Culture Shock

Taken from *The Performance Papers* by Dr Andrew Bass, BassClusker Consulting

A staggering 97% of mergers by UK companies fail to completely fulfil their strategic objectives, according to the Hay Group. Managers who responded to their survey regarded "culture shock" as the main reason for failure.

Typically, the term "culture" is left undefined, and maybe blaming culture when things fail – which is easy to do – lets assorted managers and advisors off the hook. So let's start by asking: if culture is so important to managers, what do they mean by it?

What is "culture" anyway?

To many finance and operations officers, "culture" is a woolly concept, while academics and many consultants have done little to clarify the term.

Think of culture simply as "the beliefs and values that influence behaviour" in an organisation: or in plain words it's "the way we do things round here" and "why we do it this way".

There's no doubt that the wrong culture can kill a company, even a once-formidable global competitor. Ed Schein, arguably the leading authority on corporate culture, has written extensively about the Digital Equipment Corporation (DEC). Over thirty years, starting from 1957, founder and CEO Ken Olsen built DEC to be the world's second largest computer manufacturer after IBM. When I was a university student in software engineering in the 1980s, DEC VAX minicomputers were the leading edge. DEC was an engineering and innovation-based culture where the engineers were the heroes. It had a technology driving force. Its answer to any marketing issue was to build another even more sophisticated (and costly) piece of kit. And it worked – until the advent of the PC.

When computer hardware became a commodity, DEC knew that they had to develop a market-need driven strategy. They knew it, but they just didn't want to do it. It would mean firing senior executives who couldn't change. It would mean saying "no" to engineers with new ideas. It would mean emphasising customer research, service and software applications, rather than ever more glorious technology.

So now, DEC is no more. Xerox (at least in computing) and Wang Labs didn't make the change either.

How culture affects the nuts and bolts

Many clients are uneasy about “the soft stuff”. It is helpful to focus on the fact that, except in a completely automated business, executing a business strategy depends on people performing the right behaviours.

In DEC’s case, the behaviours required in the changed world of the 1980s (e.g. designing features based on customer research, and advertising based on customer problem-solving rather than pure technical advance) were not consistent with its values (technological progress for its own sake, engineering as fun, being a senior engineer as a source of pride, engineering as superior to business).

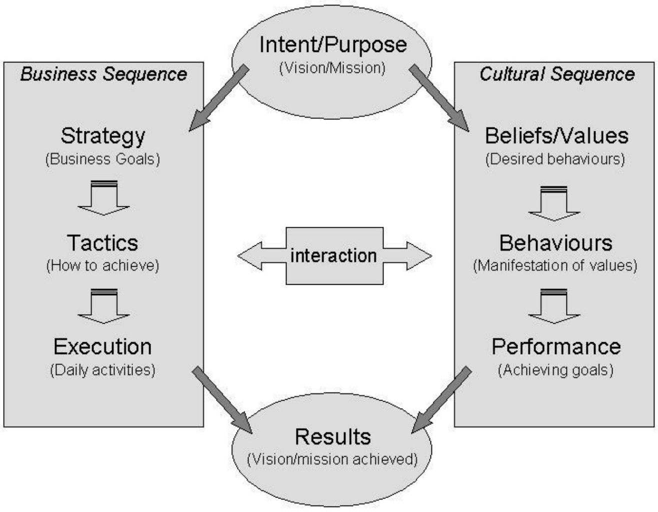

Figure 1: The Dynamics of Strategy Implementation
Adapted from A. Weiss. Process Visuals, used with permission.

Once you think of the culture as simply the governor of the behaviours required by strategy, then, as Alan Weiss’s diagram in Figure 11.1 shows, it becomes clear that there are not one but *two* interrelated paths that must be followed to implement successfully: yes you need to develop strategic objectives, associated tactics and activities, but you also need to make sure that the culture will support people actually doing the behaviours your plans require. Too many managers consider the business sequence alone, with disappointing results played out every day.

Culture clashes post-merger

Here’s a scenario where an acquirer took on a business which, culturally, it could not run effectively.

Company A, the acquirer, was young, entrepreneurial, fast-growing, innovative and provided a high level of service. For this, it commanded high prices and high margins which enabled it to get away with being disorganised and wasteful in operations. It then took over a less exciting, lower margin, more commodity-oriented business, Company B. This is when disaster struck: a lack of emphasis from Company A managers on execution led to a breakdown of order fulfilment, orders being automatically stopped because of alleged credit problems, a large proportion of the year-end receivables being written off because there were no records of who had and hadn’t paid, an inability to fulfil orders because, despite there being sufficient stock for five months' worth of sales in the warehouse, nobody could find it when they needed it ...

In short, Company A's beliefs and values – much like DEC's – fought against the disciplined if boring behaviours required to run Company B's processes.

In one high-profile merger which must remain anonymous, the converse to the above situation has taken place. A commodity-oriented manufacturing business, with a near monopoly in its core area, has taken over a higher-end manufacturer in the same broad sector. The target's products include large amounts of customised electronics and its people are used to a high level of cooperation with customers. The acquirer has, however, imposed a heavily siloed structure on its acquisition to prevent clients easily negotiating cost reductions (they now have to deal with five or six reps rather than one). This is a hardball mentality which works well with the core, near-monopoly business, but is at odds with the partnership ethos of the acquisition. It remains to be seen what the effect is, but reps with candid relationships with clients are getting “forthright” feedback, and customers are not without alternative suppliers.

Six tactics for transition management

Just as “mergers and acquisitions” or “M&A” subsumes a range of transactions, so it gives rise to a variety of post-deal management situations. The appropriate mix of tactics will also vary accordingly: here are six of the most broadly applicable. These tactics apply just as well in culture change initiatives that are not simply the result of post-deal integration (for example as a result of a clear change in strategy).

1. Think about behaviours required to execute the new strategy

Look at the situation through the lens provided by the Strategy Implementation sequences in Figure 1. For a business model to be executed, and for customers to have the required experiences at the right times, certain behaviours are logically implied. In order for those behaviours to occur, they, and their consequences, must be highly prioritised and valued by the culture. At a minimum you will see what has to be changed; at a maximum you may rethink the deal altogether.

For example, in the transition from a technology-driven strategy (such as DEC's) to a marketing-led strategy, priorities, behaviour, incentives have to change significantly.

2. Assess what is changing for people – tackle negative effects

A new management team may face a number of changes which could negatively affect performance:

- The team may be accustomed to using many support services from a corporate centre which they will no longer be able to access: HR, IT, Learning & Development, Legal, Finance. Often they won't notice what they are missing until they have an urgent need for it.

- They may have had an extremely hands-on former owner, CEO or MD, meaning that while they have been individually competent, they have never really been a team – the boss did the coordinating and decision-making.

- Alternatively, they may have "grown up" being very cooperative, but have insufficient definition of roles for the new organisation to grow.

- They may be competent managing in a stable state, cushioned by a larger entity, but lack experience of managing for aggressive growth driven by high levels of debt.

- They may poorly handle the staff's inevitable feeling of uncertainty, leading to rumours and the avoidable loss of important managers (the best ones find it easiest to move), reduced morale, poor customer service and increased staff turnover.

Any one of these can ruin a merger, and more than one at a time is not uncommon. Look over your list. What problems may arise? How can they be prevented? What contingency plans can you establish in case they occur?

3. Make change more comfortable

If you say "Change or Die", many people will respond by sticking their head in the sand and carrying on doing what they've always done. They've made the Smoking Kills warning on the cigarette packets bigger than the top line at the opticians – but cigarettes are still flying off the shelves.

So attempting to frighten people into changing is counter-productive. But people can and do change when they see it as advantageous and tolerable to do so. Look at all those formerly computer-phobic pensioners who now can't imagine life without texting or the Skype.

The trick is to reduce the fear-inducing uncertainty created by the 'ambiguous zone' through which people must travel in order to arrive at where they need to be.

This is where a leader's storytelling skills are at a premium. Paint a verbal picture of an "intermediate scenario". Many leaders communicate their ultimate vision quite well, but less of them communicate what it will be like on the way. Make that zone less ambiguous and threatening by communicating not only the final objective and its benefits, but also what to expect while the change is happening: if you can't make it comfortable, at least make it "do-able".

4. Go and meet people

Amazing but true: people buy companies and don't meet the people for weeks or months. This is the most effective way to fuel a rumour mill. And while people are focused on the rumours, they are not focusing on customers. The meeting process doesn't have to be in the form of official presentations (in fact these are unlikely to be believed most of the time).

Some ideas:

- Avoid coming over like a visiting dignitary
- Leave the PowerPoint behind
- Have lunch in the staff cafeteria.

Remember that actions speak louder than words

5. Meet the key influencers early

In any organisation there will be certain opinion leaders who others look to for guidance. But these are often not the "official" bosses.

Remember the two marines charged with murder in the film A Few Good Men? One is the charismatic and purposeful Lance Corporal Dawson, and the other is Private First Class Downey, who is naïve and has some learning difficulties. He is described as "idolising" the Lance Corporal. Whenever something in the court proceedings occurs that he doesn't understand, or that frightens him, the Private turns to Dawson (not the judge or even his own defence team although they are all officers) as the source he trusts in order to find out what is going on and what to do about it.

The way to change organisational culture is to find and influence the influencers. To influence Private Downey, you have to win over Lance Corporal Dawson. Similarly, if a respected supervisor thinks you are ok, you will get the support of everyone who looks up to him or her.

6. Coach key individuals

Most managers have not had the opportunities to develop their technical and people skills equally. An external coach can bring objective questioning, a sounding board, and a deeper knowledge of communication and change to bear during the crucial transition period.

One client acquired a call-centre operation and asked us to work with the newly-appointed General Manager. The Manager had been with the company since its inception around a decade earlier and had been promoted "from the ranks". He was now required to deliver against much more stretching targets than before the acquisition. The challenge for the manager was to assert authority and control without damaging the morale of the staff. We helped him work out conflicts with former peers who were now his direct reports, and with a former boss who is now his peer. Getting past these issues freed up his time to deal with the challenges of delivering results in a much higher performance environment.

Final thoughts

In summary, the seven tactics for smooth transition management are:

1. Think about behaviours required to execute the new strategy
2. Assess what is changing for people – are there negative effects which can be headed off or mitigated?
3. Make change more comfortable, rather than making staying the same more frightening
4. Go and meet people informally
5. Find out who the key influencers are, and meet them early
6. Coach key individuals

None of these are expensive. In fact, Numbers 4 and 5 cost almost nothing, but that doesn't mean we should underestimate their value. We tend to equate *effort in* with *effort out:* if something is easy (especially if it is soft and intangible), we don't see that it could have a big return. Just these two actions can quieten the rumour mill, give you leverage in influencing the culture in your favour, and make the merger more successful.

....

If you would like to read more:

This article is extracted from *The Performance Papers: Incisive Briefings for Busy Leaders*, By Andrew Bass:

"Provides expert guidance for aligning your people with your objectives and turning strategy into action."
Jens R. Höhnel, CEO / President Europe, International Automotive Components Group (IAC)

Available from Amazon:
Hardback UK: http://www.amazon.co.uk/dp/1907498710
Hardback US: http://www.amazon.com/dp/1907498710

Paperback UK: http://www.amazon.co.uk/dp/1907498702
Paperback US: http://www.amazon.com/dp/1907498702

Or download and read it now on your Kindle:
UK: http://www.amazon.co.uk/dp/B005JJW9Z6
US/INT: http://www.amazon.com/dp/B005JJW9Z6
EU: http://www.amazon.de/dp/B005JJW9Z6

Contact pp@bassclusker.com for bulk purchase discounts or call 00 44 (0) 121 427 7217.