

Finding a cultural fit

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Defining what culture is and how it impacts acquisition success has kept a lot of academics and consultants busy for decades. Even so, we don't seem to be any closer to finding a silver bullet for solving cultural mismatches in merger activities. Perhaps it is just too difficult a nut to crack.

However, being aware of the problem and the difficulties of resolving cultural mismatches is perhaps the best risk mitigation strategy we can take when reviewing acquisition targets. Without getting over theoretical, culture is often defined as 'the way we do things around here'. Put into a business context, it describes such things as behavior, shared values, norms, personal interaction, reward and promotion systems and interfaces between business units and external parties.

Organisational culture is often said to be collective wisdom or memory. Shared experiences built up over working lives condition the way we approach old and new problems. Thus two organisations in the same market may have very different approaches to how they do business internally and externally because of their individual history of what has worked and not worked for them. Out of this individual internal collective experience comes both written and unwritten rules about how employees are expected to deal with everyday issues which confront them.

While it is possible to use theoretical psychological and organisational behavioral measures to derive some insights into an origination's culture, what we really want as an acquirer is a quick indicator of the size of the problem of bringing two different businesses together. Perhaps it is sufficient to have a set of attributes of culture to tell us that problems will occur. Let me therefore suggest that you start with what you can easily observe.

Organisations vary in size, age, product market interfaces, diversity, strategy, location, reward systems, level of decentralisation, degree of formalisation of dress code, recognition of formal qualifications and so on. Each of these attributes and many others which are readily obtained from public documents, indicates something about the way the organisation is likely to operate. If your business has dramatically different characteristics along some of these dimensions, you can expect to meet some cultural challenges.

What we will encounter in an acquisition is a working environment in the target firm which is seen by those who participate in it as acceptable, even if it not ideal. When we come along and wish to impose a different mode of operating, we are suggesting that the prior environment is wrong.

For example, we prefer to promote highly qualified people with diverse working experiences who are innovative in approach. They have a history of promoting long serving loyal employees who have worked their way up through the business straight from school. Imagine how confronting that must be. Their whole approach to being a good employee is suddenly undermined. What was right before is now frowned upon. Future promotion is now in doubt. Change is going to be stressful. Many will feel that they won't fit in and that they might be better off seeking employment elsewhere. Those who feel trapped by personal circumstances will resent the change, be disruptive and perhaps work to undermine progress.

The fact is that cultural change is hard and positive outcomes of cultural change processes are difficult to achieve. Perhaps a smarter strategy is simply to walk away from the deal or work out how you can leave the target firm operating in its traditional manner.

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