

A classical painting depicting a conqueror on a white horse, surrounded by soldiers and a woman in a blue dress. The scene is set against a dramatic, cloudy sky. The conqueror is the central figure, wearing a crown and a red cape, holding a spear. He is surrounded by soldiers in armor, some on horseback, and a woman in a blue dress who appears to be in a state of distress or pleading. The overall composition is dynamic and detailed, with strong contrasts of light and shadow.

A new generation of mergers and acquisitions

FROM CONQUERORS AND CONQUERED TO A NEW PARADIGM

OLIVIA

Introduction

Like any crisis, the pandemic created a favorable context for companies looking to expand their market footprint. It disrupted global value chains, leaving behind a changed and vulnerable landscape. And this profoundly affected the entire field of **mergers and acquisitions**.

Let's do a quick recap. At the beginning of last year, mergers and acquisitions slowed to a relative standstill. By June 2020, the number of deals in the US market had dropped by 50%, according to a Bloomberg report. Four months later, however, mergers had grown 400%, in terms of value, and 38%, in terms of deals. And by December, their total value was 3.5 billion — just 6% below 2019 levels. Now halfway through 2021, activity is nearly back to pre-pandemic standards. And for 2022, analysts are actually **predicting historical peaks**.

When the pandemic began, most strategy consultants were telling investment funds and large companies to focus on liquidity and savings. Which is why, 18 months later, there is both liquidity and willingness — at least among those strengthened by the crisis — to consolidate categories, markets, and geographies. “The way out of this crisis is clearly through mergers and acquisitions. You can tell there’s rising interest based on the conversations we’re having with CEOs and Boards of Directors. They want to take advantage of the current moment to strengthen their strategic position post-Covid,” said Alison Hardin-Jones, in charge of Citigroup’s Mergers & Acquisitions department for Europe, Middle East, and Africa, at the beginning of 2021. “Leaders have realized they need to consolidate their operations and future-proof their businesses to be better equipped and more resilient,” she continued. The market’s reactivation has shined a light on companies weakened by the pandemic. Their acquisition can offer both strategic and competitive advantages. Companies may be desirable due to their market share, infrastructure, or talent. And after 2020, there is

particular interest in technological know-how and vertical acquisitions, as is happening in the Health industry. There have likewise been important mergers in the banking sector, as seen in Spain, with the union of Caixa and Bankia or the failed merger between BBVA and Sabadell Bank.

However, the transformative nature of the pandemic means such business fusions face an important challenge, one they may have underestimated before: cultural integration. In a market as malleable and uncertain as this one, the success or failure of a merger may depend on how this challenge is tackled.

Cultural integration has always been a decisive factor in reaping the potential benefits of a merger — or suffering its failure. One of the best examples of integration is the 2006 union between Pixar, the company co-founded by Steve Jobs, and Disney, then under the leadership of Bob Iger. Conversely, one of the most astounding failures in merger history was the “dream union” between the German auto company Daimler Benz and its American counterpart Chrysler in 1998.

The importance of understanding — and attending to — the challenge of cultural integration has grown during the past year. Work dynamics are changing, talent and consumers are moving at a rapid rate, and clients have been empowered by their pandemic-driven use of technology. In this content, the value of a cohesive culture is clearer than ever. Companies will need it to navigate the turbulent waters of a modern economy undergoing one of its most profound transformations in history.

That is why we have prepared this report. Our objective is this: to characterize archetypal behaviors and patterns that might allow us to understand, from a fresh and unique perspective, the mental models of those who acquire — and are acquired — in business fusions. We want to provide a compact view of the situation, identifying areas for improvement and the ubiquitous threats that can weaken or strengthen cultural integration in a merger or acquisition.

How we carried out the work

Our case studies are derived from the mergers and acquisitions we've had the privilege to witness up close through our work at Olivia. We've also collected first-hand accounts from the executives involved in these fusions. For reasons of confidentiality, we're representing these experiences through five historical figures or eras that reveal the best and worst of cultural unions. We should note that the following is meant as an invitation to rethink the process of mergers and acquisitions. It is not intended as a rigorous scientific or historical study. It only means to visualize the opportunities and challenges that lie ahead for a practice that, in the coming years, will be top-of-mind for our organizations.

We hope our work can be of use.

LAYING THE GROUNDWORK

When approaching the topic of cultural integration in mergers and acquisitions, there are certain key concepts that must be taken into account – both regarding the buyer and the organization being acquired. The challenge is to recognize these concepts and leverage them through a tool as common as it is complex: organizational mindset.

The context: organizational tensions

The objective of any merger or acquisition is shaped by two motivating factors:



The acquisition of value:

Through this process, we pinpoint the reason behind the merger or acquisition – and give it concrete value. The spark that sets this process in motion varies in each case. We may be seeking greater market share or looking to expand into a new client segment. Perhaps we want more vertical or horizontal integration for up-selling or cross-selling. Or maybe we wish to incorporate cutting-edge technology or best practices.



Synergies:

In most situations, the acquisition of value coincides with structural overlapping and role duplication, as certain positions become unnecessary in the new, consolidated company. Usually, this allows the merged parties to combine their strengths. However, this may require structural reductions – which are the main obstacle when it comes to mobilizing our collaborators. They may be afraid of losing their jobs, their influence, or their career paths.

Both the acquisition of value and the enabling of synergies are possible thanks to human talent. For example: taking advantage of the synergies enabled by a merger requires a precise analysis that identifies which areas have potential for growth and which are redundant. This means drafting a plan that shows us exactly what we need in order to become a truly unified company. In doing so, we may find that, while some roles have disappeared, others have suddenly become newly necessary. **For the company to survive, leaders and executives must be more attuned to opportunities than to threats – and act accordingly as quickly as possible.**

Nevertheless, even in modern times, mergers and acquisitions tend to be carried out with little transparency. And more worryingly, they usually include few conversations with collaborators.

This lack of clarity, predictability, and communication leads to paralysis within both companies, the one acquired and the one that did the acquiring. The result? Resistance and conflict, which could have been avoided to facilitate a successful merger.

The catalyst: our mindset

When it comes to organizational tensions, the mindset of the merging companies really makes a difference. **Indeed, their mindset becomes the catalyst for the merger or acquisition.** It can turn the operation into either an epic battle or a passionate endeavor, the likes of which both companies have rarely ever faced.

Whether a merger or acquisition ends up being a battle or a passionate endeavor is determined by three factors:

- [1]** The capacity to identify opportunities rather than threats.
- [2]** How much the merger or acquisition impinges upon the comfort zones of those involved.
- [3]** The acceptance of initial uncertainty (which, after living through the pandemic, may come more naturally to everyone)

The mindset, then, is the starting point of a merger or acquisition, setting the tone for the entire process. It is what allows for – or halts – the acquisition of value and its synergies.

HISTORICAL INSIGHTS

History, as always, can be a useful tool for analysis. It can show us how our mindset can lead a merger or acquisition all the way to its successful or disastrous conclusion. The challenge of such operations, after all, involves the forced coming together of two groups of human beings. Keeping this in mind, we can review historical examples of countries, societies, and cultures experiencing such unions. And the common denominator of these examples is, of course, conquest.

Historically, conquest is the process by which one society seeks to impose itself upon – and appropriate the resources of – another society. It should be noted that there are different kinds of conquests, of different intensities. However, the mindset of a conquest has always served as a reference point for mergers and acquisitions. Indeed, in most cases, the process has been characterized as a power play, with a conqueror and a conquered party. This has been true despite public declarations to the contrary. (Recall how Jürgen Schrempp, CEO of Daimler Benz, likened the merger with Chrysler to a “marriage made in heaven.”)

The following analysis, then, can serve as a new way to visualize the traditional mindset behind mergers and acquisitions. Our goal is to gain insights that might allow us to change this common dynamic between “conquerors” and “the conquered” – and inspire effective, sustainable unions between organizational cultures.



CONQUERORS

History teaches us that, for someone to possess the mentality of a conqueror they must believe there is someone who can be conquered. This is a limited mindset, which does not take advantage of the opportunities a union opens up for the conqueror. To change this point of view requires leadership focused on abundance, generosity, and humility. Leadership that can discover the nuances, models, and experiences that can reinforce the buyer's consolidated position. Looking at this process from a broad perspective allows us to find new ways to think about the idea of conquests, as reflected in the examples (both good and bad) of Alexander the Great, the Pax Romana, and Genghis Khan.

Alexander The Great / The integrationist



HISTORICAL CONTEXT

356 – 323 BC: He conquered regions of Macedonia, Greece, Egypt, Persia, and the Media region. He founded 70 cities, among them Alexandria.

CHARACTERISTICS

- **Objective:** He sought to unify his empire's diversity through culture. He justified his territorial conquests by arguing in favor of integration, unifying the cultures of the people he conquered.
- **Method:** He developed the model of "fusion politics." He integrated his new subjects into the state's most important institutions, such as the army. He also encouraged marriages of state in order to build alliances between conquerors and the conquered, exchanging gifts and brides. This served to grow his sphere of influence in the long term, beyond short term territorial gains without enduring cultural or social impact.

ORGANIZATIONAL CONSEQUENCES FOR M&A

- Integrates the practices of both conquerors and conquered to strengthen the culture of both.
- Focuses on strategic alliances to take advantage of acquired talent, leveraging opportunities opened up by the integrative process.
- Allows for a comprehensive view of the consolidated empire.

Pax Romana / The Supremacists



HISTORICAL CONTEXT

27 BC – 180 AC: The Pax Romana means "Roman Peace" in Latin. It refers to a long period of stability enjoyed by the Roman Empire, marked by external security and internal tranquility. This allowed the Empire to maximize its economic development and territorial expansion.

CHARACTERISTICS

- **Objective:** The Empire demanded absolute submission from its new subjects. Its only goal was to sustain social peace.
- **Method:** Forced economic and legislative integration through violent conquest. The Empire established and sustained itself by stimulating strife between its constituent parts, in keeping with the motto, "Divide and Conquer."

ORGANIZATIONAL CONSEQUENCES FOR M&A

- Leads to short-term control and long-term damage (to the collaborator/organization relationship)
- Encourages a culture of fear and of avoiding punishment. (Mistakes are covered up, opinions aren't shared, and ideas are never freely exchanged.)
- Sets up a reactive (rather than proactive) leadership model.
- Limits how much value the acquired party can generate. Eventually destroys any value gained in the acquisition.
- Promotes submissive (rather than proactive) leaders.
- The conquered culture tends to disappear.

Gengis Kan / The nomad



HISTORICAL CONTEXT

1162 BC – 1227 AC: Led one of the bloodiest conquests in history. Nevertheless, he also unified the nomad Mongol tribes of Northern Asia, founding the first Mongol Empire, which stretched from Eastern Europe up to the Pacific Ocean through to Siberia, Mesopotamia, India, and Indochina.

CHARACTERISTICS

- **Objective:** Expand his influence through short-term territorial gains, without seeking long-term social or cultural impact.
- **Method:** Conquest through straightforward military means, with cavalries and nomad armies not looking to leave behind cultural footprints. Today, we can perceive no lasting influence of this empire, unlike the examples of Ancient Greece and Rome.

ORGANIZATIONAL CONSEQUENCES FOR M&A

- May lead to short-term profit-and-loss gains, thanks to increased market share.
- However, forgoes any attempt at long-term integration or cultural growth in the long term. No effort is made to establish a common model suited to both parties.
- Tends to undermine individual value from a people-centric perspective.
- Does not encourage a sense of commitment from the acquired party.
- Usually marked by high churn and talent flight.
- Does not take advantage of talent as a value-generation tool (which is an unforgivable mistake in the 21st century).
- Promotes submissive (rather than proactive) leaders.
- The conquered culture tends to disappear.

CONQUERED



As with conquerors, the conquered can also be ordered according to various typologies. The most representative historical cases are the Hellenic and Taliban examples. They show two ways to deal with a merger and acquisition. And the chief difference between them is the influence the conquered party exerts (or does not exert) on the merger or acquisition. That is, whether it plays a passive role, waiting for someone to determine its future, or a more active role, contributing added value to strengthen the union. In other words, the Hellenic and Taliban models reflect, from the perspective of the conquered party, how people face changes that threaten their way of life: by running away or, rather, by fighting or taking advantage of the situation.

Hellenic / The search for balance



HISTORICAL CONTEXT

323 BC – 31 AC: Transition between the decadence of Ancient Greece and the rise of Roman power, which would lead to the Empire. Development of knowledge and passing of laws and treaties.

CHARACTERISTICS

- **Objective:** Search for balance
- **Method:** Understanding the value they could contribute to the conquering organization, with confidence in their own abilities. The right mindset to recognize the opportunities hiding behind the merger.

ORGANIZATIONAL CONSEQUENCES FOR M&A

- Avoids certainties.
- Generates a new set of rules, know-how, and agreements, which serve as a foundation for survival and integration, allowing the conquered party to both learn and advertise their value.
- Spurs integration even before Day One. Leverages the virtues, strengths, and opportunities of the conquered, allowing them to achieve a better position in the consolidated organization and generate value.
- Gives the acquired party a sense of personal security and confidence, letting them be an integral part of the acquisition process and ensuring they can continue to work and demonstrate their skills, beyond the sought-after but increasingly-utopian matter of stability.
- Likely one of the smartest ways to face the prospect of being “conquered.”
- The culture of the acquired party tends to disappear.

The Taliban / Collective resistance



HISTORICAL CONTEXT

1996 – 2001: Fundamentalist movement that successfully challenged the Soviet Union and the United States, among others, through collective resistance. This typology follows the historical example of Afghan tribes. Since the time of Alexander the Great, this territory has been known as the Cemetery of Empires, where all conquerors fall.

CHARACTERISTICS

- **Objective:** Unconditional allegiance to the protection of one's own model and vision.
- **Method:** Use of own topography and geography (both hostile to outsiders) against the enemy. (In mergers and acquisitions, many conquered parties find refuge in extremely technical areas.) Explicitly self-destructive approach, the end result of which may be the annihilation of one's own country in order to preserve a fundamentalist cultural ideal and prevent defeat and conquest at the hands of the enemy.

ORGANIZATIONAL CONSEQUENCES FOR M&A

- Endangers the entire process of mergers and acquisitions. The acquired party shields itself behind opaque processes in order to resist and hinder integration into the new organization.
- Generates scenarios akin to guerrilla warfare, where survival is more important than adding value that benefits the common good.
- Leads to a constant search for hideouts. (Examples include: bureaucracies, unclear or defensive roles and job positions, intentionally delayed decision-making.)
- Promotes a culture of "stepping on others' feet" rather than one of collaboration.

CONCLUSION

From breaking up conflicts to completing the process of integration.

At Olivia, we use archetypes to approach the serious matter of mergers and acquisitions from a fresh, ludic, and disruptive perspective. To summarize what we have just reviewed, we'll present our main insights below. These are some of the main ways to deal with the cultural conflicts that emerge during mergers and acquisitions, and which our "historical" overview served to highlight.

- **EARLY DEACTIVATION**

When dealing with a large-scale integration — which exceeds 20 to 30% of the consolidated payroll and which can be characterized as a clash of conquerors and conquered — it's crucial to deactivate conflicts before Day One. This means shifting the traditional mindset, from one that pits Conquerors against the Conquered to one that fosters a shared sense of commitment towards building a new collective empire. This demands introspection and critical thought in order to identify the real strengths, as well as the collective and individual opportunities, that each party brings to the table.

- **CONSTANT SEARCH FOR MENTAL MODELS GEARED TOWARDS ABUNDANCE**

The mental models we apply during a merger and acquisition can be dynamic. That is, we can always transform and change them. (The sooner the better.) It's crucial to understand what model we're using and encourage introspection, so we can question our most deeply-rooted assumptions. As a next step, we have to carry out in-depth conversations, since mental models stretch between and across the most important players in the integration process. This will allow us to reorient the deal towards mental models that lead to greater abundance and general prosperity.

- **PREPARE BOTH PARTIES FOR DUE DILIGENCE**

The goal is for both parties to fully accept and embrace the process, with a mentality that leans towards abundance, generosity, active listening, and co-creation.

- **ESTABLISH A MINIMUM NUMBER OF CERTAINTIES**

Declarar en conjunto aquellas que serán un producto del camino Both parties must identify — and communicate — the decisions they need to make in light of the new, consolidated organization. In doing so, they will give everyone a clear outlook. For instance: they should reach out, as quickly as possible, to those collaborators who will no longer have a place at the organization. In one merger and acquisition we tackled at Olivia, we dealt with a team that was discharged from their organization on Day

One. However, they were given the chance to work on and complete an IT transition project. This meant six months of ERP, CRM, and BI migration. With this strategy, the team became their best selves and maximized their future employability, having had the necessary certainty and clarity to plan their next steps.

• **CONSTANTLY SEEK THE BALANCE BETWEEN SYNERGY AND VALUE ACQUISITION**

Those in charge of the acquisition process must continually look after both parties' agendas. In some cases, they might envision a new consolidated company that mixes the best practices of both. Leadership plays a key role in this process, either building or destroying credibility. It's not just what leaders say in public or in town halls that matters. What they do — their daily decisions and behaviors — will be scrutinized by everyone in the organization.

• **PUT PEOPLE FIRST**

Organizations cannot transform themselves. Their people add the magic touch. The old-fashioned concept of retention is no longer relevant. In order for a merger or acquisition to have a happy ending, talent must both be cared for and seduced. As simple and as complicated as that, though far from impossible.

Cultural integration has, in most mergers and acquisitions carried out during the past decades, been the weakest link — and the greatest challenge. Although there have been many successful examples of integrations that prioritized strategic and market benefits (rather than culture), just as many have floundered along the way.

Culture is a set of shared beliefs that brings people together. When two organizational cultures clash, that represents a challenge that must be tackled head-on. Not doing so leads only to conflict and missed opportunities. History offers plenty of examples of what happens in the wake of such oversights. And now the pandemic has provided yet another lesson. With our brief reflections, we hope to have kindled an interest in a culture of sustainable mergers.



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