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MITIGATING CULTURE RISK TO DRIVE DEAL VALUE

MERCER'S M&A READINESS RESEARCH™ 3.0

MAKE TOMORROW, TODAY

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CONTENTS

FOREWORD: MAKING PEOPLE THE FOCUS

This *Mitigating Culture Risk to Drive Deal Value*

report, along with *Mercer's M&A Readiness Research*™ series, is full of robust data and critical insights to help you better manage uncertainty and people risk in a transaction. In this report, we offer an in-depth view of culture-related deal risks and provide strategies and practical solutions to predict and proactively plan for change.

This *M&A Readiness Research™ 3.0* report on culture complements our previous research: *People Risks in M&A Transactions* (mercer.com/peoplerisk) and *Flight Risk in M&A: The Art and Science of Retaining Talent* (mercer.com/retention).

After studying the data and considering our experience supporting clients on over 1,200 deals annually, we see a clear pattern. Culture, left to chance, has significant potential to derail operations post-close. While many consider culture a "non-financial risk," 30% of transactions fail to ever meet financial targets due to cultural issues. If these operational risks are not recognized and addressed, they can lead to low productivity, flight of key talent, customer disruption and value destruction.

This is a practical guide for those navigating the cultural complexities of a deal. It is a purposeful departure from the common, purely academic rhetoric around culture in business. This research will help you prioritize and document culture risk and formulate a clear plan of action to generate better investment returns.

Make no mistake, the common denominator driving deal success and economic value across broad sectors of business and industry is PEOPLE. This is particularly true in today's prolonged sellers' market, where buyers are taking on enormous financial risk and paying record multiples to complete larger deals.

This year's research includes input from 1,438 "road tested" business executives, HR professionals, employees and M&A advisors. While it is important to dispel any notion that an "ideal culture" formula exists, our research shows culture matters more today than ever in M&A.

Successful leaders drive deal value and gain competitive advantage by leveraging culture to empower, engage and energize the workforce.

I want to sincerely thank all the participants in this year's research. Your investment of time, through a combination of interviews and surveys, has been invaluable.

Carly McCoy, Mercer; Lara Pimentel, ProLiteracy Director of Development; Ginger Duiven, ProLiteracy Board Member; Odemaris Byrd, Shere Detwiler, Ashley Linken, Mercer

Monica Tedla, Chris Pearman, Rahul Raman, Mercer; Maryam Khan, Doctors Without Borders Development Office

ProLiteracy & MEDECINS SANS FRONTIERES DOCTORS WITHOUT BORDERS

Please also join me in recognizing my colleagues who worked tirelessly in assembling this final report. Now in my 20th year at Mercer, I have never been more proud to be part of the Mercer team, especially with the cohorts who surround me every day with their intellect, experience and humor.

Finally, I want to take this opportunity to recognize our partner charities, Doctors Without Borders and ProLiteracy. We are extremely fortunate to be associated with these two leading organizations that are making a tremendous impact through their phenomenal work around the world. This year we raised $12,500 for these two charities through your participation in the 2018 research.

JEFF COX

Senior Partner
Global M&A Transaction Services Leader, Mercer

ABOUT THE REPORT

OUR FINDINGS ARE BASED ON

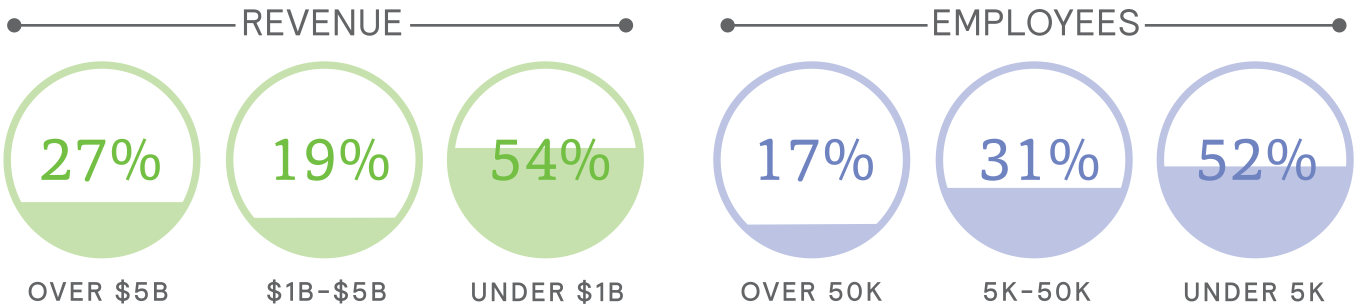
1,438
SURVEY AND INTERVIEW RESPONSES

INCLUDING **612**
NON-HR PROFESSIONALS

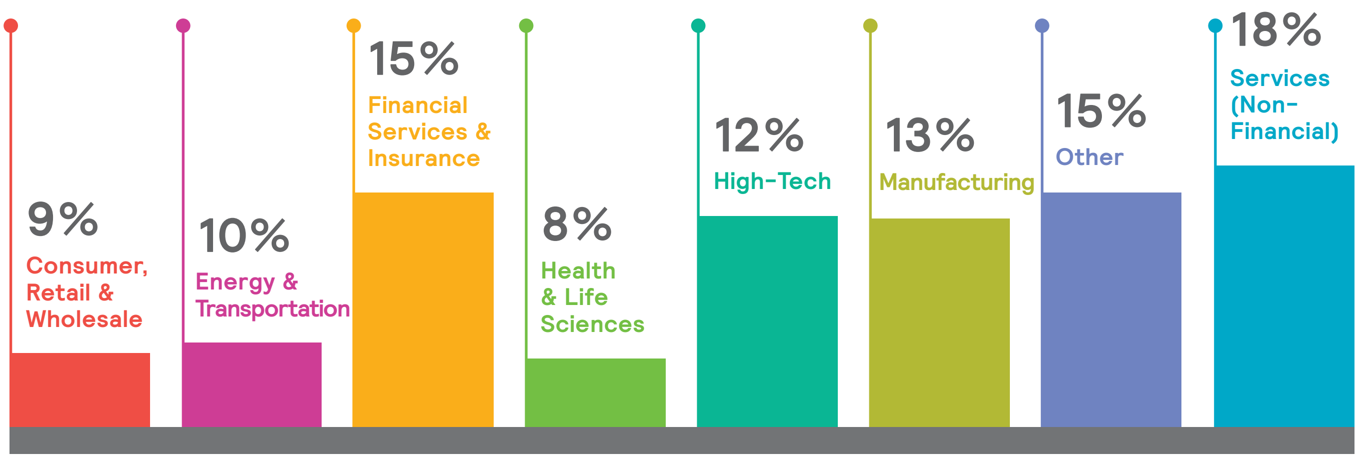
The ***Mitigating Culture Risk to Drive Deal Value*** report is based on key findings from 1,438 voices from 54 countries who collectively worked on 4,000+ deals on both the buy and sell sides in the past 36 months. Nearly 43% of the respondents were non-HR professionals.

We gained insights from four stakeholder groups: **M&A advisors, business leaders, HR professionals** and **employees.** In all, these stakeholder groups work for companies employing **more than 43 million people** around the world.

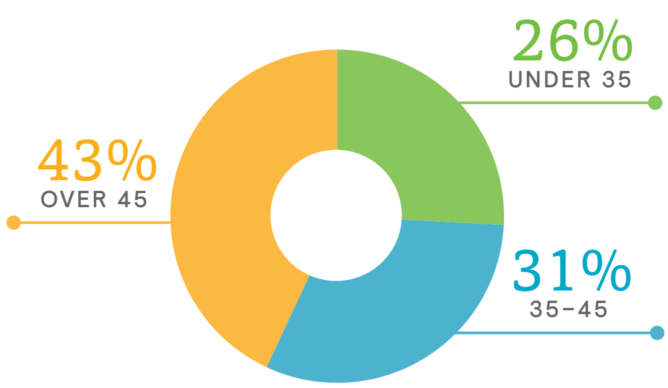
SIZE OF COMPANY



INDUSTRY

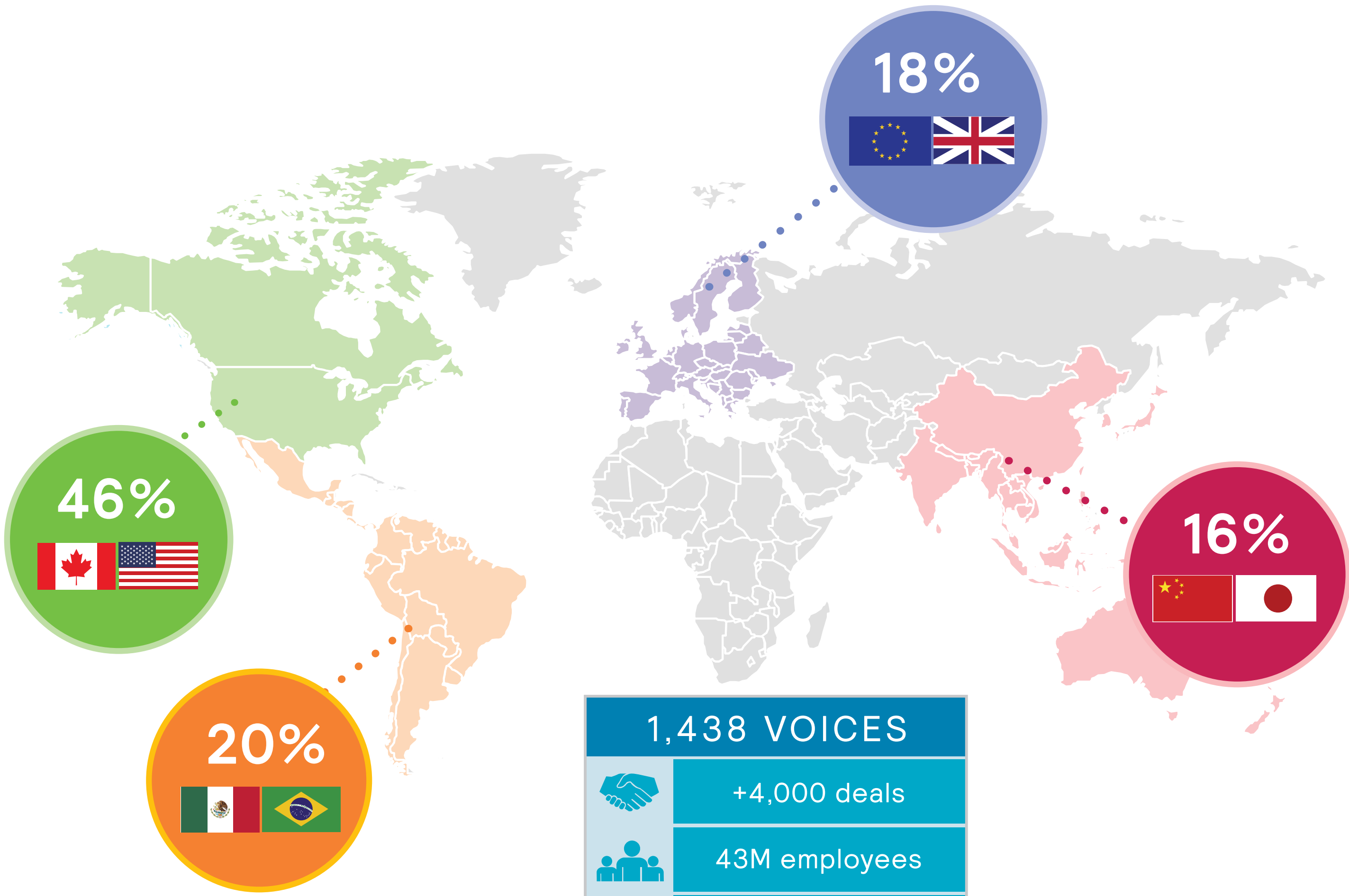


AGE



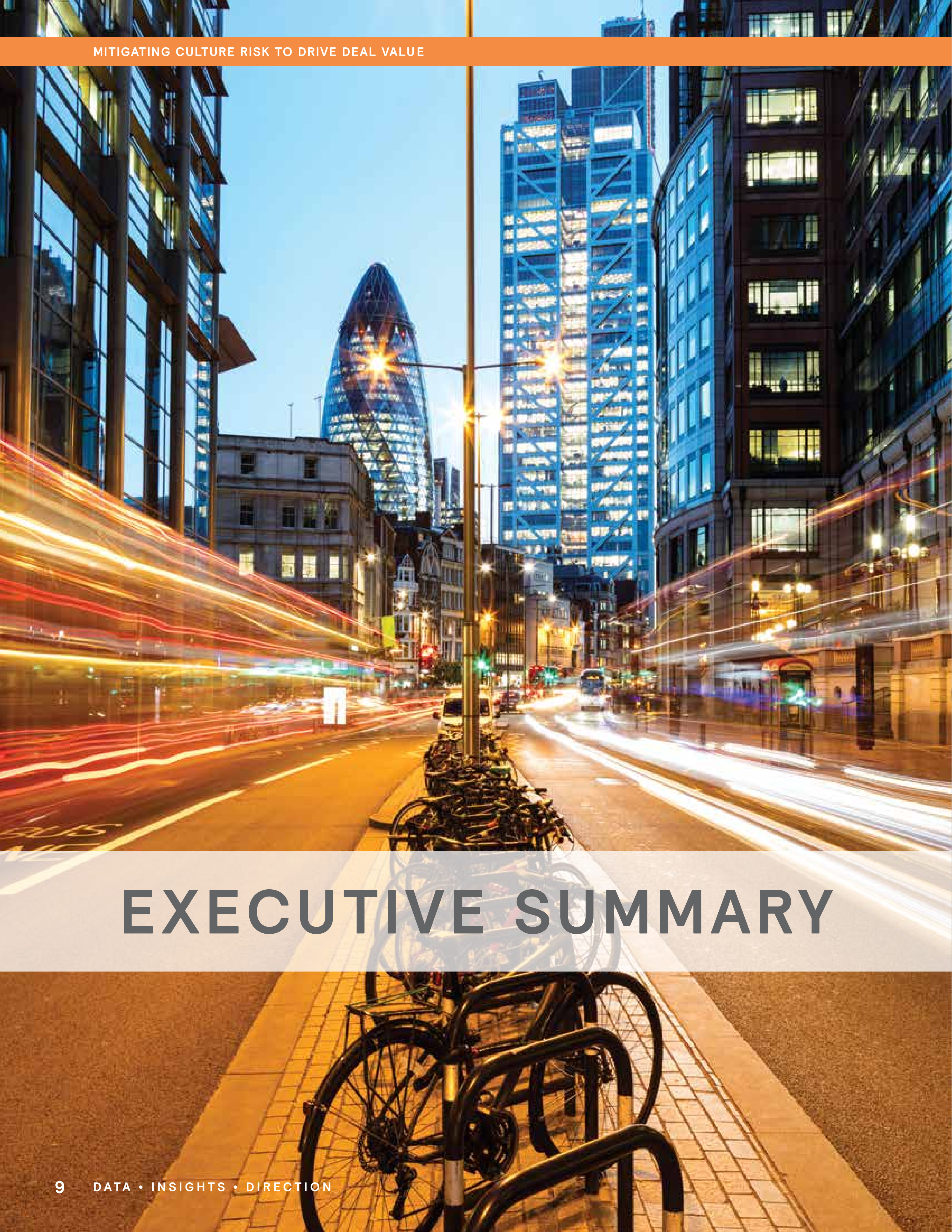
We looked at how different age groups, geographic locations, industries and company sizes **all influence stakeholders' views on their organization's culture.**

GEOGRAPHY



1,438 VOICES
+4,000 deals
43M employees
54 countries

> Culture is ‘dead center’ to the deal.”
>
> *– CHRO, Latin America-based company, with 1K employees, $200M revenue*



EXECUTIVE SUMMARY

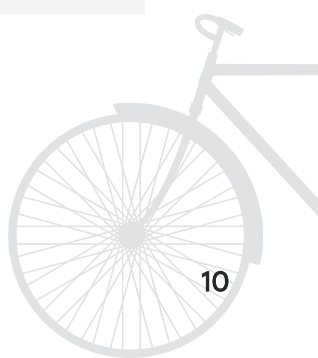
WHY CULTURE?

We launched our comprehensive *M&A Readiness Research™* series on people issues to better understand emerging trends through the lens of experienced dealmakers. The first report, in 2016, *People Risks in M&A Transactions* (mercer.com/peoplerisk), was based on Mercer's combined experience working on over 1,200 transactions globally per year, input from 401 M&A professionals and analysis of nearly 450 discrete deals (of which 60% were cross-border). The top people issues (see Exhibit 1) identified in our initial research clearly pointed to emerging trends resulting from a sellers' market. In our 2017 report, *Flight Risk in M&A* (mercer.com/retention), we focused on the number one issue identified — employee retention — analyzing over 385 specific deals along with input from 325 M&A professionals.

EXHIBIT 1

TOP PEOPLE ISSUES AS IDENTIFIED IN MERCER'S M&A READINESS RESEARCH 1.0

1	2	3	4	5
Employee retention	Cultural and organizational fit/integration	Leadership team (determining the quality of the management team/executives for the new company)	Compensation and benefit levels (market pay concerns)	Talent availability and identifying, assessing and placing new talent



In this report, we are focusing on the number two people issue: **CULTURE RISK**.

The purpose of our 2018 research is to demystify culture in M&A and identify practical strategies and solutions to hedge culture-related integration risk.

This year, we took the pulse of 1,438 stakeholders involved in transactions, who told us **culture, left to chance, has significant potential to derail operational performance post-close.**

Stakeholders from 54 countries who have been involved in over 4,000 transactions in the past 36 months on both the buy and sell sides reinforced that the common denominator in delivering sustainable economic value in this prolonged sellers' market is people.

“Culture is less about the five values painted on the lunchroom wall. It's more about how we operate, how we treat employees and how we treat our customers.”

– Global PE Operating Executive

The respondents to our research this year work for companies employing over 43 million people. Our researchers went deep inside these organizations to talk with employees, business leaders, HR professionals and M&A advisors about their experiences; we also considered how different age groups, geographic locations, industries and company sizes influenced people's views on culture.

From these voices and our experiences, we see a clear pattern emerging: **culture absolutely matters in M&A transactions.**

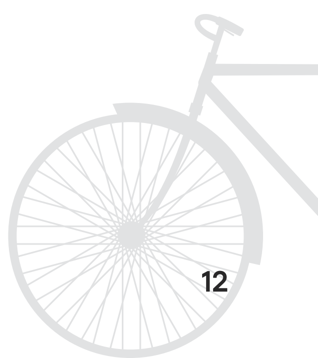
Mergers and acquisitions can either create or destroy value. Numerous studies have shown that cultural dynamics represent one of the greatest yet most frequently overlooked determinants of integration success and post-merger performance.[1]

DUE TO CULTURE ISSUES…

30% of transactions fail to ever meet financial targets.

67% of participants have experienced synergy delays.

43% of participants have experienced delayed close, no close or an impact on purchase price.



WHAT IS CULTURE?

Culture is your operating environment. It defines and allows you to effectively drive business strategy, and it can provide a platform to attract and engage the right talent.

Culture means different things to different people. Our survey respondents had markedly different definitions, some straight from textbooks and others customized to unique experiences and organizations.

TOP DRIVERS OF ORGANIZATIONAL CULTURE

61%	How leaders behave
53%	Governance
46%	Communication
46%	Working environment

> "Culture is what leaders say and, most importantly, what their actions are to back it up."
>
> *– CHRO, US-Based Health System , 10K+ employees, $1B+ revenue*

WHY DOES 'IT' MATTER?

Culture is about individual behaviors that deliver business outcomes and how operational drivers can be leveraged to reinforce those behaviors. Cultural alignment is critical for effective organizational change in M&A.

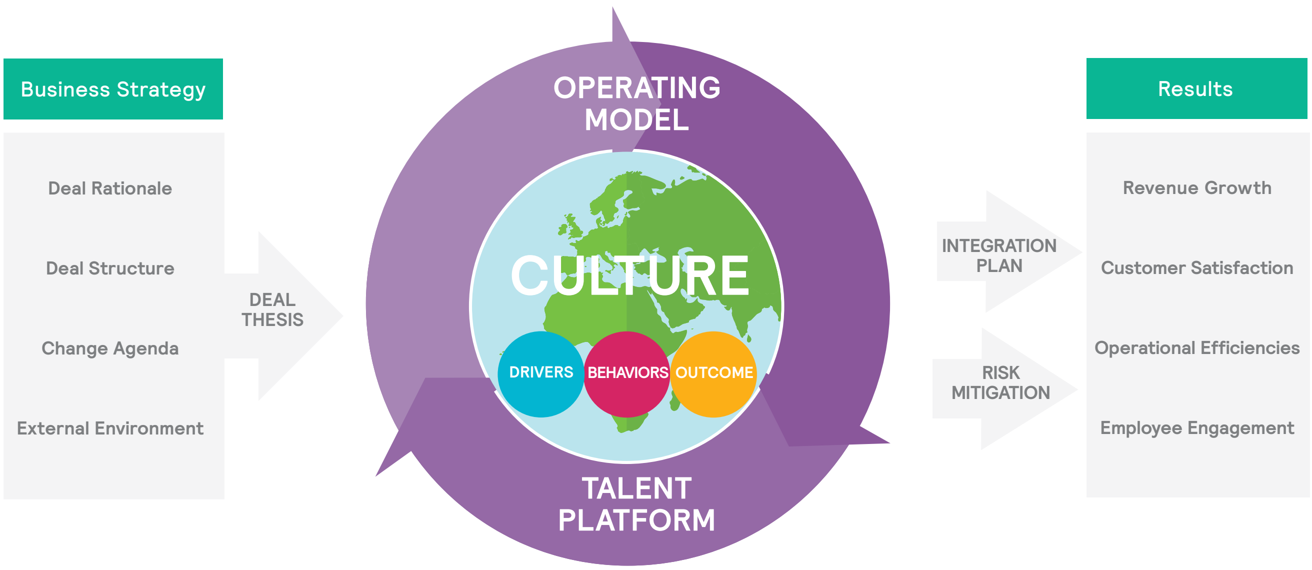
"A well-articulated strategy allows for more-effective organizational choices. Organizational choices include how work is done; how resources are structured; what is measured; how talent is selected, developed and rewarded; and how leaders foster a winning culture."[2]

WE SEE A PATTERN...CULTURE IS AT THE CENTER OF BUSINESS TRANSFORMATION

A clear business strategy and an understanding of your deal rationale and the requisite integration risks are essential in order to successfully execute any transaction. Culture establishes the foundation for the operating model, which in turn defines the requirements for the talent platform — such as the skills required, expected behaviors, and drivers like pay and rewards plans. Outcomes and results are what matter, so they must be measured to direct any actions required to mitigate integration risks. **Culture is at the center of organizational change in M&A.**

EXHIBIT 2

MERCER – CULTURE DEAL PROCESS MAP™



Mercer – Culture Deal Process Map™. Authored by J. Koob.

DON'T BE FOOLED BY WHAT YOU PERCEIVE TO BE NON-FINANCIAL RISKS

It all goes back to people, their behaviors and their understanding of precisely what they're supposed to do differently in the new organization.

A great example is a sales leader in the target organization. The culture at her current organization is such that she and her team have significant autonomy and authority to negotiate terms with customers and make decisions on the spot to close deals. She has heard the buyer has a much more rigid pricing process and requires multiple approvals. She is not even sure whether she should push ahead or delay some of the leads she is currently developing. Can she even make pricing decisions? Her uncertainty results in delay, a customer chooses a competitor and the sales leader begins to question whether she even wants to work at a place where she is not empowered to represent the company's best interest.

When a deal is announced, people have a tendency to immediately think about themselves. The resulting anxiety leads to productivity loss. Productivity loss quickly bleeds into customer disruption in the period before the deal closes. Our key sales leader, responsible for a group of account managers handling relationships with a large block of customers, doesn't possess a thorough understanding of the deal rationale. Her lack of insight directly impacts the quality of the customer experience, communication about product lines and ultimately how the customer's relationship will work under new ownership.

What's worse, this sales leader eventually leaves the company to take a position with a competitor because she can't sort out her role, leaving the buyer and the new organization devoid of the value she brought to relationships with this key group of customers.

Designing a new culture on the basis of complementary strengths can speed up integration and create more value over time.[1]

WE SEE A PATTERN...CULTURAL MISALIGNMENT CAN AND WILL DERAIL OPERATIONS IN M&A

The research is crystal clear: 30% of deals fail to ever achieve expected financial returns due to cultural issues. Culture defines a business and has a direct impact on financial performance.

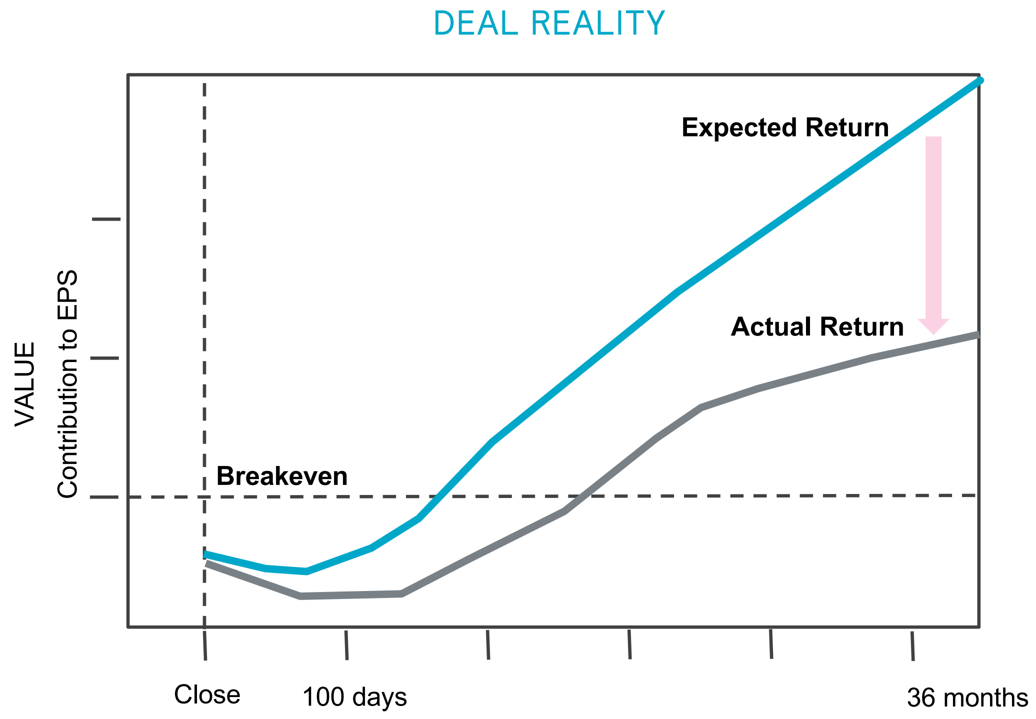
Investors have unprecedented access to capital in today's brutally competitive M&A environment, pushing up valuations and leaving buyers little room for operating error. All the while sellers remain in control of the deal process, sharing less information and demanding abbreviated diligence.

As Exhibit 3 illustrates, winning bidders frequently experience, due to cultural misalignment, a performance gap between actual financial results (post-close) and the optimistic operating assumptions in the deal thesis.

While historically culture was categorized as a non-financial risk, our research points to culture as having four primary operational derailers in M&A that lead to significant financial risk: productivity loss, customer disruption, flight of key talent and delayed synergies.

You can run all the discounted cash flows and have the numbers come out perfectly, but it's the human resources side of a merger or acquisition that spells failure or success.[3]

EXHIBIT 3



Mercer – Culture Left to Chance Will Derail Operations in M&A. Authored by B. Heslop.

"It's people who drive our business; they are in trading, commodity sales, engineering, transport and administration. People support our business goals. And people are not mathematical equations."

– Corporate Development Executive, $100B global conglomerate, 70 countries

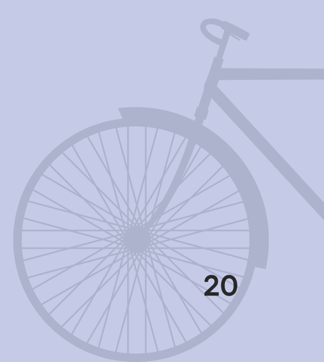
WE SEE A PATTERN...HOW LEADERS BEHAVE (SAY VS. DO)

Sixty-one percent of respondents say that how leaders behave **(not just what they say, but what they do)** is the number one component of organizational culture.

Buyers with a disciplined approach to cultural diligence routinely uncover differences and facts behind how organizations actually operate versus what they read in the seller's management presentations or hear from leadership during diligence. These differences can materially impact purchase price, timing of close and/or synergy realization.

For example, when Mercer provides cultural diligence deal support to buyers, we often look to compare how target leaders describe their stated pay practices and the goals thereof versus pay data, performance rating history, and enterprise or business unit results.

This gives us a better understanding of the link between stated operating objectives (desired outcomes) and the rewards (drivers) that reinforce and influence behaviors.



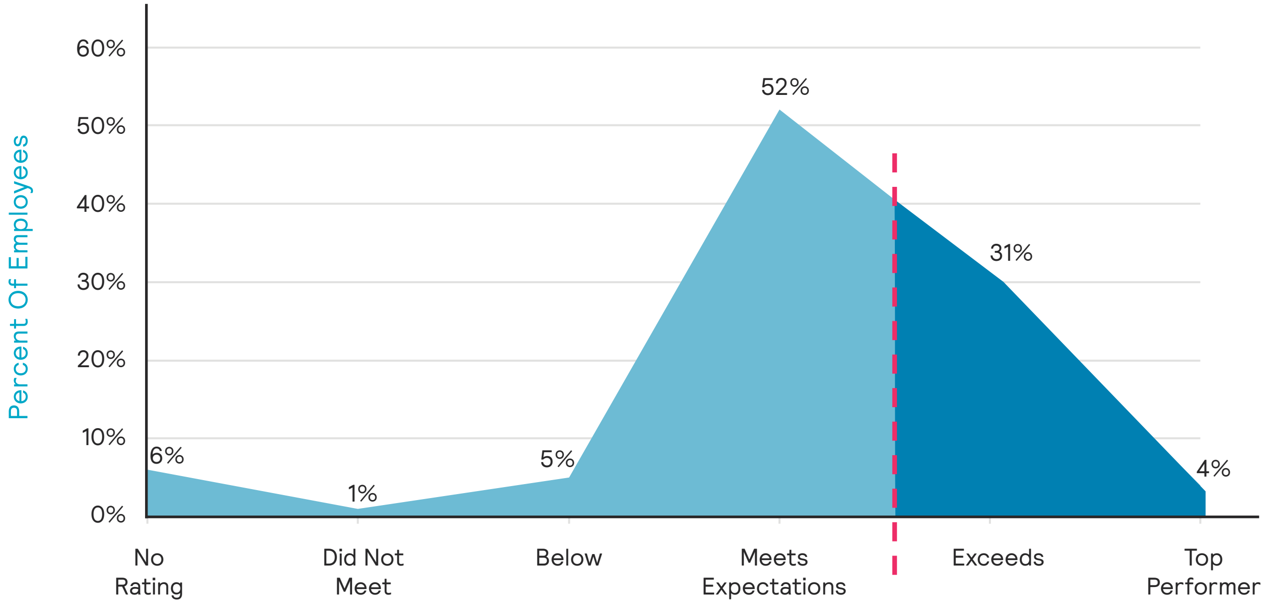
WE SEE A PATTERN...

The following exhibits are based on an actual deal in which the target organization's pay data proved to be misaligned with its stated pay-for-performance objectives. Despite the target leadership's insistence that the company had a "performance-driven culture," the data provided a very different picture.

As shown in Exhibit 4, the target's performance ratings did not show the typical bell-shaped curve we would expect. While the target organization's overall performance was good, it did not perform at a level that matched employee performance ratings (35% rated "Exceeds" or "Top Performer").

EXHIBIT 4

PERFORMANCE RATING DISTRIBUTION IS ***NOT*** CONSISTENT WITH BUSINESS RESULTS



Number of Employees = 8,116

Mercer – Say vs. Do in M&A: Exhibit I. Authored by C. Pearman.

HOW LEADERS BEHAVE (SAY VS. DO)

In Exhibit 5, we dig deeper into the target's pay data by performance level for the same period. The results further confirmed our suspicions that the target organization did not practice true pay for performance. The exhibit shows the distribution of difference in annual wage by department and performance rating when compared to the target's overall average annual wage.

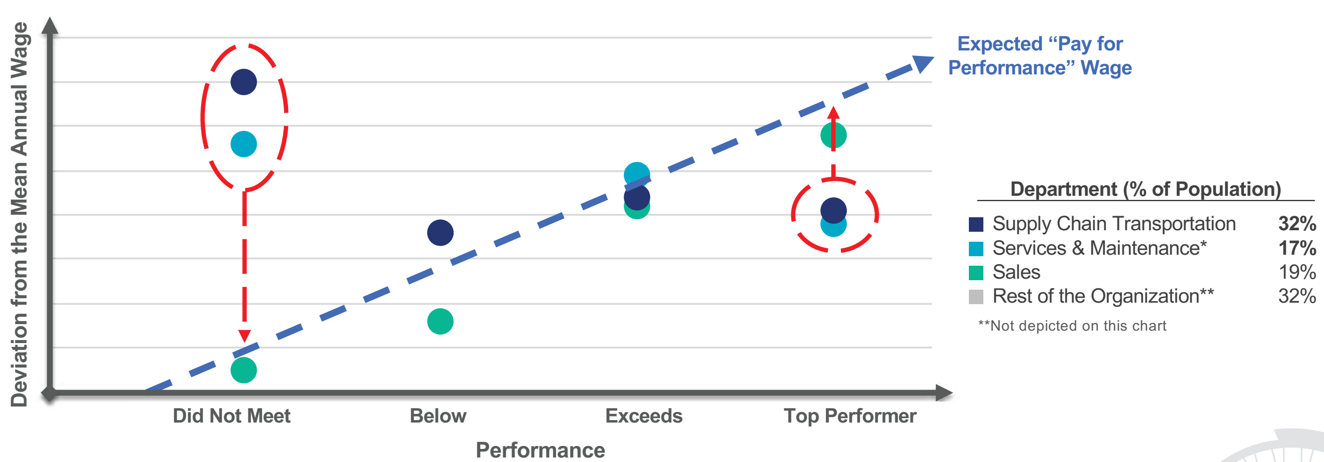
With the exception of the sales organization (19% of the target company population), we saw inconsistencies across the board. Top performers were not awarded according to their rating, as employees who were rated "Exceeds" earned more overall than those rated "Top Performer." Bottom performers were not penalized accordingly, as employees who were rated "Did Not Meet" in the Services/ Maintenance and Supply Chain departments were receiving substantially higher-than-average pay.

Further diligence found that the highest turnover in the target organization was in the Services/Maintenance and Supply Chain departments, which had the longest fill times for open positions. The target organization appeared to be leveraging pay in an attempt to reduce turnover, resulting in some tenured staff being rewarded for chronic underperformance.

It is important to keep in mind that pay for performance is not a cultural issue in and of itself. It was relevant in this case because target leadership consistently stated that they were a pay-for-performance organization, which was particularly important to the potential buyer.

EXHIBIT 5

OTHER FACTORS DRIVE PAY FOR MAJORITY OF THE TARGET COMPANY'S EMPLOYEES



Mercer – Say vs. Do in M&A: Exhibit II. Authored by C. Pearman.

There is significant pressure on management during M&A transactions. As a result, leaders are frequently distracted from timely follow-through on stated business strategies and goals. It is also not uncommon for leaders and senior managers to poorly communicate the deal rationale to the "rank and file" employees. These tendencies can and do negatively impact financial performance.

Key executives can collectively agree on any number of critical integration objectives, but if any one of them acts counter to the plan they settled on as a group, it can seriously derail execution.

"Everyone will acknowledge how important culture is to a deal's success. And everyone will provide a harrowing example of the consequences of a cultural misalignment that they witnessed or experienced. Yet few organizations have done anything about it."[4]

WE SEE A PATTERN…INDICATIVE CHARACTERISTICS OF NATIONAL CULTURES

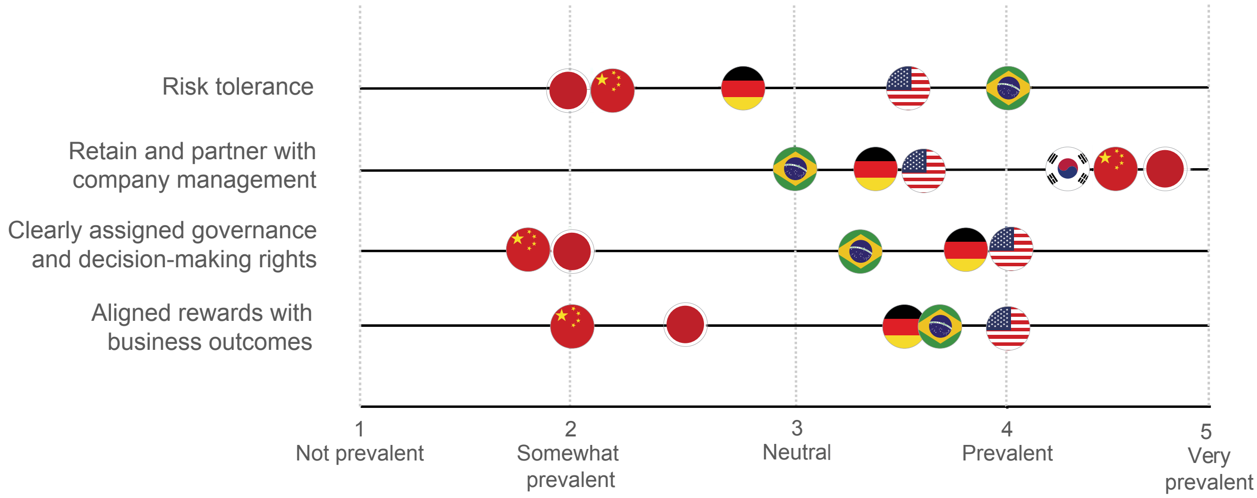
Corporate culture is, of course, predicated on many things: a company's nation of origin, the type of talent it calls for, the industry it is part of and so on.[5]

We asked a panel of M&A advisors who collectively have over 200 years of experience working on global transactions about particular national buyer patterns and behaviors across geographies. The objective was to better understand different national characteristics of cultural behavioral patterns that would affect integrations and impact the likelihood of deal success. As shown in Exhibit 6, we focused on four key areas that impact integration: risk tolerance, retention of management post-close, clearly assigned governance and decision-making rights, and alignment of rewards with business outcomes.

Our research identified several national characteristics that have implications for cross-border M&A. For example, Japanese and Chinese buyers display an enormous risk tolerance to put forth a winning bid. These same buyers are very reluctant to take proactive steps to create immediate post-close (operations and/or structural) change, being more comfortable with the status quo. Most buyers adopt a 100-day change plan immediately post-close, whereas Japanese buyers are more comfortable with a 1,000-day change plan.

A large gap between corporate cultures has resulted in a lower-than-average stock price and much lower returns for the investor than in a typical deal.[5]

EXHIBIT 6



Mercer – Characteristics of National Cultures in M&A. Authored by C. McCoy.

KEY FINDINGS

“Culture is the central point of EVERYTHING that makes or breaks the organization.”

– CHRO, multinational company, 40K employees, $18B revenue

LOOKING ACROSS GEOGRAPHIES, INDUSTRIES, STAKEHOLDER GROUPS AND DEMOGRAPHICS, WE SEE CLEAR PATTERNS

Organizational culture is complex. It goes way beyond branded coffee mugs, employees bringing their pets to work and that Ping-Pong table outside the conference room. It's about how organizations operate on a daily basis — the ways in which employees interact with each other, how they make decisions, how work gets done.

Culture is your operating environment. It is about how organizations assign decision-making rights, manage risk, hold people accountable, accept diversity of thinking and reward results.

Everything from the way a company is organized to the way it rewards and engages its employees to the systems and processes it uses to influence organizational culture, which drives business outcomes. Organizational culture is critical in transactions, maybe more so than financial engineering, particularly in this prolonged sellers' market. Drawing a connection between how an organization is performing, how its people are performing and the culture of that organization, allows us to understand how the culture impacts the financial side of the equation.

Understanding the culture at both organizations at the outset of a transaction can help uncover potential red flags and realistic deal synergies. Seizing the opportunity to understand differences helps drive an informed integration planning process, which delivers deal success.

Business leaders who empower, energize and engage the workforce routinely leverage culture to drive economic value and gain competitive advantage.

The Culture Equation to Predict a Successful Deal

It is crystal clear that transactions are an important opportunity for leaders to accelerate culture change.

Throughout the Key Findings section of this report, we break down how various stakeholder groups identify and prioritize the top behaviors of high-performing cultures and the components of organizational culture that drive or derail transaction success. The goal is to help leaders better understand, anticipate, and prepare for regional and national cultural differences embedded in cross-border deals.

While the consistency of the data sets is somewhat surprising, the research uncovered particular nuances by industry, size of company, age, role, job level, region and country. This section outlines what dealmakers need to know to navigate the cultural complexities of a target organization.

Business leaders who proactively adopt a rigorous cultural roadmap as they prepare for integration can effectively hedge and reduce operational risk and increase the likelihood of delivering on their intended investment objectives. With 33% of the participants indicating increased likelihood of doing a cross-border deal, this is now more important than ever.

The findings in this report are broken down into two distinct categories: behaviors and drivers. Behaviors may be observed and analyzed to better understand organizational culture.

GLOSSARY OF

BEHAVIORS

ACCEPTANCE — Acceptance and respect of diversity of thinking and background.

COLLABORATIVE — Work jointly with others to execute business objectives.

INNOVATIVE — Embrace the creation of something new or changes to an existing product, idea or field; freedom to fail.

STRATEGIC LONG TERM-FOCUSED — Oriented toward forward-looking thinking and events; not concerned about short-term gains, but willing to invest in the future.

EMPOWERED — Having the authority and ability to make decisions.

ENGAGED — Strong commitment to goals and objectives, with a passion for the business.

ENTREPRENEURIAL — Willingness to take risks and, regardless of role and level, create, develop, and try new ideas, projects and ventures to drive the business forward.

FAST-PACED — Rapid speed of work.

PERFORMANCE-DRIVEN — Reward individuals for performance on clearly defined metrics; may include a mix of financial measures and other key performance indicators to drive better business results; focused on the outcome, not the process.

QUALITY-DRIVEN — Uphold the goal of delivering quality products and/or services; prioritize set standards over volume of activity.

RISK-AVERSE — Disinclined or reluctant to take risks.

TRANSPARENT — Characterized by visibility or accessibility of information and decision-making across the business; often related to communication style.

TEAM-ORIENTED — Capitalize on individual strengths by fostering a spirit of teamwork; collective product is greater than the sum of individual contributions.

To change behaviors, you must modify drivers. Drivers are the operational levers that can be controlled, modified, and managed to impact and change behaviors, ultimately delivering business objectives.

CULTURE TERMS

DRIVERS

COMMUNICATION STYLE — The nature of and approach to sharing information – for example, factual, transparent, friendly and personal, top-down, community-based, compliance-driven, vague, infrequent.

DECISION-MAKING PROCESSES — Who in an organization has authority, and how final judgments or choices are made. This may be by leadership from the top down, autonomously from the bottom up, closest to the customer, etc.

GOVERNANCE — The rules and framework by which a company is controlled and directed. Governance defines an organization's structure; determines management roles and responsibilities; and guides what is done, rewarded, tolerated and not tolerated. It also shapes decision-making rights and processes and an organization's approach to managing risk.

HOW LEADERS BEHAVE (SAY VS. DO) — The extent to which leaders act in accordance with what they have communicated both verbally and non-verbally.

MISSION/VISION/VALUES — The guiding principles that define a company's business, objectives and approach for reaching those objectives. An organization's values dictate behavior and determine approach for reaching the organization is on the right path to fulfill its goals.

REWARDS AND RECOGNITION — The practice of compensating and rewarding employees both financially and non-financially, to recognize their successes and contributions to the organization's success.

SYSTEMS, PROCESSES, POLICIES — Three key and dependent elements that define an effective working system. Essential structure that allows a business to operate in a coordinated manner.

TRANSPARENCY — The timing of and extent to which business matters and results are communicated to all employees.

WORKING ENVIRONMENT — The nature of the physical and virtual working space, including access to appropriate technology, aspects of the physical space and the overall feeling of the workplace (e.g., results-oriented, collegial, formal, flexible).

WORKING STYLE — The way in which work gets done. The acceptable norms for organizational decision-making and speed at which acceptable work is completed by individuals and cohorts (e.g., individual contribution vs. group collaboration).

STAKEHOLDER VIEW

As evidenced in the research, perspectives on culture are most definitely influenced by an individual's experience, level and/or role; the size of the organization in which one is employed; and the individual's age.

The participating stakeholders in this research work for companies with as many as 320,000 employees and as few as 100. They include C-suite executives, business unit leaders, managers, and employees and represent the HR function, corporate development/strategy and independent M&A advisors (see Exhibit 7).

While the findings are relatively consistent, there are notable differences to consider across the stakeholder groups.

COMPANY SIZE

FEWER THAN 500 EMPLOYEES

Organizations with fewer than 500 employees rank *Empowered* in the top three behaviors of culture.

1,000–4,999 EMPLOYEES

Companies with 1,000–4,999 employees value *Collaboration* much less than other companies do.

OVER 50,000 EMPLOYEES

Large firms with over 50,000 employees rank *Entrepreneurial* as the second-most critical cultural behavior — a much higher ranking than is given by organizations of other sizes.

LEVEL & ROLE

EMPLOYEES 40%

Both employees (40%) and transaction advisors (38%) observe the *Slow Pace of Change* as a top derailer of deal success.

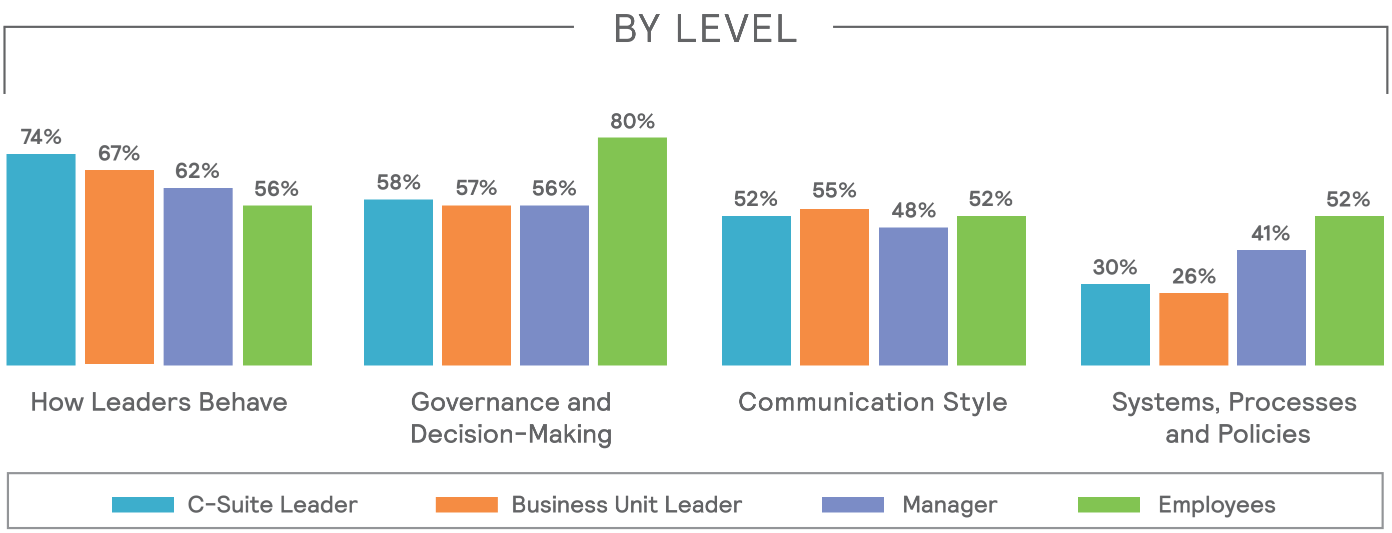
BUSINESS LEADERS 40%

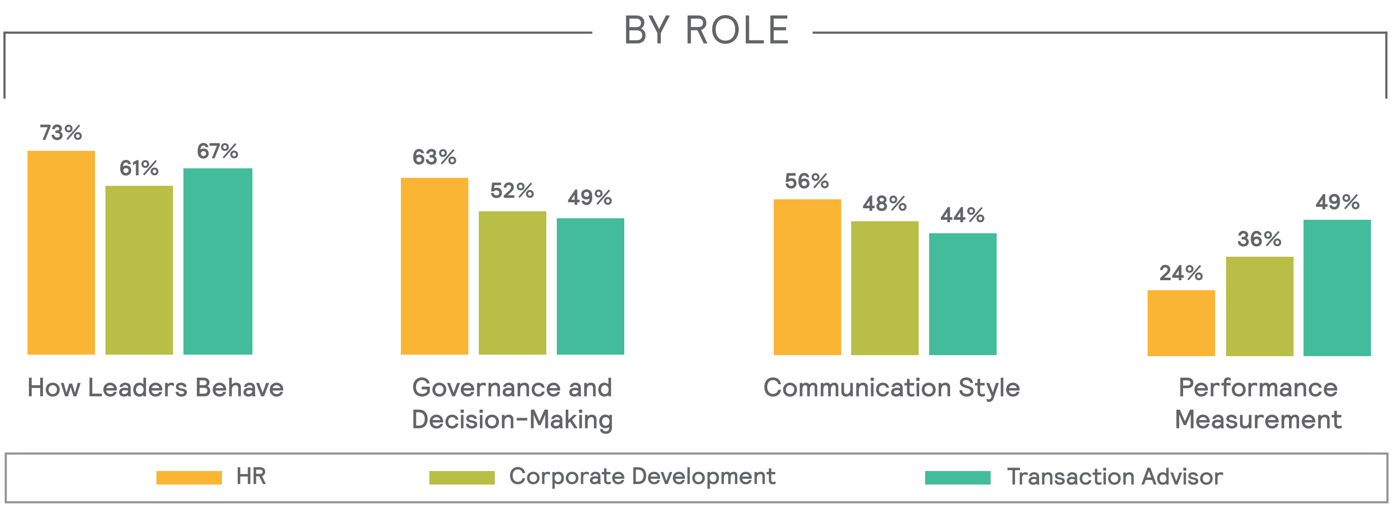
Both business leaders (40%) and corporate development/strategy professionals (41%) state that *Risk Aversion* undermines transaction success.

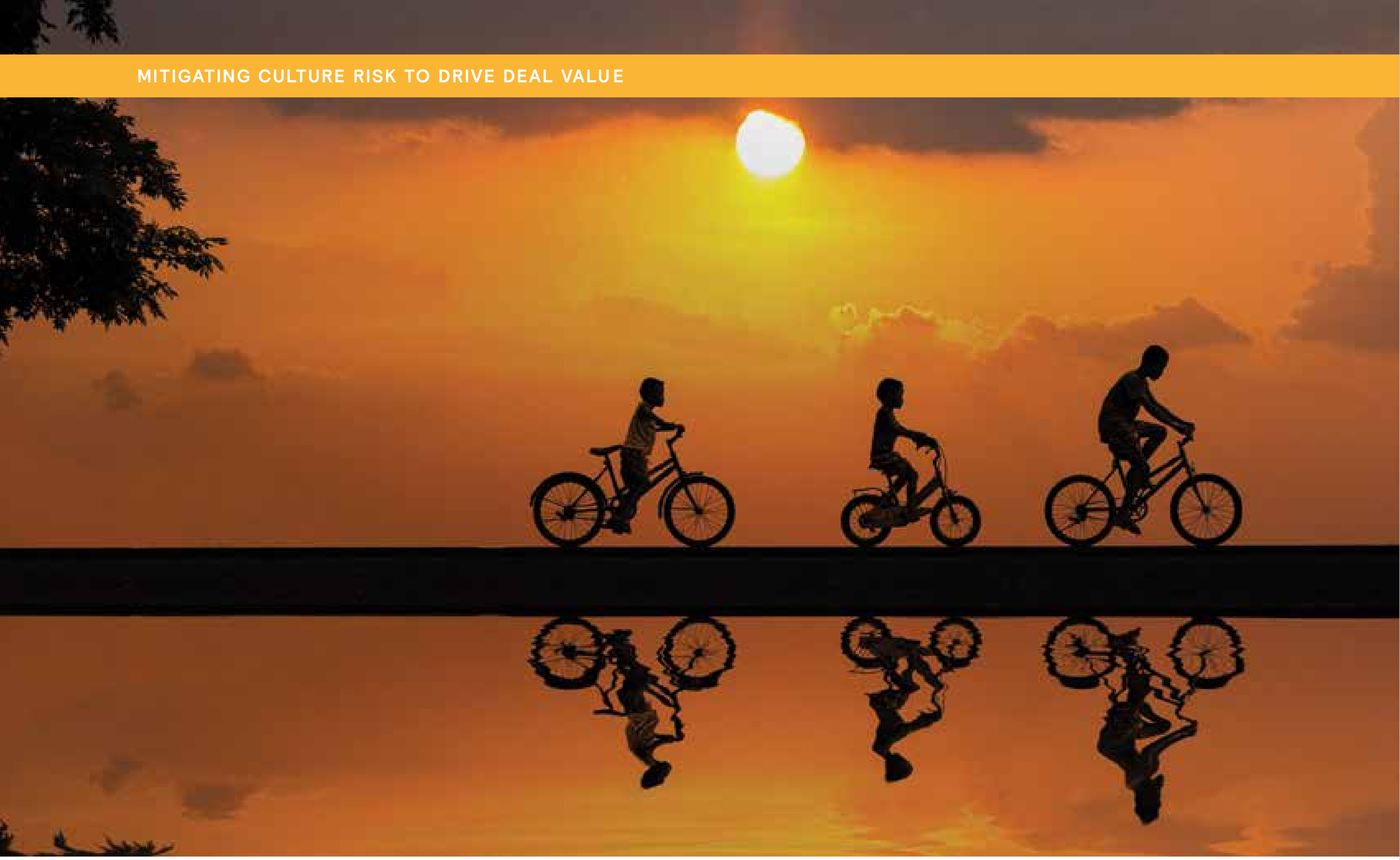
The view on *Performance Management* as a part of organizational culture is divided: while **45%** of independent M&A advisors rate it as a key driver, only **18%** of HR and **26%** of corporate development/strategy professionals identify it as important.

TOP CULTURE DRIVERS THAT DERAIL AND UNDERMINE DEAL SUCCESS

EXHIBIT 7







AGE VIEW

As the average age of the workforce rises throughout most of the world, it will be increasingly important for organizations to understand the cultural priorities of different age groups and address these dimensions to engage a multigenerational workforce.

Across all age groups, respondents consider it important that their personal values align with the company's values. This driver becomes more important with age — it is seen as critically important by 33% of employees under age 25, but by 44% over the age of 55.

AGE

ALL AGES

While a *collaborative* culture is important across all ages, 74% of respondents over age 55 identified it as a key behavior, compared to 57% under 35.

UNDER 26

Respondents under age 26 were the only group to identify *communication style* as the top driver of organizational culture.

26–35 AND OVER 55

Mission/vision/values has significant importance to the group of respondents ages 26–35 and those over 55, but no other groups identified this as a top-four culture driver.

Across all age groups, *innovation* and cross-border *collaboration* (powered by technology) are seen as critical behaviors for high-performing cultures (see Exhibit 8).

EXHIBIT 8

TOP BEHAVIORS OF HIGH-PERFORMING CULTURES BY AGE GROUP				
Under 25	Innovative	Empowered	Collaborative	Team-Oriented
26-35	Collaborative	Strategic Long Term-Focused	Empowered	Transparent
36-45	Collaborative	Transparent	Innovative	Strategic Long Term-Focused
46-55	Collaborative	Innovative	Strategic Long Term-Focused	Empowered
Over 55	Collaborative	Innovative	Performance-Driven	Strategic Long Term-Focused

To address the shift in demographics, the challenges of the new gig economy and the advent of the Fourth Industrial Revolution, acquisitive business leaders in particular will be required to answer key questions as they evaluate targets:

> **CAN THIS** acquisition help us build mindshare and new leadership capabilities that will allow us to differentiate the business from the competitive set?
>
> **WHICH TECHNOLOGIES** can we invest in to deliver sustainable productivity gains?
>
> **HOW CAN** we engage the workforce to embrace and drive change?

INDUSTRY VIEW

The industry perspectives in this section reflect the nature of the business, the market, economic trends and the needs of the people within these organizations. For instance, environmental risk, cybersecurity, and regulatory requirements are just a few of the diverse management and operational priorities that are top of mind in the energy, technology and healthcare sectors.

Respondents consistently value *collaborative* as one of the top five behaviors in high-performing cultures. While behaviors are valued differently, inconsistent *risk management* practices are identified as a common driver of failure in M&A transactions across all industries (see tables on pages 35-37).

CONSUMER

TOP BEHAVIORS OF HIGH-PERFORMING CULTURES

- Collaborative 61%
- Performance-Driven........................56%
- Innovative..................................54%
- Strategic Long Term-Focused 46%

TOP CULTURE DRIVERS FOR DEAL SUCCESS

- How Leaders Behave 71%
- Governance and Decision-Making..58%
- Communication Style 48%
- Role of Innovation.......................39%

ENERGY

TOP BEHAVIORS OF HIGH-PERFORMING CULTURES

- Collaborative 72%
- Empowered 61%
- Strategic Long Term-Focused 58%
- Performance-Driven 49%

TOP CULTURE DRIVERS FOR DEAL SUCCESS

- How Leaders Behave 76%
- Governance and Decision-Making.. 67%
- Communication Style 51%
- Working Environment 39%

FINANCIAL SERVICES

TOP BEHAVIORS OF HIGH-PERFORMING CULTURES

- Collaborative 63%
- Transparent 58%
- Strategic Long Term-Focused 52%
- Empowered 50%

TOP CULTURE DRIVERS FOR DEAL SUCCESS

- Governance and Decision-Making.. 65%
- How Leaders Behave 58%
- Communication Style 42%
- Working Style 42%

HEALTHCARE

TOP BEHAVIORS OF HIGH-PERFORMING CULTURES

- Collaborative 69%
- Innovative 63%
- Strategic Long Term-Focused 46%
- Performance-Driven 46%

TOP CULTURE DRIVERS FOR DEAL SUCCESS

- How Leaders Behave 70%
- Governance and Decision-Making.. 66%
- Communication Style 55%
- Systems, Processes and Policies 47%

INSURANCE

TOP BEHAVIORS OF HIGH-PERFORMING CULTURES

- Innovative 64%
- Collaborative 60%
- Empowered 49%
- Team-Oriented 47%

TOP CULTURE DRIVERS FOR DEAL SUCCESS

- How Leaders Behave 62%
- Governance and Decision-Making.. 55%
- Communication Style 48%
- Role of Innovation 38%

MANUFACTURING

TOP BEHAVIORS OF HIGH-PERFORMING CULTURES

- Collaborative 68%
- Strategic Long Term-Focused 55%
- Performance-Driven 55%
- Innovative 55%

TOP CULTURE DRIVERS FOR DEAL SUCCESS

- How Leaders Behave 81%
- Communication Style 64%
- Governance and Decision-Making.. 63%
- Mission/Vision/Values.................. 41%

PROFESSIONAL SERVICES

TOP BEHAVIORS OF HIGH-PERFORMING CULTURES

- Transparent 60%
- Collaborative 59%
- Empowered 55%
- Innovative 55%

TOP CULTURE DRIVERS FOR DEAL SUCCESS

- How Leaders Behave 71%
- Governance and Decision-Making..53%
- Communication Style 51%
- Working Style 41%

RETAIL

TOP BEHAVIORS OF HIGH-PERFORMING CULTURES

- Collaborative 67%
- Innovative 59%
- Strategic Long Term-Focused 52%
- Transparent 48%

TOP CULTURE DRIVERS FOR DEAL SUCCESS

- How Leaders Behave 56%
- Role of Innovation 44%
- Governance and Decision-Making..44%
- Working Style 39%

SERVICES

TOP BEHAVIORS OF HIGH-PERFORMING CULTURES

- Transparent 59%
- Collaborative 56%
- Strategic Long Term-Focused.........54%
- Empowered 52%

TOP CULTURE DRIVERS FOR DEAL SUCCESS

- How Leaders Behave 72%
- Governance and Decision-Making.. 67%
- Communication Style 51%
- Systems, Processes and Policies 36%

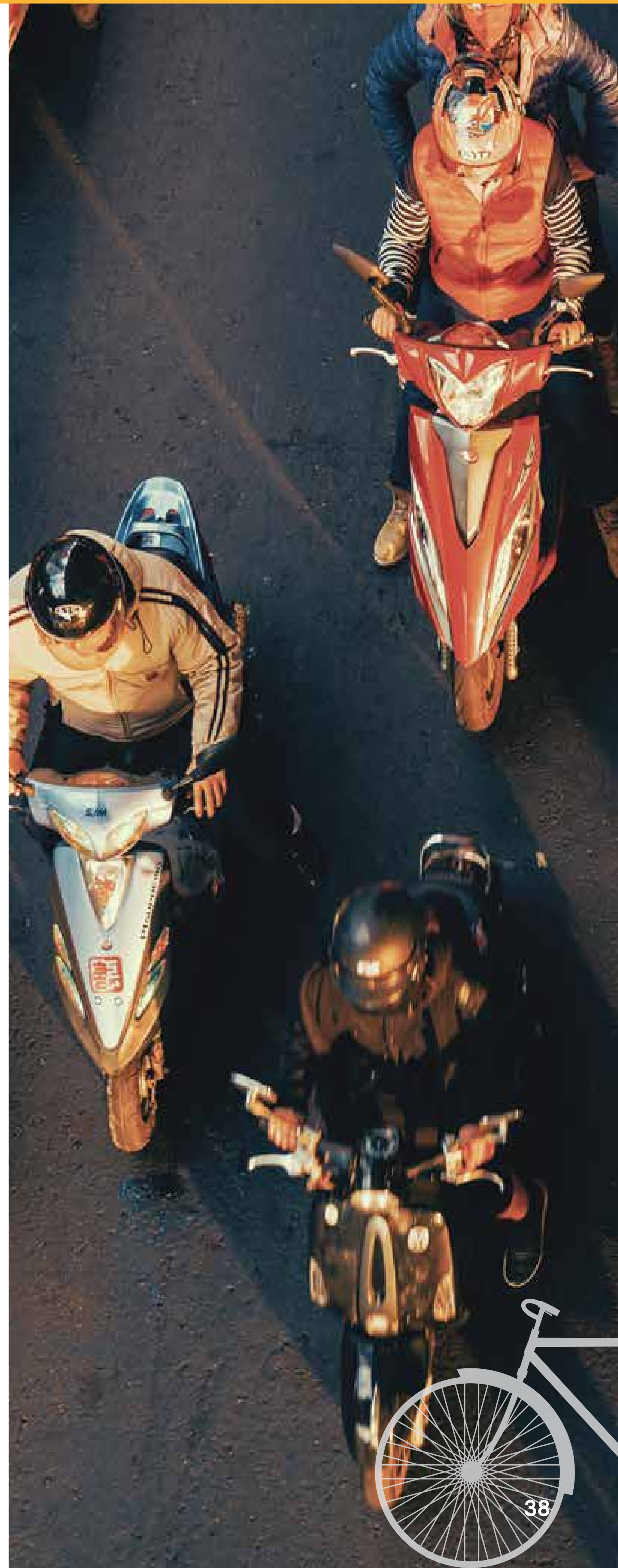
TECHNOLOGY

TOP BEHAVIORS OF HIGH-PERFORMING CULTURES

- Collaborative 66%
- Innovative 61%
- Empowered 55%
- Strategic Long Term-Focused.........53%

TOP CULTURE DRIVERS FOR DEAL SUCCESS

- How Leaders Behave 59%
- Communication Style 53%
- Governance and Decision-Making.. 47%
- Working Style 39%

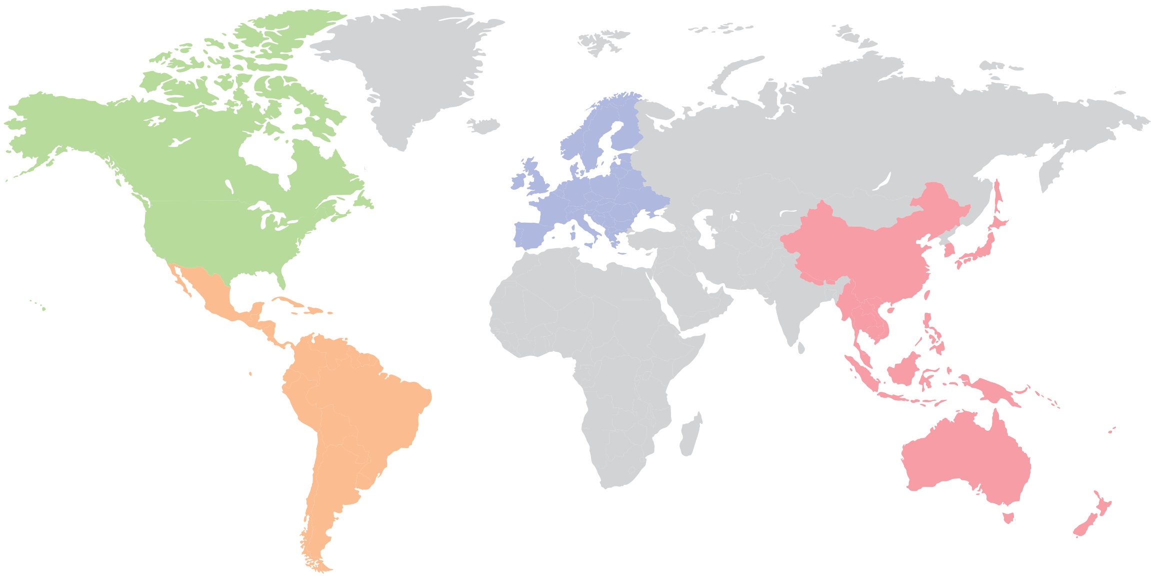


FINANCIAL SERVICES participants identified *governance* and *decision-making* (65%) as a top culture driver of deal success, higher than participants in any other industry. Latin America financial services participants value these two behaviors more than financial services participants from other regions (91% vs. 65%). *How leaders behave* was ranked 58% for driving success in a transaction, but 73% for undermining the success of a transaction.

Thirty-eight percent of respondents noted that *risk tolerance (appetite to accelerate change during a deal)* derailed or undermined a deal, while only 26% noted it as an important driver of transactional success. This gap is especially significant for the **CONSUMER** industry, in which 60% of deals derail or fail as a result of *risk tolerance,* while only 30% of all respondents think of it as a factor for transactional success.

Timely decision-making is viewed as critical to deal success in some industries more than in others. Eighty-eight percent of respondents in the **ENERGY** sector indicate *governance* and *decision-making* processes are key factors that derail transactions, compared to 59% in other industries.

INSURANCE industry participants were the only group to identify *innovation* as the top behavior in a high-performing culture. Insurance companies are increasingly embracing the move towards digitization to compete with agile, incumbent players that are adopting new technologies (AI and machine learning) to influence customer services, distribution and other key business processes.



REGION VIEW

With this regional and country data, leaders can begin to better understand and anticipate the impact national characteristics have on organizational behaviors and the drivers necessary to shape and change them. Similar to our global results, *leadership behavior*, *governance* and *communication style* are top components of an organization's culture, but there are some key differences.

ASIA: *Systems, processes and policies* are seen as nearly twice as important in driving deal success as they are in shaping culture day to day. *Governance* shifts drastically from being the fourth driver of day-to-day behavior to being the most critical driver of culture in driving deal success.

EUROPE: Only 22% of participants noted that *systems, processes and policies* are critical to driving deal value, yet 41% state that these are a top driver for undermining or derailing the success of a transaction.

LATIN AMERICA: *Rewards and recognition* are a top driver for successful organizational culture in Latin America, according to 38% of respondents, but are less likely to destroy deal value compared to *how leaders behave, governance, communication style and systems*.

NORTH AMERICA: Forty-two percent of respondents identified *systems, processes and policies* as critical in driving deal success, which is drastically higher than the 22% of respondents who believe these factors shape culture. This heightened focus requires companies involved in transactions to ensure they have the right systems and processes in place to capture the deal value.

IMETA: Fifty-eight percent of IMETA (India, Middle East, Turkey and Africa) respondents believe the most important driver of organizational culture is leaders' behavior, which is slightly below the global average of 61%. In terms of behaviors, 63% of IMETA respondents say *collaboration* drives high performing culture.

ASIA (EXCEPT JAPAN)

TOP BEHAVIORS OF HIGH-PERFORMING CULTURES

- Collaborative 67%
- Empowered 63%
- Performance-Driven.................. 52%
- Strategic Long Term-Focused.... 48%

TOP CULTURE DRIVERS FOR DEAL SUCCESS

- Governance and Decision-Making 63%
- How Leaders Behave 59%
- Systems, Processes and Policies 48%
- Communication Style 41%

EUROPE

TOP BEHAVIORS OF HIGH-PERFORMING CULTURES

- Empowered 59%
- Collaborative 59%
- Strategic Long Term-Focused.... 52%
- Transparent 52%

TOP CULTURE DRIVERS FOR DEAL SUCCESS

- How Leaders Behave 76%
- Communication Style 66%
- Governance and Decision-Making 60%
- Working Style.. 38%

LATIN AMERICA

TOP BEHAVIORS OF HIGH-PERFORMING CULTURES

- Collaborative 65%
- Transparent 59%
- Innovative 59%
- Strategic Long Term-Focused.... 58%

TOP CULTURE DRIVERS FOR DEAL SUCCESS

- How Leaders Behave 74%
- Governance and Decision-Making 50%
- Working Environment.............................. 44%
- Rewards and Recognition 38%

NORTH AMERICA

TOP BEHAVIORS OF HIGH-PERFORMING CULTURES

- Collaborative 69%
- Innovative 54%
- Performance-Driven.................. 53%
- Strategic Long Term-Focused.... 49%

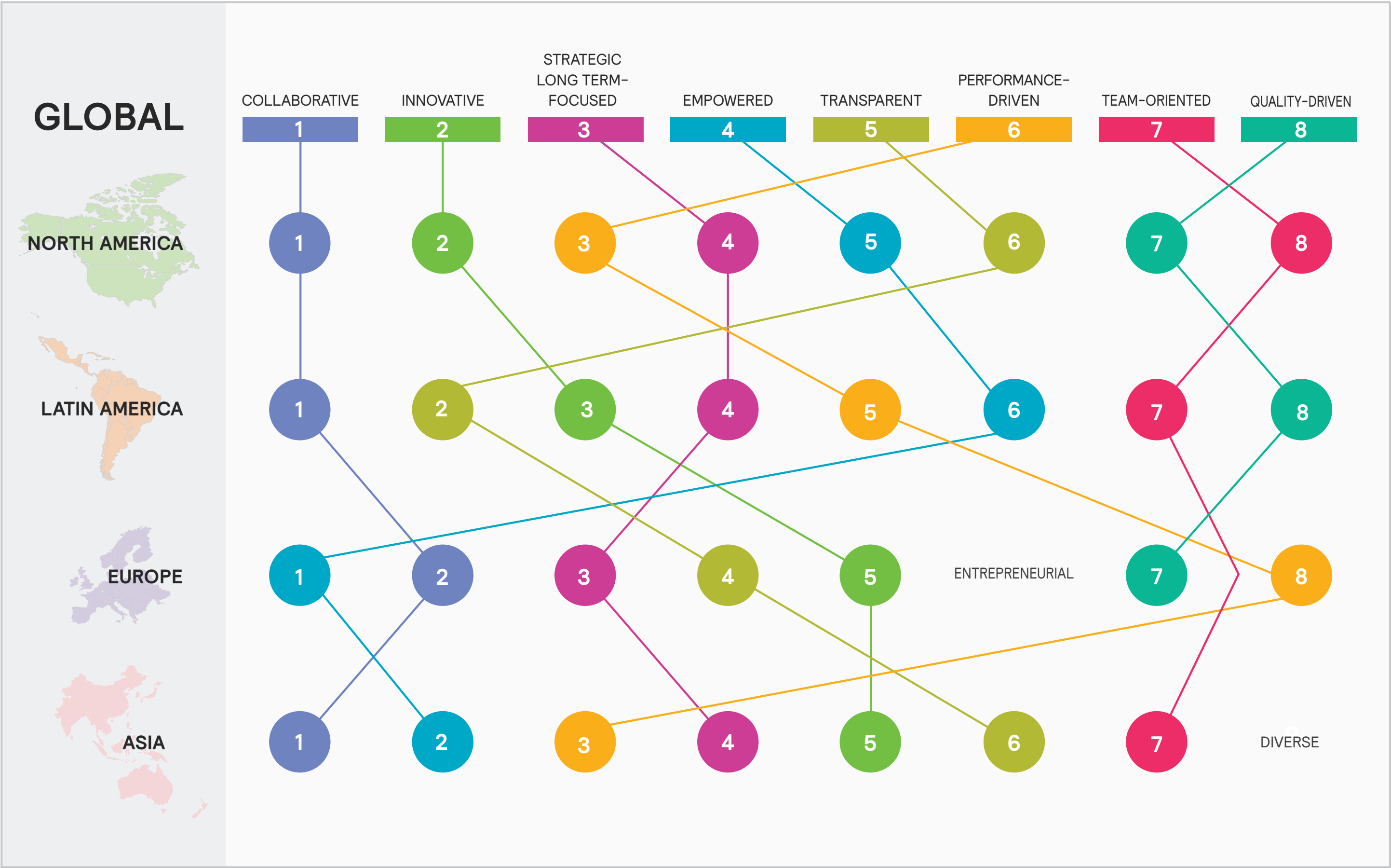
TOP CULTURE DRIVERS FOR DEAL SUCCESS

- How Leaders Behave 64%
- Governance and Decision-Making 59%
- Communication Style 54%
- Systems, Processes and Policies 42%

BEHAVIORS FOR A HIGH-PERFORMING CULTURE — REGIONAL VIEW

Participants identified the critical behaviors or attributes of a high-performing organizational culture. As seen in Exhibit 9, there were consistencies in the findings, but the nuances across stakeholder groups, industries, countries, and regions are important for business leaders and transaction advisors to understand in order to drive deal success.

EXHIBIT 9



Note: Entrepreneurial and *diverse* are not in a circle because they are not in the global top ten behaviors.

WHY BICYCLES? Wherever in the world you are, you're not far from a bicycle. Bicycles are a reliable way to get people from one point to the next. They can be a personal passion or simply a mode of transportation.

For some, bicycles are critical to their success or livelihood. Even though technology has brought us into an era when driverless cars are viable and we can work from virtually anywhere, the bicycle remains a constant.

CONSISTENT, POWERFUL AND EMPOWERING. SPANNING DEMOGRAPHICS AND GEOGRAPHIES.

COUNTRY VIEW

TOP BEHAVIORS OF HIGH-PERFORMING CULTURES	TOP CULTURE DRIVERS THAT DERAIL AND UNDERMINE DEAL SUCCESS
BRAZIL	
• Transparent ... 82%	• How Leaders Behave ... 66%
• Strategic Long Term-Focused ... 70%	• Systems, Processes and Policies ... 55%
• Collaborative ... 67%	• Governance and Decision-Making ... 48%
• Innovative ... 61%	• Communication Style ... 48%
CANADA	
• Collaborative ... 65%	• How Leaders Behave ... 83%
• Innovative ... 62%	• Communication Style ... 63%
• Empowered ... 56%	• Governance and Decision-Making ... 57%
• Strategic Long Term-Focused .. 48%	• Risk Tolerance and Management ... 46%
FRANCE	
• Collaborative ... 90%	• How Leaders Behave ... 87%
• Empowered ... 70%	• Governance and Decision-Making ... 73%
• Entrepreneurial ... 50%	• Systems, Processes and Policies ... 60%
• Strategic Long Term-Focused .. 50%	• Organizational Structure ... 53%
GERMANY	
• Transparent ... 67%	• How Leaders Behave ... 72%
• Innovative ... 58%	• Governance and Decision-Making ... 50%
• Empowered ... 54%	• Working Style ... 50%
• Collaborative ... 54%	• Risk Tolerance and Management ... 39%
MEXICO	
• Strategic Long Term-Focused ... 67%	• Communication Style ... 65%
• Performance-Driven ... 63%	• Governance and Decision-Making ... 61%
• Collaborative ... 60%	• How Leaders Behave ... 61%
• Innovative ... 57%	• Pace of Business ... 39%
UNITED KINGDOM	
• Collaborative ... 71%	• How Leaders Behave ... 85%
• Empowered ... 58%	• Governance and Decision-Making ... 64%
• Innovative ... 50%	• Communication Style ... 51%
• Strategic Long Term-Focused .. 48%	• Systems, Processes and Policies ... 41%
UNITED STATES	
• Collaborative ... 67%	• How Leaders Behave ... 78%
• Innovative ... 54%	• Governance and Decision-Making ... 58%
• Performance-Driven ... 51%	• Communication Style ... 55%
• Strategic Long Term-Focused .. 50%	• Systems/Practices/Policies ... 46%

The feedback collected from Japan participants generated the most material differences across the data sets. In shaping culture day to day, Japan ranks *organizational structure* (51% vs. 25% globally) and *governance* (75% vs. 53% globally) as critical components of successful organizational culture. *Working environment* is undervalued in Japan (14% vs. 46% globally).

Interestingly, 90% of respondents across all geographies would consider leaving a job because of a bad culture fit — but this is true for only 66% of Japan participants. It is consistent with the additional data point that only 55% of Japan respondents, compared to 81% globally, feel it is important for personal values and employer values to align.

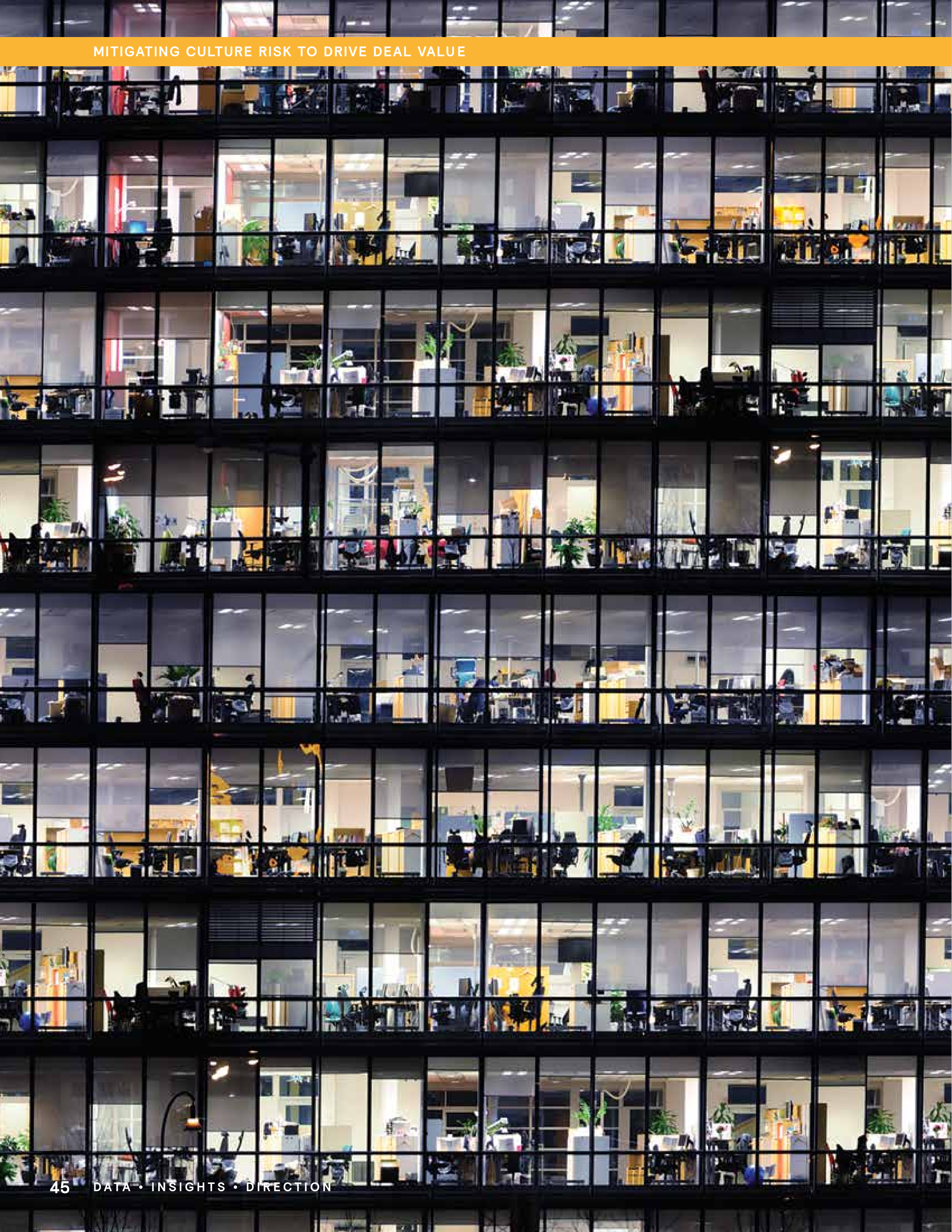
JAPAN

TOP DRIVERS OF ORGANIZATIONAL CULTURE

Strategic Long Term-Focused	66%
Empowered	63%
Diverse	57%
Transparent	51%

TOP CULTURE DRIVERS FOR DEAL SUCCESS

How Leaders Behave	91%
Governance and Decision-Making	79%
Communication Style	59%
Mission/Vision/Values	50%



THE FUTURE OF WORK?

"We no longer live and work in the same way we used to 10 years ago, yet in 2018, many businesses still don't have cultures that meet the basic needs or expectations of a modern employee."[6]

CONCLUSION

Let’s be honest — perhaps more than anything else, senior management stumbles over cultural issues in M&A.[7]

Getting a board excited about the acquisition of a competitor, executing on diligence and lining up lenders are frankly much easier assignments for a CEO. While leaders intuitively know culture influences employee engagement and ultimately drives business outcomes in M&A, they rarely know which levers to pull to mitigate downside risk or create meaningful change and results.

Significantly, over 550 of the research participants (from 47 countries) felt compelled to write in a response and identify their perceived top leadership opportunity to create stronger cultural alignment in M&A and engage the workforce (see Exhibit 10).

EXHIBIT 10

TOP LEADERSHIP OPPORTUNITIES IN M&A TO ENGAGE THE WORKFORCE

1. Transparent and frequent communications regarding the business environment, senior leadership decision-making and business targets/results post-close
2. What leaders say versus how they behave and act during integration
3. Fostering an environment of collaboration and teamwork
4. Driving a performance-based culture, including setting realistic targets and specifically rewarding individual performance
5. Assigning clear decision-making rights, reducing bureaucracy and empowering individuals closest to the customer to make decisions

These are tangible operational tactics for leaders to embrace, prioritize and leverage to impact behavioral change in M&A.

> "The reputational risks of #MeToo...are sparking a whole new examination of corporate and organizational culture."[8]

Most mergers bring out the worst features of tribalism. When one group sees the behaviors, symbols and systems of the other, they judge these features according to their own value set.[9]

We see a pattern emerging, however, in today's competitive M&A markets.

Select business leaders are prioritizing culture during diligence and integration, leveraging a disciplined, analytical and practical approach. As a result, those same leaders are better positioned to identify realistic synergies between the two companies and the best timing for integration into the acquiring company.

If culture is left to chance, it can absorb precious energy and put the hand brake on the new organization's ability to achieve its purpose and strategic goals. But if led and managed well, culture is the rocket fuel for delivering value to stakeholders.[10]

Don't be fooled. There is a proven path to mitigating culture risk in M&A.

As a buyer, you can position your senior leadership and deal teams to better understand the financial risk embedded in cultural misalignment of a target by adopting the principles shown in Exhibit 11.

EXHIBIT 11

LEADERSHIP PRINCIPLES FOR ADDRESSING CULTURE IN M&A

Recognize cultural misalignment as an operational and reputational risk.

Set and communicate a clear deal thesis, complete with intended operating competencies and talent gaps to be acquired from the target, with all stakeholders involved in your diligence process.

Insist on cultural diligence when you are in exclusives with a seller, including "one on one" time with senior target management who are aware of the potential transaction.

Document and quantify target operating red flags and inconsistencies (say vs. do), pricing them into the deal.

Exhibit a willingness to walk away from cultural deal breakers, as you would from financial irregularities.

> "I used to believe that culture was 'soft' and had little bearing on our bottom line. What I believe today is that our culture has everything to do with our bottom line, now and into the future."[11]

"Deals do not fail because of cultural misalignment; people fail because of cultural misalignment."

– Global HR Director, US-based technology company, 10K employees, $5B revenue

ABOUT MERCER'S M&A TRANSACTION SERVICES

Mercer's M&A Transaction Services is the pre-eminent global advisor on people issues.

We help buyers and sellers in corporate and private equity transactions mitigate people risks and manage the complex organizational challenges that arise from all types of transactions.

Mercer delivers advice and technology-driven solutions that help organizations meet the health, wealth and career needs of a changing workforce. Mercer's more than 23,000 employees are based in 44 countries, and the firm operates in over 130 countries. Mercer is a wholly owned subsidiary of **Marsh & McLennan Companies** (NYSE: MMC), the leading global professional services firm in the areas of risk, strategy and people. With nearly 65,000 colleagues and annual revenue over $14 billion, through its market-leading companies including **Marsh**, **Guy Carpenter** and **Oliver Wyman**, Marsh & McLennan helps clients navigate an increasingly dynamic and complex environment.

Other Reports Available from Mercer's M&A Readiness Research™ Series

Mitigating Culture Risk to Drive Deal Value joins ***People Risks in M&A Transactions*** and ***Flight Risk in M&A*** as the third in a series of M&A Readiness Research™ reports from Mercer that analyze and recommend best practices in people-related deal issues. To learn more, please visit **www.mercer.com/ma**.

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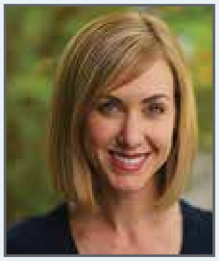
ABOUT THE AUTHORS

Jeff Cox

Jeff Cox is Mercer's Global M&A Transaction Services Leader. He has more than 25 years of experience developing and executing business and HR strategy. Jeff has worked on over 750 M&A transactions, advising private equity and strategic buyers/sellers on a wide range of people issues. He has particular expertise in cross-border transactions, change and human capital strategy.



Amy Kawabori

Amy Kawabori is a Principal in Mercer's M&A Change Management Services business based in Seattle. She specializes in organizational transformation and culture change. Amy is responsible for the development and execution of large-scale change strategies resulting from M&A and business unit restructuring.

Brent Heslop

Brent Heslop is a Partner and an acknowledged global leader in business transformation. Over a career of more than 25 years, Brent has worked in both consulting and corporate leadership roles across a number of industries to develop, design, and implement organizational structure and change critical to driving sustained performance, including numerous M&A transactions.

Carly McCoy

Carly McCoy is Mercer's Director of M&A Culture Research. She is also a Principal in the M&A Transaction Services business based in New York. Over her seven-year career with Marsh & McLennan Companies and Mercer, Carly has worked on projects in over 40 countries, and she has particular expertise in culture, change, employee engagement, and diversity and inclusion.

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John Koob
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KEY CONTACTS

Jeff Black
North American M&A Transaction Services Leader
+1 312 917 0543
jeff.black@mercer.com

Thomas Bouchez
Central and Eastern Europe M&A Transaction Services Leader
+49 69 689778 477
thomas.bouchez@mercer.com

Jeff Chernosky
US Private Equity M&A Transaction Services Leader
+1 212 345 7990
jeff.chernosky@mercer.com

Jeff Cox
Global M&A Transaction Services Leader
+1 312 917 0592
jeff.cox@mercer.com

Konrad F. Deiters
Euro Pac M&A Transaction Services Leader
+49 (0) 89 24268 453
konrad.deiters@mercer.com

Jean-Luc Durrieu
France and Southern Europe M&A Transaction Services Leader
+331 55 21 35 27
jean-luc.durrieu@mercer.com

Stan Feng
China M&A Transaction Services Leader
+86 (10) 65334316
stan.feng@mercer.com

Alexandra Hadley
UK M&A Engagement Manager
+44 (0) 20 7178 3298
alexandra.hadley@mercer.com

Douglas Johnson
FSA, FCIA
Canada M&A Transaction Services Leader
+1 416 868 2213
douglas.johnson@mercer.com

Dhruv Mehra
South and East Asia M&A and Multinational Client Group Leader
+65 6398 2592
dhruv.mehra@mercer.com

Daniel Nadborny
Latin America M&A and Multinational Client Group Leader
+54 (11) 4000 0914
daniel.nadborny@mercer.com

Jin Seok Park
Korea M&A and Multinational Client Group Leader
+822 3404 8300
jin.seok.park@mercer.com

Sunil Rana
IMETA M&A and Multinational Client Group Leader
+971 506577981
sunil.rana@mercer.com

Keiko Shimada
Japan M&A and Multinational Client Group Leader
+81 (3) 5354 1493
keiko.shimada@mercer.com

For further information, please contact your local Mercer office or visit our website at www.mercer.com.

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