is based in Bangkok.

Experience

Ake has held business leadership positions at Mercer based out of Singapore and Thailand. He has advised on multiple in-country and cross-border M&A transactions on HR due diligence, post-merger integration management, leadership alignment, organization restructuring, workforce planning, talent retention, culture integration, and change management in the energy, banking, insurance, retail, and professional service sectors in Singapore, Thailand, Malaysia, Indonesia, the Philippines, Australia, France, and the U.S.

Prior to that, Ake was a Consulting Manager of a boutique strategy consulting firm where he led strategy, marketing, organization restructuring and change, and operations improvement assignments. Prior to that, he served as an investment analyst at an investment promotion agency and a Consultant at a leading global consulting firm.

Education

Ake holds a Master of Engineering from the University of New South Wales (AUS), a M&A Certificate from the Wharton School, University of Pennsylvania (USA). He is a Doctoral candidate at the Manchester Business School, University of Manchester (UK). His doctoral research is on culture integration in M&A.
Karen Bundy is a Mercer Principal and a Cultural Integration consultant in the firm’s Mergers & Acquisitions business. She works with clients in the context of M&A transactions to assess culture, anticipate integration challenges, and align business drivers and behaviors to achieve desired outcomes.

Experience

Karen has over 13 years of experience with Mercer, consulting to clients across industry segments on Mercer’s holistic approach to rewards, providing strategic guidance – from business and cultural alignment, key stakeholder engagement, and decision making to communications, administration and governance - on the various reward components.

Education

Karen has achieved her Certified Employee Benefit Specialist (CEBS) designation. She holds a bachelor’s degree in Mathematics and Spanish from the University of Kansas and a Masters in Business Administration (MBA) from the University of Chicago Booth School of Business with concentrations in Strategic Management, Human Resource Management, Management & Organizational Behavior, and Accounting.
M&A Round Table: Cultural Integration

Agenda

• Introductions and objectives (5 min)

• Highlights from recent global research; including reflection on culture methodology, tools, and concepts (55 min)

• Appendix: Sample culture assessment outputs
INTRODUCTIONS AND OBJECTIVES
Introductions and Objectives
Cultural integration: From understanding to action

• We will
  – Provide highlights from our upcoming research article on cultural integration
  – A brief refresher on our culture methodology and tools

• In order to
  – Help our clients more readily include culture in leadership discussions and transaction related activities
  – Show you how to highlight the value of addressing culture in deals and to how to move from understanding to action - - accelerating the integration process and enabling deal value capture
HIGHLIGHTS FROM RECENT GLOBAL RESEARCH
INCLUDING REFLECTION ON CULTURE METHODOLOGY, TOOLS AND CONCEPTS
Culture in M&A
According to an Intralinks survey of 160 senior M&A practitioners, corporate culture is the most important factor leading to deal success.

Discipline and focus prevail

- Corporate culture: 59%
- Customer relationship management: 39%
- Human resources: 37%
- IT systems: 29%
- Regulatory compliance: 27%

“We will address culture if and when it becomes a barrier to the organization’s ability to accomplish its goals.” 
Vice President of Human Resources; Large, National, Telecommunications Company; Source: Mercer Culture and Change Intervention in M&A Survey, 2013

A Latin America based CEO put it this way: “We need a unified corporate culture to make the strategy as whole as the process.”

When To Address Culture in a Transaction

Addressing culture early on is critical to ensuring a focused integration and the timely capture of expected deal synergies

- It is important to address culture early
- Publically available information is rich with data to support cultural inferences
- There are more than likely non-negotiable cultural attributes on both sides of the transaction; it is important to know what those are

“Culture is important to take into account when identifying a target, in the due diligence phase AND in the integration phase.” Jacoline Van Blokland – DSM; Source: Mercer Culture and Change Intervention in M&A Survey, 2013

Ensure deal synergies are achievable

By defining the business context of the deal

And by understanding organizational fit and national differences

Revenue synergies
Direct cost synergies
Overhead cost synergies
Balance sheet synergies

Environment
Strategy
Actions
Barriers
Winning

Leadership
Rewards and Recognition
Workforce
Performance management and engagement
Communication
National and Business Culture
Addressing Culture Early in a Transaction

While we can’t change national cultures, understanding differences is critical to getting started on the right foot.

<table>
<thead>
<tr>
<th>National Fit (sample)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Power Distance</strong></td>
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<tr>
<td>Small</td>
</tr>
<tr>
<td>Large</td>
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<td><strong>Time Orientation</strong></td>
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<tr>
<td>Short-term</td>
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<td>Long-term</td>
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<td><strong>Femininity – Masculinity</strong></td>
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<tr>
<td>Collaboration &amp; Consensus</td>
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<td>Competition &amp; Strength</td>
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<td>Uncertainty Avoidance</td>
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<tr>
<td>Uncertainty is given</td>
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<tr>
<td>Uncertainty is avoided</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>Collectivism – Individualism</th>
<th>Power Distance</th>
<th>Time Orientation</th>
<th>Femininity – Masculinity</th>
<th>Uncertainty Avoidance</th>
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</thead>
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<tr>
<td>Canada</td>
<td>80</td>
<td>39</td>
<td>23</td>
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<td>US</td>
<td>91</td>
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<tr>
<td>Brazil</td>
<td>38</td>
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<tr>
<td>China</td>
<td>20</td>
<td>80</td>
<td>118</td>
<td>66</td>
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<td>Colombia</td>
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<td>India</td>
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<td>77</td>
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<td>Japan</td>
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<td>Mexico</td>
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<td>Singapore</td>
<td>20</td>
<td>74</td>
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<td>48</td>
<td>8</td>
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<tr>
<td>South Korea</td>
<td>18</td>
<td>60</td>
<td>75</td>
<td>39</td>
<td>85</td>
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<tr>
<td>Turkey</td>
<td>37</td>
<td>66</td>
<td>45</td>
<td>45</td>
<td>85</td>
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</table>

Addressing Culture Early in a Transaction
Key deal considerations ascertained from understanding organizational fit can help inform deal strategy formulation and diligence priorities

<table>
<thead>
<tr>
<th>Component</th>
<th>Component Description</th>
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</thead>
<tbody>
<tr>
<td>Leadership</td>
<td>• Characterizes the company’s leadership composition, management philosophy, experience and effectiveness of leaders, and attitude of leadership towards the deal.</td>
</tr>
<tr>
<td>Rewards &amp; Recognition</td>
<td>• Characterizes how employees are compensated (including levels of pay &amp; components of pay), performance measurements, and employee recognition.</td>
</tr>
<tr>
<td>Workforce</td>
<td>• Characterizes the company’s work force structure, decision making processes, and non-executive talent (i.e. broad-based employees).</td>
</tr>
<tr>
<td>Performance Management</td>
<td>• Characterizes the elements of performance that drive performance ratings, the degree to which pay is differentiated based on performance, and current levels of employee engagement (including the impact of the deal on engagement).</td>
</tr>
<tr>
<td>Communication</td>
<td>• Characterizes the flow of critical information within an organization, including communication to employees regarding the deal.</td>
</tr>
<tr>
<td>Espoused/ Expressed Culture</td>
<td>• Characterizes an organization’s culture including its vision, values, mission, community involvement and workplace environment.</td>
</tr>
</tbody>
</table>
Formulating a Deal Strategy
Understanding cultural differences early on, not only can provide insights no matter what the anticipated level of assimilation is, but can also help determine the right level of assimilation at the right time

- Apply preliminary understanding of a target’s culture to the formulation of a deal thesis and integration strategy
- Cultural understanding impacts the degree, depth and timing of integration activities
- It is important to ensure common perspectives among leaders, even if the entity will remain stand alone or loosely coupled

“As we dug deeper into the cultural differences of our two organizations, we came to the conclusion that our deal strategy needed to change to a longer time frame before integration, leaving the target organization loosely coupled within our organization’s framework for a period of time”
Japanese-Canadian inbound transaction – Anonymous; Source: Mercer Culture and Change Intervention in M&A Survey, 2013
Tools to Better Understand Cultural Differences
There are many tools out there to better understand cultural differences, the key is finding the tools that are right for your organization and the deal context

- Conduct executive interviews and surveys with both the acquiring and target organization’s leaders
- Invest time to analyze the labor flows of the target organization
- Once announced, further engage the leaders of the workforce through on-line surveying

<table>
<thead>
<tr>
<th>MERCER TOOLS</th>
<th>ACTIVITY</th>
<th>OUTPUT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Culture Assessment</td>
<td>• 42-item survey, online/paper of key leaders</td>
<td>• Directional view from key leaders</td>
</tr>
<tr>
<td></td>
<td>• Current vs. ideal culture</td>
<td>• Identify areas of alignment and gaps</td>
</tr>
<tr>
<td>Executive Interviews</td>
<td>• One on one conversations with leaders</td>
<td>• Supplementary directional view</td>
</tr>
<tr>
<td></td>
<td>• Current vs. Ideal culture</td>
<td>• Identify areas of alignment and gaps</td>
</tr>
<tr>
<td>Human Capital Scan™</td>
<td>• Online survey</td>
<td>• Identify workforce challenges</td>
</tr>
<tr>
<td></td>
<td>• Current people practices</td>
<td>• Understand deal implications</td>
</tr>
<tr>
<td>Human Capital Analytics</td>
<td>• Internal labor market mapping</td>
<td>• Support or refute “say” with “do” evidence</td>
</tr>
<tr>
<td></td>
<td>• Basic HRIS data analysis</td>
<td>• Understand labor flow behaviors</td>
</tr>
</tbody>
</table>

European organization’s are ahead of the curve on looking at HRIS data as part of their culture analysis.
Tools to Better Understand Cultural Differences
Using Mercer’s Internal Labor Market map (http://www.mercer.com/ilmtool)

In this particular case, we used the client’s HRIS data to infer whether or not the organization’s culture was in fact performance based culture where key employees were retained to grow and develop.
Effective Drivers of a Successful Organization

There is a mis-match between what organizations do to achieve desired synergies and what organizations are doing that is most effective in driving cultural integration.

- Applying the rigor of the cultural assessment process is critical to determining the most effective drivers for a particular client and deal situation.

**DRIVING TO DEAL RESULTS**

When asked about the drivers used to achieve synergies in a recent deal, respondents to Mercer's survey indicated a slight difference between the drivers that were most frequently implemented and the drivers that were considered most effective in producing desired results.

**DRIVERS MOST FREQUENTLY IMPLEMENTED**

- Manager and new employee onboarding activities
- Alignment of compensation policy and systems
- Strategic organizational change communication
- Leadership assessment

**DRIVERS CONSIDERED MOST EFFECTIVE**

- Leadership assessment
- Manager and new employee onboarding activities
- Alignment of compensation policy and systems

Source: Mercer Culture and Change Intervention in M&A Survey, 2013
Engaging Employees and Measuring Change
As an organization moves through integration planning into the first 30, 90, and 120 days and throughout integration, it is important to engage employees and measure change.

- Engage the employees at the target through employee focus groups of target populations or employee surveys.
- By measuring employees’ perspective on the current state culture, an organization can better judge the distance it has to go to achieve the desired behaviors and outcomes; as well as better understand the gaps between the points of view of leaders and the workforce.
- Similarly, organization’s often use pulse check surveys to measure progress of the integration.
Measuring Cultural Change and Related Deal Synergy Capture

Organizations may also want to consider creating a dashboard or scorecard to measure progress through additional metrics such as specific deal synergy desired outcomes.

<table>
<thead>
<tr>
<th>Driver/Action</th>
<th>Cost</th>
<th>Feasibility</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Leadership</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Role model</td>
<td>$50,000</td>
<td>Medium</td>
</tr>
<tr>
<td>Feedback</td>
<td>$700,000</td>
<td>Low</td>
</tr>
<tr>
<td>Leadership Development</td>
<td>$300,000</td>
<td>Low</td>
</tr>
<tr>
<td><strong>Rewards &amp; Recognition</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recognition systems</td>
<td>$50,000</td>
<td>Medium</td>
</tr>
<tr>
<td>Incentive compensation</td>
<td></td>
<td>High</td>
</tr>
<tr>
<td>Manager training</td>
<td>$100,000</td>
<td>Low</td>
</tr>
<tr>
<td><strong>Communication</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current state</td>
<td>$10,000</td>
<td>Low</td>
</tr>
<tr>
<td>Strategy</td>
<td></td>
<td>High</td>
</tr>
<tr>
<td>Guidelines/ principles</td>
<td></td>
<td>High</td>
</tr>
<tr>
<td><strong>Customer Scorecard</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outside-In/R&amp;D Field Travel</td>
<td>$25,000</td>
<td>High</td>
</tr>
<tr>
<td>KPI</td>
<td>$10,000</td>
<td>High</td>
</tr>
<tr>
<td>Scorecard</td>
<td>$10,000</td>
<td>Medium</td>
</tr>
<tr>
<td><strong>Process Improvement</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy</td>
<td>$500,000</td>
<td>Low</td>
</tr>
<tr>
<td>Pilots</td>
<td></td>
<td>High</td>
</tr>
<tr>
<td>Customer intelligence</td>
<td>$50,000</td>
<td>Medium</td>
</tr>
</tbody>
</table>

| Total                                  | $(1,805,000) |               | 0.045% | 0.443% | $4,140,750 |
Highlights From Recent Global Research
How to realize deal synergies sooner

**Engage leadership** early and often to ensure success

**Use data and analytics** to move along the continuum from “I think” to “I know” to make certain appropriate actions are taken

**Develop a custom portfolio of solutions** to drive changes in behaviors that align with the needs of the future organization

**Create a clear path** to move from understanding to actions

“You need to have the discipline to start early, get the businesses to take ownership (position from the businesses’ point of view and make it second nature). Be very specific about interventions by engaging leaders to determine the desired behaviors to achieve our new integrated operating model. Move forward by working with key talent in each of the businesses to put in place relevant and timely drivers of change. RBC Caribbean has seen a shift to a more open environment, and, in combination with operational improvements, improved customer service survey results in key areas.”

*Amos Herai, RBC Caribbean; Source: Mercer Culture and Change Intervention in M&A Survey, 2013*
Tools you can use now:

- Ask culture questions during deal process scoping
  - Have you addressed culture in previous deals?
  - Do you have a baseline of your own culture?
  - What do you know about the target’s culture?

- Use the Business Context Document to confirm strategy, winning, and barriers throughout the project

- Provide your leaders with National culture data when a cross-border transaction is considered

- Build an Organizational Fit Analysis into early-stage due diligence process and budget

- Incorporate culture questions into your client and target interviews

- Consider using available HRIS data to move from “I think” to “I know” as it relates to workforce behaviors
Questions & Answers session
## Questions asked during the webcast

<table>
<thead>
<tr>
<th>Questions from the audience submitted before and during the webcast</th>
<th>Answers from the speakers</th>
</tr>
</thead>
<tbody>
<tr>
<td>How does culture play in a major organizational change? What tools one can use to effectively manage org changes from both process and cultural perspectives?</td>
<td>On-line culture surveys, engagement surveys, focus groups, leadership interviews, facilitated workshops...are all good tools to understand differences, desired future state and required change, how to get there</td>
</tr>
<tr>
<td>What could be effective KPIs [key performance indicators] for cultural integration in PMI?</td>
<td>Effective KPIs should be determined by the desired deal synergies; please reference page 18 (slide 17) for an example of how the effectiveness of change drivers were measured for a Mercer client who acquired another large organization</td>
</tr>
<tr>
<td>How can one handle cultural diversity between two organizations coming together?</td>
<td>First determine non-negotiable cultural attributes for your own organization and then seek to understand key differences between how your organization gets work done and how the organization you are looking to merge with gets work done and how that drives its current culture and success; then engage leaders in a facilitated discussion to determine the desired future state and how to get there</td>
</tr>
<tr>
<td>Flexible Benefits, total reward strategy</td>
<td>Flexible benefits and total rewards strategy are just one potential driver of an organization’s culture. Make the link between this driver and how your work force behaves; and ultimately the business results</td>
</tr>
<tr>
<td>How can we measure the results of the change management projects?</td>
<td>In addition to KPIs, as outlined above, Mercer also recommends conducting a &quot;Pulse Check&quot; survey of key workforce segments</td>
</tr>
<tr>
<td>How to successfully retain employees after M&amp;A</td>
<td>Addressing cultural similarities and differences is key to employee retention; similarly the process to understand those differences can be used as an engagement tool, i.e. employee surveys and focus groups</td>
</tr>
</tbody>
</table>
## Questions asked during the webcast

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<thead>
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</thead>
<tbody>
<tr>
<td>There are many aspects to culture - some obvious and some very subtle. How do we identify the areas that are likely to pose problems in integration?</td>
<td>Using a non-invasive, confidential tool, such as Mercer’s Executive Culture Assessment on-line survey, followed by a facilitated leadership workshop with both parties present can help surface the more subtle aspects of cultural differences.</td>
</tr>
<tr>
<td>How do I ensure that the employee motivation and transparency is maintained in these situations and at the same time less of negative grapevine in the organisation?</td>
<td>Develop a communication strategy at the outset of the transaction; ensure leaders have the competencies and skills required to deliver the appropriate messages throughout the organization; and engage employees through on-line surveys and/or focus groups.</td>
</tr>
<tr>
<td>What if several companies merge into one to exist as subsidiaries, should one follow the other but the other still use their own compensation system and so on?</td>
<td>The extent to which subsidiaries will have in place the same drivers, i.e. the same compensation system, is dependent on the desired future state of that organization; it is possible that multiple subsidiaries will have different compensation systems, especially if they are looking to attract a different type of work force or drive different performance outcomes (i.e. sales versus productivity).</td>
</tr>
<tr>
<td>Where is national culture data available for different countries?</td>
<td><a href="http://geert-hofstede.com/countries.html">http://geert-hofstede.com/countries.html</a></td>
</tr>
<tr>
<td>Do you have advice for a business that is being separated from a bigger division?</td>
<td>When an organization is divested or separated from a bigger division, it is even more critical for that organization to understand its current culture and align around its desired future state; knowing where it wants to go from a cultural perspective, can help leaders make decisions around specific drivers; i.e. whether or not to use the same systems as the parent company or implement something new. Drivers – Behaviours - Outcomes.</td>
</tr>
</tbody>
</table>
## Questions asked during the webcast

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<thead>
<tr>
<th>Questions from the audience submitted before and during the webcast</th>
<th>Answers from the speakers</th>
</tr>
</thead>
<tbody>
<tr>
<td>I’d like to understand the table on page 18 (slide 17) a little more. What is meant by the column entitled cost and how have the values in the last column been calculated and what do they indicate?</td>
<td>The cost column indicates the cost of implementing the driver (i.e. cost of a leadership development program). The total synergies were based on the profitability and revenue of the newly combined organization. We worked with the leaders of the various business units to get their buy-in on impact to each of the synergies if we were to implement the drivers.</td>
</tr>
<tr>
<td>There is a myth in M and A practices, especially in Asia, where an acquisition of company can caused a gradual channeling of main core business out of the acquired company, how do we manage this in the area of due diligence. Is culture able to manage this?</td>
<td>Addressing cultural similarities and differences and understanding how the target gets work done, can help manage the tendency to diminish the core capabilities of the target during integration. By knowing what it is about the target’s culture and how it gets work done that has driven its success to date, the acquirer can make better integration decisions so as not to destroy those value drivers. Similarly, if the acquirer knows what its non-negotiables are (i.e. no matter what, the target will have to follow our compliance procedures), then it can anticipate whether not any synergies may be lost (in this case, we may lose some key talent that is valued for his or her tendency to work outside of the boundaries). We recently worked with two organizations that went through the culture assessment process, including a leader alignment workshop, during due diligence. As a result, several issues were raised that the leaders were not able to come to an agreement on, as they each believed how they were doing things was critical to getting to the future state, and decided to terminate the transaction.</td>
</tr>
<tr>
<td>Some examples on successful M&amp;A’s. What did they do right?</td>
<td>Engaged leaders from both organizations early in the process, before integration planning began.</td>
</tr>
</tbody>
</table>
APPENDIX
SAMPLE CULTURE ASSESSMENT OUTPUTS
## Cultural Integration Methodology

### Sample diagnostic tools

<table>
<thead>
<tr>
<th>TOOLS</th>
<th>ACTIVITY</th>
<th>OUTPUT</th>
</tr>
</thead>
</table>
| **Business Context Document** | • Draft in planning meeting   
• Supplement with interview findings | • Ensure share view of the business case   
• Align on expected synergies |
| **Organizational Fit Analysis** | • Noninvasive internet search   
• Pre-deal, before access to target | • Understand target’s culture   
• Surface issues, test “fit” |
| **Executive Culture Assessment** | • 42-item survey, online/paper of key leaders   
• Current vs. ideal culture | • Directional view from key leaders   
• Identify areas of alignment and gaps |
| **Executive Interviews** | • One-on-one conversations with leaders   
• Current vs. Ideal culture | • Additional context and anecdotal data   
• Identify areas of alignment and gaps |
| **Human Capital Scan™** | • Online survey of first line management   
• Current people practices | • Identify workforce challenges and drivers of behavior   
• Understand deal implications |
| **Human Capital Analytics** | • Internal labor market mapping   
• Basic HRIS data analysis | • Support or refute “say” with “do” evidence   
• Understand labor flow behaviors |
| **Focus Groups** | • 3-4 employee/leader focus group sessions   
• 10-15 participants each | • Critical employee or leader group feedback   
• Key talent engagement |
| **Employee culture survey** | • 50-60 items, six dimensions   
• Online, 100 or 100,000 EEs | • Perceptions of key EE groups   
• Identify gaps with executive views |
| **Pulse check survey** | • Quick 20-item online survey   
• Integration progress check | • Test traction of integration   
• Identify issues, areas to reinforce |
**ENVIRONMENT**

BUYER's technologies address three important medical markets: blood and plasma component collection, the surgical suite, and hospital transfusion services. Within the blood collection business, there is some overlap with TARGET. Through the acquisition, BUYER will expand the employee population (1,300 employees) and geographical coverage, including manufacturing facilities in Covina, California; Tijuana, Mexico; and Ascoli, Italy and a portion of TARGET assets in Fajardo, Puerto Rico. Between the two organizations, there are synergies in customer approach – value stream mapping/impact consulting. There is trend in the marketplace of adding value through solution, not just product – a combined portfolio creates a win-win for company and customers; competitors have not gotten here yet.

Manual whole blood collection is a $1.2 billion global market.

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**STRATEGY**

Integrate TARGET assets including a leading filter technology and manufacturing capability, a broad portfolio of manual collection and processing products, a strong and experienced employee base and relationships with major authorities and customers.

Expand customer base - 15% market share in whole blood market.

In addition to the unique filter technology to support an end to end portfolio, leverage TARGET's unique skills as they relate to the understanding of fluid movement.

Capitalize on automation in high-speed manufacturing, continuous improvement to enhance current capabilities.

Develop a first whole blood automation package over the next several years.

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**ACTIONS**

Develop robust onboarding support – now and ongoing.

Understand systems and capabilities.

Ensure customer outreach.

Leverage extended shelf life capability recently acquired.

Address gaps in current BUYER cultures and TARGET culture to ensure smooth integration.

Create alignment around future state organizational culture to capture deal synergies sooner.

---

**“WINNING”**

Maintained revenue stream of businesses being acquired.

Remained at least neutral in fiscal 2013 and accretive in fiscal 2014 and beyond.

Maintained customer contacts.

Improved on TARGET’s current growth of 2-4%.

Accelerated integration and improved odds of hitting financial objectives.

Engaged leaders.

Positive executive feedback.

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**BARRIERS**

Industrial focus versus medical focus – incoming employees will want to know what this means for them.

Lack of TARGET senior leadership, integrating two to three layers down – will there be a voice for them?

Losing infrastructure support – will we miss something in getting up quickly?

Managing different expectations around investments.

Impact of acquisition on reputation in the marketplace.

3 major manufacturing facilities with no executive level presence.

In some locations (i.e. PR), employees will continue to share resources and interact with TARGET employees.

Limited collaboration by TARGET today.
# Cultural Integration Methodology – Sample Output

## Organization Fit Analysis Summary

<table>
<thead>
<tr>
<th>Fit Component</th>
<th>Deal Inhibitors</th>
<th>Deal Facilitators</th>
</tr>
</thead>
</table>
| **Leadership**                | • Executives with employment contract obligations may be economically incented to leave post-acquisition  
• XYZ’s leadership style contrasts sharply with that of ABC’s  
• Loyalty to XYZ CEO could result in attrition if CEO is not retained | • Appears as though only the CEO is impacted by a CIC agreement  
• XYZ and ABC’s direct and transparent leadership style  
• ABC’s virtual workforce model allows for additional career growth and can be positioned as an advantage for the diverse, driven workforces of both organizations  
• ABC’s processes and procedures can be leveraged to take more calculated risks and ensure efficiencies  
• Integrating XYZ’s informal, collaborative approach at the account level with ABC’s global network and capabilities, along with process driven nature, will not only ensure productivity is not lost but will facilitate revenue growth and market expansion  
• ABC can leverage its Employee Value Proposition (EVP) to enable XYZ to achieve its hiring goals |
| **Rewards & Recognition**     | • Pay inequity between XYZ and ABC executives may lead to engagement issues  
• Pay and benefit inequity may result in additional cost to ABC to rationalize the new organization | • Opportunity for pay increase for XYZ employees may prove to be a good retention tool  
• ABC can carefully contemplate the effects of applying additional structure, discipline and processes on XYZ employee engagement and leverage and position those capabilities to achieve the best of both worlds |
| **Work Force**                | • XYZ’s decentralized work force model may not lend itself to expected synergies around global expansion  
• ABC’s rigid processes and procedures may stifle innovation and creativity and lead to attrition  
• XYZ’s informal approach to cross-functional collaboration at the account level will clash with ABC’s more enterprise-level approach and result in decreased productivity  
• Positions’ roles and responsibilities are much more rigidly defined at ABC; the adoption of ABC’s more rigid position model may hinder XYZ’s employees ability to effectively complete their jobs | • ABC’s processes and procedures can be leveraged to take more calculated risks and ensure efficiencies  
• Integrating XYZ’s informal, collaborative approach at the account level with ABC’s global network and capabilities, along with process driven nature, will not only ensure productivity is not lost but will facilitate revenue growth and market expansion  
• ABC can leverage its Employee Value Proposition (EVP) to enable XYZ to achieve its hiring goals |
| **Performance Management & Engagement** | • Applying additional structure, discipline, and processes to XYZ may severely restrict employees’ ability to effectively and efficiently do their jobs, thus negatively affecting employee engagement, productivity and retention | • ABC can carefully contemplate the effects of applying additional structure, discipline and processes on XYZ employee engagement and leverage and position those capabilities to achieve the best of both worlds |
| **Communication**             | • Both organizations need to focus on communication down through the organization as this is critical to reducing employee anxiety | • Both organizations promote direct and transparent communication |
| **Espoused/Expressed Culture** | • XYZ’s casual dress code is believed to foster the creativity and innovation it needs to be successful  
• ABC’s business casual environment may be stifling and lead to attrition  
• Each organizations’ tendency to “go against the grain” is likely to cause some difficulty in implementing ABC’s non-negotiables | • Both organizations are passionate about being on the forefront of the industry and providing best in class innovation  
• The leadership of ABC and the culture of XYZ both promote work/life balance  
• Both organizations employees thrive off being different, the employees should be well-positioned to join together |
Cultural Integration Methodology
Sample ECA Output

1. ACHIEVEMENT
   - Individual
     - BUYER Current
   - Collective
     - BUYER Future

2. ENVIRONMENT
   - Process
     - Outcome
     - TARGET Current
   - Informal
     - TARGET Future

3. COMMUNICATION
   - Formal
     - Inventive
   - TARGET Current
     - Decentralized
     - TARGET Future
     - Encouraged

4. PERSPECTIVE
   - Traditional
     - Avoided
     - BuyER Current
   - Inventive
     - BuyER Future

5. POWER
   - Avoided
     - TARGET Current
   - Encouraged
     - TARGET Future

6. RISK
Cultural Integration Methodology
Sample similarities & differences

- Passionate and Challenged
- Financially Successful
- Business Transparency
- US Orientation
- Hard Working, Confident and Committed
Cultural Integration Methodology
Sample similarities & differences

**BUYER**
- Currently operates in silos but systems going into place to facilitate cross-business collaboration
- "Fear" of taking risks and the repercussions of mistakes; lack of confidence ideas will be considered
- Inclusive; several parties required to make decisions
- Financial discipline; recent efforts to focus organization on customer service
- Rely on acquisitions for innovation; "buy" external talent

**TARGET**
- Vertically integrated; agile with limited bureaucracy
- Open to risk within the context of roles; hold people accountable
- Make decisions commensurate with responsibility and scope
- Partnership with customers; Customer service and customer engagement
- Customers involved in product development; long tenure; knowledge of business

**Organizational Structure**
**Risk Taking**
**Decision Making**
**Customer Relationships**
**Responsiveness and Innovation**
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