

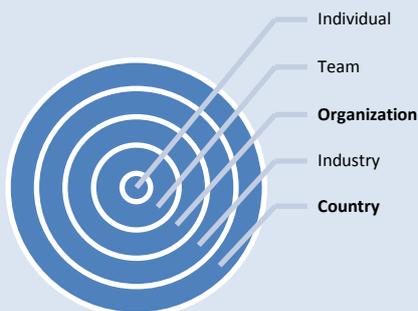
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Editorial

Large organizations conduct due diligence before going ahead with a merger or an acquisition. They do so to verify that they will be getting what they paid for and to avoid unwelcome surprises after the deal has been signed.

Historically, due diligence has centered on 'hard' issues such as financial reports, production capacity, market share and tax laws. Yet it is often 'softer' cultural factors that are to blame for ventures failing to produce the expected results.

The so-called soft issues (which nonetheless pose hard problems) that are at play in cross-border M&As are particularly challenging because each organizational culture is embedded in a distinctive national culture.



Companies in a given country may very well have different corporate values and codes of conduct, but their culture still needs to fit with the core assumptions and deeper values that employees learned at a very early age and over many years!

There are plenty of alarming statistics out there on the success and failure rates of failure of M&As, but one thing is crystal clear in the minds of the Managing Worldwide team: focusing on people issues as early as possible is a sure way to avoid brain drain, conflict, loss of employee morale and down time spent smoothing ruffled feathers.

And that's why we'd like to share with you some practical ideas on how to go about making culture an integral part of your due diligence process.



Róisín Saunier,
Associate Partner

Mergers & Acquisitions: Performing Cultural Due Diligence

Set clear objectives for the cultural due diligence

The objectives you set will determine the scope of the cultural audit and govern the choice of methodology. Some typical objectives are:

- Identify and map similarities and differences between the workplace cultures of 2 companies
- Highlight potential problem areas
- Inform the design of the integration policy (level of integration, strategies for closing cultural gaps)
- Learn about employee's aspirations/expectations for the new organization

Decide on the level of analysis: surface culture and deep culture

Whether one is looking at national or organizational culture, there will always be components which are more visible than others: dress code, architecture, furnishings, use of space as opposed to relationships with authority, respect for seniority, approaches to risk-taking, makers and breakers of trust...

Making sense of surface culture, especially in cross-border ventures, usually requires digging down into the deeper layers of culture.

Select the right team and tools

Cultural due diligence is best conducted by an external team for 2 main reasons:

- (1) Employees will find it easier to confide in a third party
- (2) Internal auditors may be unconsciously biased by their company culture, either in the choice/design of tools or in the interpretation of findings

Tools and methodology should be chosen carefully taking into consideration objectives, budgetary concerns and timelines. In the case of international ventures, **the findings on organizational cultures should be further analyzed through the prism of the national cultures represented.**

Let's look at 5 CDD (Cultural Due Diligence) tools that we at Managing Worldwide have found to be especially useful.

Mergers & Acquisitions: Performing Cultural Due Diligence (contd.)

CDD Tool 1 - Culture walk inventory

It is possible to garner a considerable amount of information about an organization's culture by taking a walk through its rooms and corridors. The culture walk inventory addresses questions such as:

- Are interactions between employees formal or informal?
- Are common areas conducive to relationship-building?
- Are office doors open or closed?
- Is the furniture the same in the offices of junior, middle and senior management?
- Are there bulletin boards and if yes, what kind of information is posted on them? Pictures of the best employee of the month? Union news? Social events?

CDD Tool 2 - Semi-structured interviews

These one-to-one interviews allow room for interviewees to share thoughts spontaneously while systematically gathering quantitative and qualitative answers to key questions on what it is like to work in the organization: What is the leadership style? Do people work well in teams? Where is the real power in the organization? Does information flow freely in all directions? To what extent do you identify with the company's stated values? Full confidentiality should be guaranteed and a cross-section of employees interviewed to provide more diverse insights.

CDD Tool 3 - Focus groups

The interviewing process may well reveal surprises that call for further exploration. Focus groups typically comprise 8-10 members who meet to probe deeper into questions that arose from the interviews. A skilled facilitator will also learn from observing the dynamics of focus groups as they are likely to exhibit traits of the organizational culture to which they belong.

CDD Tool 4 - Employee survey

Typically in the form of an electronic questionnaire, company-wide surveys provide quantitative information on how employees perceive their organization today. These instruments reach a larger audience than interviews or focus groups, but the data will not have the same depth or level of nuance. Questionnaires that large organizations have already created are an abundant source of information on their culture (by that we mean the questions even more so than the answers), so we do use them. Nonetheless, bear in mind that aligning survey materials from 2 organizations requires real expertise and an independent viewpoint. If you can design a survey dedicated to the merger or acquisition, an interesting extension is to ask questions on how employees would like things to be in the new organization, as results may reveal commonalities that can be built on when creating a "third negotiated culture".

CDD Tool 5 - Document and HR tools review

Time and resources permitting, you may find it extremely beneficial to review and compare documents that are disseminated within both organizations as well as selected HR tools: How are internal reports structured? What type of information do they contain and what is the level of detail? How open, explicit or formal are communications from management to employees? Who contributes what to the intranet? What criteria are used for performance evaluation? Are there marked differences in the knowledge and skills frameworks associated with similar positions?

What you can get from cultural due diligence

When performed properly, cultural due diligence provides actionable insights into the level of integration that can reasonably be achieved in the first couple of years, the additional investment that will be necessary right after the merger as well as a comprehensive checklist of the items to be addressed in the integration plan (usually a 6-month-action plan and a 2 year integration road map). HR teams stand to gain invaluable forewarning of where resistance to the culture of the acquiring company or the dominant partner in the merger (isn't there always one?) is likely to be strongest, enabling them to tailor their communication and training strategies accordingly. Finally, trust and motivation will be higher all round when common values that were identified early on are positioned as the cornerstones of meaningful cooperation.