



# CULTURAL INTEGRATION in M&A

Most economists are predicting higher volumes for M&A over the next 12 months, albeit coming off a low base. In this article, Criticleye's **Jacob Ambrose Willson** hears from **Matthew Parker**, CEO of the highly acquisitive Babble, about the value of cultural integration in M&A



There are a variety of reasons behind the oft-quoted statistic that between 70 and 90 percent of M&A deals fail. The chief factor is usually a poorly executed due diligence process, during which dealmakers fail to spot strategic mismatches and cultural misalignment while overestimating potential synergies.

It's usually in the integration period that these issues come to the fore, at which point the acquisition begins to erode value within the buying business, instead of building it.

Of the aforementioned factors, cultural assimilation following an acquisition often finds itself at the bottom of executives' to-do lists during the integration phase. However, the cultural fit is just as important – if not more – than any financial or strategic metrics underpinning a deal.

**Matthew Parker** has been CEO of Babble – a UK-based cloud solution provider –

since February 2016, taking the private equity-backed business on an ambitious 'buy and build' journey which has seen it grow from £6 million per annum revenue to £120 million, doubling in size roughly every two years on the back of 34 acquisitions during his tenure.

He is a firm believer in the vital importance of aligning culturally with any potential target prior to striking a deal: "Inevitably when you're doing M&A, you start off in two different places. You've got two different perspectives on what's going on, and there will be challenges around trust in that situation. It's a lot easier to do that with people who have a common set of values and that think about the world in a similar way to you," he says.

The question of how buyers can effectively assess the culture and values of a potential acquisition during conversations with that leadership team is one that is asked often. These

exchanges are often fraught and filled with a plethora of seemingly more pressing topics, from valuation to deal structure and terms (considerations such as earn outs and contingent payments, for example), along with all the various regulatory and legal considerations associated with a deal.

For Babble, there is a specific process during the pre-sale period which involves a third-party organisation carrying out a detailed assessment of the culture of the firm being acquired.

"Part of our diligence process is the people and culture piece. Our partner goes and spends time with the staff before we do the deal," **Matthew** explains. "They're brought in by management of the businesses that we're looking at and they undertake some 'cultural work' on the business. That becomes data, so we've got that information and we then feed that back afterwards." >



Only when there is clear evidence of alignment with Babble's own values and culture, which are centred on a commitment to supporting its wider community, will a deal proceed to the final stages. However, even when an acquisition is completed, there is the sizeable task of integrating the people.

## Buying People

"You have to bear in mind what you're buying," **Matthew** says. "You're buying customers, you're buying revenue, you're buying footprint and presence but you're also buying people. 80 percent of the people who work for us in the UK, we've inherited through acquisitions.

"More than half of our senior leadership are people that have joined Babble through an acquired business and we've taken them on a journey. Ultimately, you need to want to make that [integration of people] work."

Babble has also established a clear system for integrating new staff into the business following a deal. **Matthew** explains: "We try to get existing staff who've been inherited via acquisition in the room with people who are also being integrated into the business following an acquisition. Those people can say: 'I have been in your shoes recently, this is what it felt like, is this how you are feeling?'

"I think acquisitions that haven't gone as well as we would have liked are the ones where we've got the culture piece wrong. So, we now do things backwards from immediately after the acquisition and start with the people. We tell the selling shareholders that the second we're signed, our priorities become the staff, the customers and then the shareholders – in that order," he continues.

*"I think acquisitions that haven't gone as well as we would have liked are the ones where we've got the culture piece wrong"*

However, in a business as acquisitive as Babble, it's important to recognise that not everyone inherited via a deal will feel at home in a different setup. Often, there can be misunderstandings between newly acquainted colleagues and teams, but for **Matthew** "the cultural piece is about communication".

He says: "It's about having a plan. It's about admitting when you get stuff wrong and being really straight about it. Some people will inevitably leave because there isn't a fit culturally, but it's important to get that right."

In the 12 months following June 2022, Babble made 14 acquisitions, four of which were 'material-sized', before slowing down its dealmaking pace as the funding landscape darkened around mid-2023. **Matthew** stresses that for the

last 18 months, the business has been hyper focused on successfully integrating those businesses acquired in just a short 12-month spell. Within that, plenty of work has gone into aligning values and smoothing out any cultural differences.

Ultimately, for any buy and build strategy to be successful, there needs to be clear strategic rationale for every single acquisition and a robust commitment to financial discipline. However, the cultural aspect of the integration process should not be overlooked or diminished by leadership teams, with Babble an example of a business that has prioritised cultural integration to good effect. ■

25 APR 2024 / 08:30-10:00

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