Smoke and mirrors
A different perspective on how to reduce the impact of post-deal cultural differences before closing the deal
Cultural differences identified pre-deal rarely prevent that deal from completing, even when differences are acknowledged to be significant. When surveyed, most executives believed their deals would go ahead regardless of the degree of cultural fit.

Does this mean that we, as integration experts and service providers, still haven’t found the right approaches and tools to help business leaders who see cultural difference as something to keep in mind during integration, but not important enough to influence the deal itself?

WANTED: A CEO who hasn’t been told that cultural alignment will make or break their acquisition post-close. The importance of cultural integration to long-term acquisition success has been so thoroughly promoted, discussed and explored over the years that it’s surprising that acquisitions are conducted at all without a depth of cultural analysis that would make legal due diligence appear superficial.

And yet that’s just the point: Despite the acceptance by most executives that cultural differences remain the leading cause of M&A failure; and irrespective of all the research, articles, best practices, services and tools that firmly place cultural assessment and alignment at the heart of successful acquisition and integration, a fact remains clear to anyone working in the field of M&A: Cultural differences identified pre-deal rarely prevent that deal from completing, even when those differences are acknowledged to be significant. Recent research supports this view, in which 76% of executives surveyed believed their deals would go ahead regardless of the degree of cultural fit.

So why the disconnect? Does it mean that a large majority of executives across the world are regularly fooled into believing that the academics and consultants have it all wrong, only to pay the price later? Or does it mean that we, as integration experts and professional service providers, still haven’t found the right approaches, services and tools to help leaders who – rightly or wrongly – will continue to view cultural differences as important enough to keep in mind during integration, but not important enough to influence the deal?

At Beyond the Deal, we believe that, despite (or indeed as a result of) the breadth of cultural assessment offerings in the market, most businesses still either make too much or too little of culture. We also believe that – one way or another – it still helps to have some level of awareness of the differences in business practices, assumptions and beliefs between organisations before embarking on integration.

In this article, Beyond the Deal, in collaboration with Michael Whitmore, an executive MBA graduate of CASS Business School, explores practical, perhaps less ambitious but more usable, ways of considering organisational culture pre-close, ways that are not specifically designed to help determine the fate of the deal itself, but instead to help improve planning and communications, so smoothing the journey through your first days together once the deal is done.

Businesses are like onions: They have layers

A core problem stems from the ambiguity and complexity inherent in the concept of culture itself. Is culture something a business is, or something a business has? Of course, the answer lies somewhere between the two, and understanding the difference – what can be changed, and what cannot – can be key to getting useful results from any cultural assessment work.

The concept of a multi-layered culture has been the subject of many studies in the past, and is not the primary focus of this article; however a short summary may be useful here. Put into practical terms, organisational culture can be described as a set of characteristics falling into one of four layers:

1 Reducing Post Merger Integration Costs through Cultural Due Diligence: Doing M&A Right for Post-Merger Success; M. Whitmore, Cass Business School, 2009

The deeper and more unconscious any element of culture is, the more effort is generally required to accurately uncover it, but the more significant it may be in explaining or underpinning the more visible cultural traits seen ‘above the waterline’.

Being physical, artefacts can be observed
Cultural assumptions are usually so ingrained within the business that employees (especially those who have been within the organisation for many years) are typically unaware of them, despite their role in driving the very essence of the company’s culture.

Relatively easily by anyone inside or outside the business, although they may need a degree of interpretation from insiders to understand. However, these artefacts are likely to only give an indication of deeper layers of culture, and could be misleading, especially as some organisations use artefacts to reflect a desired cultural image that may be different to current reality inside the business. Behavioural norms and rituals can sometimes be observed, but are likely to require considerable interpretation to ‘link up’ to more obvious artefacts, or ‘link down’ to core values and assumptions. Assumptions on the other hand are usually so ingrained within the business that employees (especially those who have been within the organisation for many years) are typically unaware of them, despite their role in driving the very essence of the company’s culture. This ‘invisible instinct’ becomes especially important when the business undergoes significant change, such as during post-deal integration: Placed in new or threatening situations, individuals will instinctively and automatically act according to these assumptions in ways they believe are in the best interests of the business. When such basic yet unrecognised assumptions differ between groups, the results can be problematic at the very least.

Consider an example based on research conducted by Dr. Thora Thorsdottir which considered cultural changes during acquisition and integration². Two successful organisations operating within the same sector demonstrated cultural artefacts that, while appearing sufficiently similar during early stages of the deal to suggest good cultural alignment, actually reflected significant cultural differences at lower levels (see table at the bottom of the page).

This perspective helps to explain the paradox outlined in the opening paragraphs of this article:

- Pre-deal cultural assessments – even when conducted co-operatively with the target – usually only identify higher levels of cultural traits, and are unlikely to deliver an accurate understanding of underlying values and assumptions;
- Any such high-level differences discovered are usually considered changeable and therefore not deal-breakers. Their role as possible indicators of fundamental differences lower down is rarely recognised or trusted as accurate.
- Most traditional cultural assessments are survey-based, and require co-operation from the target, which is often difficult or impractical to conduct pre-close;
- Even when they are conducted (pre- or post-close), they typically assess behaviours and values; only when such surveys are supplemented with post-survey interviews, group workshops and assessment of artefacts can a ‘whole picture’ cultural profile be accurately generated.

<table>
<thead>
<tr>
<th>CULTURAL LEVEL</th>
<th>ACQUIRER</th>
<th>TARGET</th>
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<tbody>
<tr>
<td>Artefacts</td>
<td>Symbols of prestige: Offices, dress code, position titles</td>
<td>High-quality customer account list, company cars, highly-rewarded employees</td>
</tr>
<tr>
<td>Behaviours</td>
<td>Structured procedures, industry-driven regulations, predominantly written communications, tight controls on spending – “We are strict, professional and competitive”</td>
<td>Informal, open and largely verbal communications, smaller group decision-making, co-operative, not strict on spending – “Everyone makes their own coffee around here”</td>
</tr>
<tr>
<td>Values</td>
<td>“We are more professional than others, and our prestigious image confirms this to the market. Less prestigious firms are therefore less professional and provide poorer quality and service.”</td>
<td>“We are one family, and are all in this together. We are laid back around here, but working as a team, we can beat up the arrogant big guys in the market”</td>
</tr>
<tr>
<td>Assumptions</td>
<td>“We are the best in the business. Discipline is necessary, both internally and in our choice of clients, not all of whom will be acceptable to us. All spending must be accounted for. The wider market is an undisciplined place, so by being disciplined, we will remain on top.”</td>
<td>“We are big fish in a small pond and punch above our weight. Our clients come to us through friends and family, and provided they are recommended to us, we’re relaxed about who they are. We trust each other so things don’t have to be written down.”</td>
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² International Business Partnership, T. Thorsdottir, Palgrave, 2001
A good first step is to ensure that you ‘know thyself’ as well as you can before assessing the target; after all, target cultures need to be assessed as part of an exercise in triangulation: Who you are, how this differs from the target, and how both differ from where the combined organisation needs to be in future.

A greater organisational self-awareness in itself often brings numerous side benefits to the business irrespective of any deal on the table.

This does not mean that nothing can or should be done pre-deal; the key is in understanding the purpose, scope and approach, of any cultural assessment work you undertake. If we accept that in the ‘real world’, most businesses will be neither willing nor able to place culture at the heart of how they assess or approve a target acquisition, then we need to look at pre-deal cultural assessment as having a different purpose, one that focuses on supporting the early stages of integration and working together:

- Understanding differences in communication styles and assumptions;
- Understanding any potential differences in approaches to strategy, organisational design, planning, and risk;
- Identifying key similarities or differences to leadership styles and expectations;
- Identifying key items (artefacts) that are likely to be highly valued due to their connection to underlying beliefs or assumptions, and therefore passionately defended in the face of post-close change or integration.

While none of these objectives are directly aimed at traditional cultural change or integration, it is easy to see how an improved knowledge in each of these areas can have immediate benefit (and reduced cost) to early-stage integration. More significantly, pre-deal cultural reviews guided by these more modest, tactical goals have a much greater chance of success.

This view coincides with that of many executives. When surveyed by one of the authors earlier this year\(^{1}\), most expected that good pre-deal cultural assessments would:

- Increase integrated working
- Reduce confused lines of management
- Reduce role uncertainty
- Retain required talent

For these goals to be achieved, the results of such pre-deal assessments also need to be passed intact across the pre/post-deal divide, something that unfortunately remains uncommon in many firms.

Looking in the mirror

So what does this mean in practice? A good, and considerably easier, first step is to ensure that you ‘know thyself’ as well as you can before assessing the target; after all (and this is often overlooked), target cultures need to be assessed as part of an exercise in triangulation: Who you are, how this differs from the target, and how both cultures differ from where the combined organisation needs to be in future to support strategic goals.

In fact a greater organisational self-awareness in itself often brings numerous side benefits to the business, e.g. by helping to identify or understand long-standing roadblocks to change, or in breaking down functional silos (sometimes brought about through previous acquisitions).

How this is done depends on the level of cultural detail and accuracy desired, and can range from a single short executive meeting exploring behaviours, values and assumptions, through to a multi-step exercise involving multiple surveys, assessments and workshops. Regardless of scale, we believe that any assessment must include a review and discussion of all levels of culture, applying the right tools to address each level: Assessments of ‘artefacts’ such as management reports, businesses cases, core processes can be a great start, but may lead you astray if conducted in isolation; similarly, assessment surveys that claim to accurately unearth core assumptions without follow-up discussions with management should also be challenged rigorously before use.

Given the full access to management and staff possible in a self-assessment, we suggest a process that considers each cultural layer in turn, using an understanding of each to help validate its neighbours:

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\(^{1}\) Reducing Post Merger Integration Costs through Cultural Due Diligence: Doing M&A Right for Post-Merger Success; M. Whitmore, Cass Business School, 2009
While we acknowledge that cultural change is driven from the top, understanding prevalent culture typically requires some involvement of others beyond the executive team.

Involving a wide and varied range of groups as possible to highlight internal differences in values and behaviours, and to confirm executive assumptions – the view from the top is not always accurate or complete.

While we acknowledge that cultural change is driven from the top (by changes to incentives, processes and other aspects of the Operating Model, and through clear leadership example), understanding prevalent culture typically requires some involvement of others beyond the executive team. Where possible, involve a wide and varied range of groups to highlight internal differences in values and behaviours, and to confirm executive assumptions – the view from the top is not always accurate or complete.

Within this overall structure for self-assessment, we do not believe that any specific model of culture is inherently better or worse than another. Their quality stems from their application and fitness for purpose – much better in our view to have a simple, targeted survey rigorously supported by document reviews and workshops than a multi-dimensional survey that claims to cover all the bases. Experience also leads us not to support models that claim to have discovered the basis of a universally ‘good’ or ‘high performing’ culture – extensive work with multiple organisations within a variety of sectors tells us that, while there are certainly businesses in which their own values and behaviours that are not aligned to their strategic goals, or that conflict with other aspects of their Operating Model (eg organisational structure, systems), we have yet to see a ‘best practice’ culture that fits all businesses in all situations.

Finally, it is vital that any self-assessment results and conclusions are formally documented and taken forward into the next deal: Businesses are unlikely to find it easy to repeat the exercise in the closing stages of an acquisition, and most of the value of the conclusions reached will be lost unless they are consciously incorporated into basic operating model design and integration planning, both of which should be conducted pre-close.

Seeing through the smoke
Assessing your own culture based on full and unrestricted access and discussion is straightforward. Effectively assessing another organisation’s culture on the basis of what you can get your hands on is considerably trickier.

The value of meaningful data about the target rests on your ability to accurately interpret it, and often the publicly-available cultural artefacts, while encouraging in their quantity, can be less helpful when trying to dig deeper into underlying beliefs and assumptions.

Company websites, marketing material and financial reports are as good a starting point as any, but must be supplemented by a more sophisticated approach that taps into industry and customer knowledge. Ex-staff members and those who do business with the target are key sources, and can provide real insights without needing to know the purpose of your review. (Arguably such information should be regularly gathered anyway as part of general market and competitor analysis exercises.) Gathering views from old employees and customers may sound obvious, however our research suggests that this by no means commonplace.

According to staff and management surveyed, an understanding of the market, the product and the customers represent the top three things deal makers need to know about to ensure success; these were ranked above financial data and legal due diligence. We believe that one reason culture isn’t higher on this list is the difficulty in gathering information that provides that deeper understanding of the lower levels of culture described earlier in this article. However, practical approaches and exercises in pre-deal cultural due diligence do exist, and can be useful when the conditions are right. Cultural assessment methods are now emerging that help deliver insights into how target organisations plan, manage, assess performance, and communicate – all key aspects of integration, and of your life together beyond the deal, especially once compared to your own culture (both current and desired). An example of ways in which target culture can be assessed pre-close, even without the involvement of the target organisation, is shown on the following page:
<table>
<thead>
<tr>
<th>CULTURAL LEVEL</th>
<th>CULTURAL ASSESSMENT SOURCES (EARLY-STAGE PRE-DEAL)</th>
<th>CULTURAL ASSESSMENT SOURCES (LATE-STAGE PRE-DEAL)</th>
<th>USED TO...</th>
</tr>
</thead>
</table>
| Artefacts & Behaviours | Websites, marketing reports, public reports, news items, press releases, analyst reports | Strategy & budget documents, business cases, personnel reports, internal policies & procedures, organisational structures, staff profiles, absenteeism policies & levels, project plans & reports | - Develop initial hypotheses about beliefs & assumptions  
- Identify potential differences/hot spots; compare ‘non-negotiables’  
- Develop list of ‘cultural considerations’ for use in design, communications & planning |
| Values & Assumptions | Ex-staff, customers, suppliers, industry peers (where known & contactable) | All of the above plus: Existing in-company surveys, informal discussions with executives, site/office tours | - Develop initial thinking on top talent & management retention (overall approach to the issue & individuals)  
- Build findings into post-close cultural change & communications plan  
- Conduct cross-management relationship- and team-building initiatives |

While conducting pre-deal cultural assessment is difficult, and is ultimately unlikely to derail an acquisition, it remains a worthwhile exercise. Part of making it work lies in recognising the ‘layered’ aspect of culture, and using it to understand the difference between things that are relatively easy to change, but may only be reflections of deeper-seated beliefs and assumptions which will require a different approach. Provided you have a real understanding of your own culture (top to bottom), and are clear about what you are trying to achieve, a structured review of information in the public domain, the due diligence clean room, or even within your own organisation can make pre-close planning and the integration that follows smoother, less risky, and more effective.

**ABOUT THE AUTHORS**

Dr. Thora Thorsdottir holds a PhD in Business Organisation, specialising in the impact of corporate culture and communications during acquisitions, and exploring ways in which success of an acquisition was driven by post-acquisition integration management. Thora has several years’ experience as an independent researcher to HR and management consultancies, specialising in cultural change. She also has several years’ experience working in the IT market research and statistical software sector, most recently with SPSS Inc. Previously, Thora worked in recruitment, banking, and the public health sector, where she performed a variety of research roles.

Michael Whitmore is a recent executive MBA graduate with distinction from Cass Business School, City University, London. At CASS, he investigated the cultural due diligence practices of organisations, consultants and advisory firms, developing a cultural due diligence toolkit based on his findings. Working in or around this field for most of his career, Michael has a BA Hons in Psychology and Law and an MA in Applied Social Science. Michael has worked in banking, social work, public sector improvement and is now a managing consultant. Michael can be contacted at mp.whitmore@gmail.com.

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