Merger They Wrote:

by Nancy Pekala

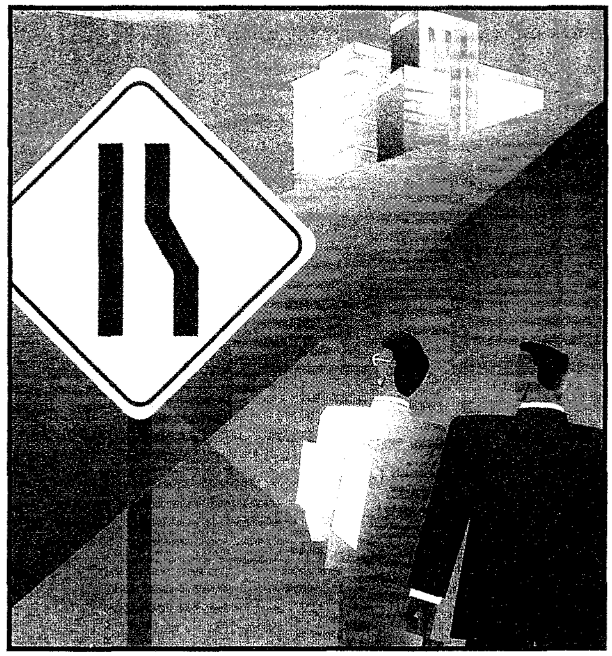
At no time is a business more at risk of causing a corporate culture collision than when it merges with another firm. The special challenges that are inherent in any business integration requires the merger partners to put on the brakes and carefully assess whether the respective corporate cultures of their firms will make for a smooth ride.

According to Mitchell Marks, a San Francisco-based organizational psychologist and merger expert and co-author of *Joining Forces: Making One Plus One Equal Three in Mergers, Acquisitions, and Alliances* (Jossey-Bass, 1998), creating one company out of two starts with an integration of the firms' corporate cultures.

Yet, Marks notes, "Cultural integration is ignored in the majority of business combinations. This is a major reason why 60 percent to 80 percent of all business combinations undergo a slow, painful demise."

It is in the pre-merger discovery process that two cultures can often collide. "All the cultural norms that employees had taken for granted—rituals for running meetings, tactics for resolving differences—are exposed and often discarded at the incoming company," Marks explained.

Too often during a merger situation corporate culture is discussed in terms of dress codes or office decor or benefits. Many companies wrongly assume that compensation programs or other benefits equate to corporate culture. They don't. Instead, merger partners need to zero in on the basic ways



that decisions get made in their companies and how differing approaches can be combined in harmony.

At the core of corporate culture is the company's mission and the values that fuel that mission. These values reveal a lot about a company and, increasingly, are what employees are most interested in. What needs to be addressed is to what extent will the most talented people from each company buy into the new vision, and does the leadership of each firm recognize who those people are?

One of the biggest misconceptions about corporate culture is that good cultures just happen—that some companies luck out. This masks the hard work and serious planning that go into tailoring a culture to the business.

As Frederick F. Reichheld, director of Boston-based management consultancy Bain & Co., noted in *CIO Enterprise Magazine*, "When smart organizations implement culture-enhancing programs, they do so with the goal of improving specific aspects of the working environment."

In *The Character of a Corporation: How Your Company's Culture Can Make or Break Your Business*, (Harper Business, 1998), Robert Goffee, co-author states that "There is no right culture. Culture is appropriate only in terms of what you are trying to do in the business."

In a merger situation, once leadership has a clear vision of what the new company's culture should be, they must be prepared to commit the resources required to nurture and sustain it. It's easy to say that your company values initiative, creativity and teamwork, but when those attributes are exhibited, how do you reward them?

Consider the case of Sam Walton, founder of Wal-Mart Stores Inc., and a recognized master of corporate culture. Years ago, impressed by the "whistle while you work" philosophy he encountered at a tennis ball factory in South Korea, Walton instituted the Wal-Mart Corporate Cheer, which now begins every morning meeting at Wal-Mart stores across the country. This none-too-subtle form of cultural reinforcement encourages enthusiasm for the company and reminds employees of the need to focus on customer satisfaction.

Transwestern: A Case Study

The importance of corporate culture did not go unnoticed by the leadership of Transwestern Commercial Services, AMO®, and Carey Winston which merged in June of 1998. Each firm had worked hard to cultivate its own vision and corporate culture. Effectively integrating both approaches into one cohesive culture would prove to be one of the key ingredients of merger success.

Interested in expanding its primarily west/southwest geographic reach to become a more dominant national firm, Transwestern focused on Carey Winston, a major Mid-Atlantic firm which possessed a strong "transactional" focus. "We were looking for merger candidates, those like-minded firms which could bring strengths we did not possess. Most importantly, we were only interested in merging with a firm which shared the same goals and vision that we had in terms of where the business was going," explained Transwestern Chairman Randall K. Rowe.

Still, for a firm such as Transwestern, which had spent 20 years growing internally by building its business around the strengths of key individuals, contemplating a merger was risky business.

Having read all the studies which warned that between 50-70 percent of all mergers fail, Transwestern was understandably concerned, explained Rowe. "But what we decided in 1997 was that the risk of not achieving scale to become the player we wanted to be was greater than the risk of undertaking the merger. It was a high-risk move but a necessary one."

He added that in researching potential merger candidates, it was essential to locate one where "one plus one equaled three." "It needed to be a situation where both sides would benefit from increased opportunities. And, we wanted to connect with a firm which geographically didn't overlap with Transwestern's current market," Rowe explained.

Aside from the solid leadership, talent, policies and procedures that Transwestern would look for in any merger partner, the presence of growth opportunities was another key ingredient. "What we wanted were growth opportunities for both firms rather than a situation in which a reduction in head count would be necessary," Rowe said.

Since Carey Winston was a Mid-Atlantic player primarily involved in the transactional side of the business, it was a good fit for Transwestern. Conversely, Transwestern was able to offer Carey Winston heritage and expertise on the institutional side of the business, a key selling point of the merger.

The Talent Factor

While engaged in the discovery process to determine whether the two firms would be a good fit, it became apparent that both shared a strong commitment to attracting and retaining quality talent. In developing an organization with established practices in place and growth opportunities, the merged firm would be in an even better position to recruit and retain top-flight personnel.

"We agreed that if we could focus on recruiting and nurturing quality talent in the long term, the short term would take care of itself," Rowe said. "We shared a number of the same beliefs about how to run a real estate firm."

Developing a strong team environment, one in which employees would have the resources, support and access to senior-level staff they needed in order to produce, was necessary to attract and retain the very best in the industry.

"We strongly believe that what makes us different is our focus on helping all of our professionals win," the Transwestern executive suggested. "We're not about being the biggest and we're not about trying to acquire all kinds of firms just to bulk up for short-term revenue gain. We're about creating the kind of environment in which the people we're trying to attract say 'Wow, these guys are different.' If we accomplish that, then it gets easier to win the business you want to win."

He added, "It's a very collaborative process. What we do for a living is heavily based on individual judgment and individual effort, but also teamwork, so you need to structure an environment in which people can thrive. The end product is a fun and challenging business."

A Good Fit

In comparing each other's philosophies and processes, the two firms found that they were much more similar than they were different. This was especially evident in the real estate firms' approach to employee compensation and incentives.

Since most of Carey Winston's business came from the transactional side, the firm believed in adhering to a schedule in which producers received increasingly larger shares of the profit they created each year. Transwestern, in fact, liked the program so well that it imported it into its own structure.

In turn, Carey Winston liked the fact that Transwestern's compensation structure allowed for every manager of every unit to share in the bottom line. With the merger, the two firms combined the best of both environments.

Business generation was another key area in which the two firms were of like minds. As Rowe noted, "Our philosophy had always been to expect every member of the team to be a business generator. Every professional needs to build additional relationships."

Additionally, he explained that Transwestern believed strongly in adopting the "player/coach" model of management. To this end, weekly meetings are conducted so that employees can share information about business relationships they have which may benefit a fellow team member.

"Not a day goes by that an e-mail doesn't go out to all of us from team members asking if someone has a relationship that could be of assistance," Rowe said. "Because we have multiple relationships, we can help that person obtain access and offer up a value proposition whether that be for a tenant, financing or repositioning opportunity."

Managing the Challenges

No merger, however, no matter how great a fit between the two firms, is without its challenges. Before pen could be put to paper, the firms spent a great deal of time identifying any differences that existed.

"Our concern was that any time you merge two large firms together, you find some individuals not totally aligned with the new leadership," Rowe admitted. "The question b comes will they stay around and be productive? When faced with a focused and high-visibility merger in which the firms share the same approach to business, chances are improved that everyone will be buying into the future together."

While for the most part employees did buy into the new vision for the company, a limited number of individuals were not comfortable with the changes. "For example, we believed very strongly in a team environment," Rowe said, "so we didn't find it acceptable when people refused to share their information, relationships or enthusiasm."

Additionally, the two firms needed to make an honest, self-assessment and determine how they wanted to expand, how they wanted to serve clients and fellow team members, and how committed they would be to lifelong learning and the firm's economic structure. "If you share all of those things and have mutual respect for each other," Rowe acknowledged, "things work out well."

Merging Opportunities

In addition to sharing the same approach to dealing with challenges that arise, the two firms found that the merger produced the added benefit of creating new areas of opportunity in which they could grow. One of these key areas was information technology. As it happened, at the time of the merger, Transwestern was rolling out a brand new IT infrastructure that Carey Winston was eager to tap into.

"Our experience has been that you need to invest in IT every single year in order to accommodate the growing demands of your client base," Rowe explained. "Anything you did three years ago is obsolete. We now approach IT investment as an annual cost of doing business."

He added, "The IT issue only becomes an issue if your leadership is not committed to using it as a productivity tool. Carey Winston was very committed and, in fact, was able to help us determine what was needed from an IT standpoint to operate the transactional side of the business."

Reciprocally, Transwestern was able to benefit from Carey Winston's facilities management client base by creating additional software capabilities for that segment of the business. In creating a better IT integration, these clients are better able to track all aspects of their relationship with the real estate firm.

Research was another important piece of the puzzle. Carey Winston offered in-depth experience with the highly regarded research firm, Delta Associates. Delta's capabilities, which include a whole spectrum of services, have expanded as a result of the merger. Today, they serve not only the Mid-Atlantic market, but a variety of locations with offices in Chicago, Los Angeles, and Dallas.

Look Before You Leap

Looking back upon the entire process, one factor that was key to the merger's success was the up-front time both firms invested to learn about each other. "For five months, there was a lot of heavy courtship on both our parts," Rowe quipped. "We spent a lot of time meeting and talking about our work environments, including our approaches to incentives and compensation, our commitment to training, and our focus on team-building."

Especially helpful in this "getting-to-know-you-process" was the development of working groups which focused on identifying and establishing those best practices and procedures that come from two companies working together.

"We basically put key individuals in a room and left them alone to figure it out," Rowe explained. "It's amazing what can happen if you have the right leadership in place. People really do take responsibility and come out with the best that each firm has to offer. That was a very positive step because it made it very clear that this was a merger where we would take the best of each firm and combine them. Additionally, it makes the leadership of both groups responsible for devising an approach that will accomplish the objectives."

From a corporate culture point of view, the Transwestern executive also

1+1 = 3: Managing Mergers

Research indicates that senior executives rate "underestimating the importance and difficulty of integrating cultures" as a major cause of integration failures. In many cases, the ingredient missing from most mergers is careful attention to the corporate culture aspects of the integration process.

Consider the following key ingredients of a successful business integration when contemplating a merger:

- **Build relationships and trust.**
  Both partners in a merger need to make efforts to reduce and eliminate any negativity from employees of the two firms that initially governs a merger and replace it with trust and commitment to shared goals.

- **Overcome cultural differences.**
  Recognize the differences in values, business goals, and overall philosophy that each player brings to the merger. Learn to utilize these differences to leverage the strength of the merged firm.

- **Communicate efficiently and frequently.**
  Understand the importance of frequent communication with employees of both firms about to be merged. Prepare detailed information packages when possible and keep employees up-to-date on the merger process. Involve employees whenever possible in this process.

- **Pay close attention to change management.**
  Identify and respond to employees' attitudes toward change. "Cure the wounded," advises Michael Mercer in ***Absolutely Fabulous Organizational Change***: help the employees "who sincerely want to help the organization improve, grow and prosper." But "shoot the dissenters"—that is, "de-employ" those who refuse to get on the bandwagon.

stressed the importance of communicating frequently. In order to obtain employees' buy-in of the merger, the company developed a detailed package of informational materials that included a summary of the merger and process as well as a discussion of the heritage that both Carey Winston and Transwestern offered.

Leadership traveled to each other's firms to meet with employees to effectively address the issue of the merger. The day following these staff meetings, task forces and meeting groups were established to get people started working with each other.

As renowned management expert Peter Drucker often says, "sooner or later all plans degenerate into work." For the newly merged firm, getting employees to begin to talk with one another was a positive step in the merger process.

"The more you can see the new vision in action, the easier it is to plug into," suggested Rowe. "There comes a point in the process where you can't just sit around and have philosophical discussions about how the merger will work; you need to get people out there doing it."

When contemplating a merger between two real estate firms, many factors come into play including both financial and social capital. Inherent in the process of comparing advantages and disadvantages of both merger partners is a careful look at the company's corporate culture.

"People don't fit neatly onto a piece of paper," Rowe cautioned. "You have to take into consideration both firms' core beliefs and value systems."

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