Cultural Integration – Usually a Difficult Goal to Accomplish

Part 2: Integrating Company Cultures Effectively Requires Employee Buy-In

"Culture" is a word which is broad in application and is normally construed to describe socially transmitted beliefs and accepted patterns of behavior for a specified community or population. It includes everything from how people dress, to what they eat, to rules for social conduct, to religious beliefs, to forms of artistic expression. Cultures are developed over time and result in deep-seated beliefs about how things are done. But if decision-makers are to understand the risk to integration posed by "cultural differences," it is important to have more than a general idea of what M&A experts mean when they refer to "culture clashes." Effective risk mitigation requires understanding which cultural differences create the difficulty and how they act as barriers to the integration process.

Although the traditional due diligence process may be effective in identifying the risks associated with the "buy decision," it falls short of identifying the risks inherent with post-deal integration. Predictive financial models are not designed to measure the risk that is created by change and human reaction to change. Culture dictates an established and accepted way of doing things. Although the buyer usually assumes control of decision-making after the deal is finalized, the presumed authority does not negate the fact that the culture of the acquired company dictates how things are done and it is likely that direction from decision-makers will be met with resistance. Conventional wisdom suggests that a decision must be made to operate in accordance with one culture since an attempt to operate by two different sets of rules and expectations would result in failure. However, that point of view does not recognize that cultural change cannot simply be dictated without consequences. If the value of the acquisition resides in the expertise of its people and the quality of its processes, then dictating another way of doing things is likely to destroy value. The answer lies in finding ways to stabilize value while the integration process proceeds.

The ability to effectively manage risk presumes: (1) That the buyer has a clear understanding of the changes that will be necessitated by the execution of the business strategy, (2) That an assessment has been made of the people and processes that will be affected by those changes, and (3) That an assessment of cultural differences has been made to forecast the difficulty involved in implementing the changes and the resources required to facilitate the change process. The objective in gathering the foregoing data is to chart a strategy to implement the required changes without inadvertent destruction of value that occurs when people are required to perform in ways that run counter to their cultural conditioning.

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The experts most often cited three cultural indicators as having the greatest impact on the success of post-deal integration: (1) communication style and access to information, (2) decision-making authority and style, and (3) cultural values and accountability systems. These cultural indicators are perceived to have strong impact because they are critical to the problem-solving process. Keeping in mind that the integration process is usually moving forward as quickly as possible and the goal is to focus the attention of employees on executing the business strategy, it is necessary to build trust. Trust is established when communication occurs with transparency, there is a shared understanding of the decision-making process, and the values of the merged company are clear and apparent in the day-to-day operation of the business.

Although the cultures of the two companies will not be merged immediately, the company will be able to integrate operations in a way that does not result in entrenched resistance, low morale, and high turnover and the process of marrying the cultures can begin.

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