

Cultural Due Diligence – The Overlooked Factor

We're deep in recession and the fragile financial system is producing unprecedented mergers and/or acquisitions. Many other organizations are looking to develop creative partnerships to stay in business or find ways to improve their business. In the midst of all this organizational chaos the one factor organizations often ignore in planning is organizational culture – at their own peril.

Cultural differences between organizations, not to mention international cultural differences, are one of the primary reasons that acquisitions, mergers or joint ventures fail to meet their financial goals. Countless studies over the last few years highlight the consequences of ignoring culture considerations. AT Kearney reports that of 115 mergers, 58% didn't add value for their shareholders. According to an article in the Economist, of 150 acquisitions, 70% failed to meet financial and business expectations. Even internal change efforts often fail when culture characteristics are underestimated. Champy reports that re-engineering efforts that don't plan for culture are only successful 38% of the time.

Corporations that successfully pay attention to cultural differences find ways to conduct a cultural due diligence. As an aside, some organizations as a matter of course periodically conduct a culture due diligence and make a conscious decision to change their culture to meet current market demands. And even job seekers might benefit from doing their own cultural assessment before joining an organization.

Conducting a cultural due diligence can take many forms from a formal, comprehensive, planned approach with many facets to an informal, anecdotal gathering of information. The particular approach chosen is usually based on factors such as:

1. Time – how soon does this need to be completed
2. Budget – what funds are available to us
3. Expertise – who do we have with the requisite experience or where can we find it?

The most successful cultural due diligence assessments include several elements such as:

1. Developing an agreed upon, clear definition of organizational culture among those conducting the cultural due diligence
2. Assessing all organizations involved
3. Using multiple methods and data points to provide the most comprehensive picture of the organization
4. Sharing results and validating findings with employees in their respective organizations
5. Collaboratively planning to address cultural differences and create the best culture for the new venture

The first step to assessing organizational culture is to have the enterprise's leadership define what is meant by organizational culture. A working definition of culture that many organizations use is:

Organizational Culture = pattern of basic assumptions, values, norms, and artifacts shared by organizational members or “the glue that holds things together” or “the way we work”. (Schein 1991)

The specific definition isn't as important as ensuring that everyone agrees on the definition.

The most comprehensive cultural due diligence processes involve all organizations impacted and use multiple methods. Assessing all the organizations provides baseline comparative information and highlights the similarities and differences among the cultures. With this information the culture team can develop a plan to leverage the best elements of all the cultures and mitigate any potential hazards from different values, norms, etc. Multiple methods enable the team to develop thorough culture portraits by combining quantitative tools such as surveys with qualitative approaches such as in-depth interviews or focus groups.

When identifying tools for cultural due diligence, the two approaches that companies generally use are to buy off-the-shelf instruments or develop their own tools in-house. A few companies may combine off-the-shelf instruments with their own. Each approach has advantages and disadvantages. Using generic, already developed tools allows for a clean comparison between companies, but this method may not capture all the important elements of an organization's culture. In an acquisition, for example, when an acquiring company develops its own tools, care can be taken to ensure that the critical elements of culture as defined by the acquiring company are measured. The down side of the in-house approach is that people within a given organization may not be able to identify their own taken-for-granted assumptions about their organization's culture; hence, the tools developed may not be assessing the right dimensions or characteristics.

The right blend of tools begins with what we can observe and move to uncovering what's underneath the observations. Scan both the physical environment and the actual behaviors of employees. Are the office doors open or closed? Is

there music playing or lots of conversation or is the building as quiet as a library? Do meetings start on time? How do people interact, or not? What kinds of easily accessible materials such as mission statements, or written employee handbooks are available? The caveat is that such observations should lead you to probe more. You want to ensure that your initial interpretations are valid.

Following direct observations, use interviews and focus groups to try and uncover the unwritten norms or “rules” for how the business members work and interact with one another. Usually these norms revolve around values -- values about what is appropriate or not, values about how people should or should not interact or be treated. To learn about the operative norms and assumptions, you can ask questions such as: Who are the heroes here? What gets people in trouble? What’s the profile for success here? How does a person fail here?

Some companies, in addition to interviews and focus groups, use specifically designed surveys to assess culture. Without going into too much detail about the use and constraints of surveys (the topic for another article), surveys can provide a snapshot of how people view their organization’s culture. Surveys can give you a quick and dirty numeric gap analysis for comparing organizations.

Conducting a cultural due diligence, in addition to finding the right blend of tools, requires an ethical approach to the conclusions we make about the organization. One way we can check out and validate our interpretations is to share the results of surveys and summaries of interviews/focus groups with employees in the respective organizations. Best in class organizations not only share results, they foster dialogue that leads to refinement and a deeper understanding of the cultures.

And finally, after all this information gathering and sharing, what's next? The culture team needs to do something with all this "stuff". With the leadership team(s), the culture team needs to develop plans on how to leverage the best aspects of the culture, address any gaps among the organizations. These plans should include proposed metrics for measuring progress and need to be integrated with overall business initiatives to ensure consistent follow-up. It goes without saying that the best culture teams include members from all affected organizations.

So you don't have the time, people or budget of a large corporation, what can you do to conduct a cultural due diligence? Ask yourself what you want to learn about the culture and make yourself a list of high-value questions to ask over the phone. Ask if you can visit and walk around, making mental notes about what you see. Catch a few people in the break room and ask some follow-up questions. You'll be amazed at what you learn.

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