PRIVATE EQUITY PERFORMANCE IMPROVEMENT

Using Culture and Leadership to Drive Change in a Merger Integration

Private equity (PE) firms and serial acquirers often excel at planning the financial and operational aspects of a merger: due diligence is rigorous, cost synergies are cautiously modelled, and integration priorities as well as timelines are tightly managed. Yet, too many mergers fall short of expectations or even fail not because the financial planning was wrong, but because buyers paid too little attention to the true drivers of change – the people.

In one example, a major banking merger faced significant integration challenges as employees continued to identify with their legacy institutions (referred to as “yellow” and “green”) more than 15 years on, reflecting deep-rooted loyalties. This persistent divide highlighted the failure to fully integrate the organizational cultures, undermining collaboration and cohesion long after the legal merger was completed.

Often dismissed as “soft” factors, culture and leadership are among the most powerful drivers of merger integration success. A deal that looks excellent on paper can quickly unravel if employees resist change, if decision-making is slow or if key leaders fail to align. Conversely, a well-managed cultural and leadership integration can accelerate synergies, drive innovation and create a high-achieving organization that outperforms.

For PE firms operating under tight investment horizons, understanding and actively shaping culture remains a core component of the execution and a necessity.

Cultural Due Diligence: The Missing Piece of the Puzzle

Financial and operational due diligence are non-negotiables in any deal, but the same level of scrutiny is rarely applied to cultural fit. In fact, in most cases, leadership and culture are treated as an afterthought, discussed only when challenges emerge after the acquisition. By that point, entrenched behaviours, unspoken norms and leadership misalignment have already taken root, making it difficult to course correct.

Assessing the leadership and cultural profiles before closing a deal can be transformative in the set up for success. This should include the systematic evaluation of leadership styles, decision-making approaches, appetite for risk, communication norms, organizational and responsibility structures as well as incentive models. If one company has a highly centralized decision-making process, while the other thrives on autonomy, tensions will likely surface quickly. If one organization embraces a highly reactive mentality, while the other is deeply risk-averse, innovation can be stifled before it even begins.

At A&M, we recommend that our clients assess and evaluate the leadership and culture of each organization as a core part of planning a merger. During the confidential pre-acquisition phase, targeted interviews can be used, alongside referencing and desktop research, to build a picture of the leadership style and culture in each organization. Once a deal has been signed, a more fulsome analysis can be completed, including a wider use of interviews and surveys.

We recently worked in a situation that illustrates the impact of cultural fit assessments. A high-growth European technology company was acquiring a U.S.-based competitor. Despite similarities in business models, the integration proved to be significantly more complex than initially anticipated. A cultural assessment revealed major differences between the two businesses that extended beyond operational structures. For example, the European company valued structured decision-making, careful planning and work-life balance, while the U.S. company thrived on speed, ambitious sales growth and a fast-paced, entrepreneurial mindset. These differences created immediate tensions in collaboration, particularly in leadership alignment, internal communication and decision-making.

The challenges became evident within days of the management teams coming together, as the initial euphoria of the transaction died down. In this particular instance, the management recognized the issue early, which allowed them to adjust their integration plans, focusing on securing buy-in from the key leaders. They also implemented structured yet flexible processes to bridge the cultural gap, ensuring a smoother transition. Without intervention, such a clash in management cultures would have led to delays in execution, loss of talent and inefficiencies in operational integration, ultimately undermining the value of the acquisition.

Identifying Cultural Conflicts and Enabling the Best of Both

Cultural misalignment does not manifest itself overnight. It typically starts subtly, with employees questioning decisions, frustration rising amongst seasoned executives and newly formed relationships quickly breaking down. If left unaddressed, these early issues can escalate into a full-blown cultural clash, derailing all efforts to integrate.

Some of the most common fault lines in a merger stem from differences in decision-making authority, leadership behaviours, communication expectations and risk tolerance. For instance, if one company values consensus-driven leadership, while the other is accustomed to a more directive style, conflicting expectations can lead to relationship breakdown or even decision paralysis. Similarly, if one side prioritizes transparency while the other is used to a more guarded, hierarchical approach to communication, trust can quickly erode.

Leaders who anticipate and address these conflicts head-on, preventing differences to grow into deep divisions, are more likely to succeed in shaping a cohesive organization culture. The key is not to assume that one culture must dominate, but to create an environment where the best of both can thrive.

Leadership as the Catalyst for Cultural Integration

While culture is deeply embedded in an organization, it is not unchangeable and can often be modified or enhanced. Leadership plays a decisive role in shaping culture: where fragmented leadership creates uncertainty, resistance and stalled integration efforts, a united leadership can inspire, develop trust, drive alignment and accelerate change.

In successful integrations, senior leaders, led by the CEO (often alongside the CHRO, chief human resources officer or the CPO, chief people officer), make the tough calls over who will lead the combined organization – and they do it early, even before the transaction completes. They work from the top downwards, through each layer of management, providing guidance, motivating and stamping out poor behaviours. Whilst this can be painful and risks unwanted attrition (particularly if a leader is new), it creates clarity as managers work through the detail of the combined operating model design, talent selection and other day-to-day activities. On the flip side, we've seen situations where CEOs allow "co-heads" to remain in-post for several months across almost all departments, unsurprisingly cultivating confusion and divided loyalties throughout the organization. Indecision has no place in cultural integration.

Once established, an immediate priority for any new leadership is to set a clear vision and strategic direction for the combined organization. Employees need to understand not just what is changing, but why it matters and what success looks like. Ambiguity fuels resistance, whereas clarity fosters alignment. Even seemingly simple steps, such as reviewing and updating the company's vision, mission and values statements, go a long way, as they show intent and help build a sense of ownership from the very beginning.

When two organizations come together, previous hierarchies and reporting structures are disrupted. Leaders must quickly establish new decision-making processes that balance speed with inclusivity. Too much centralization can slow progress, while too much autonomy can create fragmentation. Effective decision-making becomes critical, as does the need to find the right balance between intentional leadership and a willingness to adapt.

Building a Culture Integration and Change Management Plan

Culture change does not happen through individual memos or one-off speeches, but requires a structured approach that aligns people, processes and incentives via repeated and consistent messaging. The most successful integrations start with a clear definition of the desired culture. What are the non-negotiables? Which aspects of both legacy cultures should be preserved? Answering these questions early provides a framework for decision-making.

Effective leaders build support by identifying cultural champions – mid-level influencers who can drive change at the grassroots level. Employees are more likely to embrace new ways of working when they see their peers doing the same. At the same time, performance management and incentives must align with the new cultural vision. If collaboration is a key pillar, but incentives still reward individual performance, the desired culture will never take hold.

Ongoing engagement is just as critical as the initial rollout. Regular pulse surveys, feedback loops and town halls can surface issues before they become major obstacles. One financial services client we worked with was faced with a potential failing integration due to deep-rooted cultural differences, including the degree of oversight and control that management teams felt was appropriate.

The leadership addressed this by creating cross-company integration squads – teams tasked with designing new ways of working that blended the best of both cultures. This not only accelerated alignment but gave employees a sense of ownership during the transition.

Conclusion: Culture and Leadership as Value Creation Levers

For PE firms, time is limited in any merger integration, and speed of execution is paramount. However, ignoring culture and leadership can quickly erode the value created by financial and operational improvements. The most successful merger integrations recognize that culture is not an intangible soft factor, but a hard driver of financial and operational performance.

By incorporating an assessment of leadership and culture into the due diligence scope, shareholders and management can proactively address cultural conflicts, empower leadership to drive change and transform potential cultural liabilities into competitive advantages.

How A&M can help

A&M's Private Equity Performance Improvement team brings extensive experience in planning and executing the critical aspects of merger integration and carve-outs, including addressing the cultural and leadership challenges that often arise during these transactions. We work with clients to incorporate leadership and culture assessments into the due diligence process, identifying potential conflicts and areas of misalignment before they escalate. Post-deal, we partner closely with management teams to implement actionable solutions to foster cultural cohesion, in areas such as communication, performance management and decision-making, ensuring a smoother integration process and helping unlock the full value of the deal.

For more detailed insights, please get in touch with **David Stass** and **Tim Veen**.

KEY CONTACTS

Dr. Tim Veen
Managing Director

tveen@alvarezandmarsal.com

David Stass
Senior Director

dstass@alvarezandmarsal.com

ABOUT ALVAREZ & MARSAL

Founded in 1983, Alvarez & Marsal is a leading global professional services firm. Renowned for its leadership, action and results, Alvarez & Marsal provides advisory, business performance improvement and turnaround management services, delivering practical solutions to address clients' unique challenges. With a world-wide network of experienced operators, world-class consultants, former regulators and industry authorities, Alvarez & Marsal helps corporates, boards, private equity firms, law firms and government agencies drive transformation, mitigate risk and unlock value at every stage of growth.

To learn more, visit: AlvarezandMarsal.com

Follow A&M on:

466209_49757/May 25
9697_FINAL