

Assessing Culture During an Acquisition

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Abstract

Fair or not, culture gets blamed for many failures in the world of corporate acquisitions. This article describes a process for assessing and communicating the cultures of the target company and the acquiring company to better prepare managers for their role in the post-acquisition world and improve the odds that the acquisition will be a success.

In 2004, Sun Microsystems, a global supplier of network computing solutions, renewed an internal effort to assess the cultures of target companies and the acquiring business units during a corporate acquisition. This effort resulted in the development of an approach used to collect qualitative data on each company's culture and turn that data into practical information for managers. The approach, described below, was originally based on collecting data primarily through one-on-one interviews.

A year later, Sun was making its largest acquisition ever in purchasing the data storage company, StorageTek. The sheer size of StorageTek (over 7,000 employees) made one-on-one interviews an impossible task. A process was required that would:

- involve many people from both Sun and StorageTek,
- encourage employees from both companies to talk about their experiences, and
- provide the data to validate the inferences made about each company's cultures.

This article describes how a fun, interactive exercise was developed that met the above criteria and how the data was shared with managers to improve the transition to the post-acquisition company. This study will also identify the potential uses of the exercise in non-acquisition-related activities.

The Impetus to Focus on Culture During Acquisitions

In 2004, Sun renewed an effort to more accurately measure and articulate a target company's culture. The effort was spearheaded by the functional integration team that was responsible for merging the Marketing, Finance, Human Resources, Information Technology, Sales and other functions of the acquired company into Sun. The integration team believed that an assessment of culture should be as important as other due diligence reviews by Legal, Info Technology, Finance, etc., and that the assessment could influence a "go/no-go" decision on an acquisition. The integration team contacted my group – Sun's internal Organization Consulting Group – to develop and implement a cultural assessment model. It was immediately obvious that many benefits would accrue from a more robust assessment of cultures during an acquisition. Specifically, the goal was to accomplish the following:

- better plan integration activities with a knowledge of "their" culture and our culture
- highlight for executives where the companies are similar and different and which traits would most impact the success of the acquisition
- be able to plan the type of culture best for the future.

A First Model for Assessing Culture

The first step we took in developing an approach for assessing culture was to conduct a Best Practices survey of consulting firms that specialize in culture work and of companies who have made a significant number of acquisitions. Combing the results of the Best Practices survey with an extensive literature review, we identified three categories of cultural traits most critical to assess.

- **Personality** – meaning how it feels to be inside the company – indicators are items such as dress code, communication style and work environment.

- **Operational Characteristics** – meaning how the company is run – such as decision-making norms and use of process.
- **Employee Engagement** – as reflected by recruiting, reward systems, how the employees connect to the company.

Next, we developed a series of interview questions for each of the three categories above, and followed the steps below, which we called the Culture Assessment Approach to conduct the cultural assessment.

Step 1. Conduct the interviews with employees from the acquiring business unit and from the target company.

Step 2. Compare Results of the interviews conducted with the acquiring business unit to those conducted with the target company. To do this, we created “spectrums” for each sub-category in a cultural trait. For example, for the cultural trait “Communication Style” emerged as a sub-category of the cultural category “Personality”. The following steps were taken to help visually represent the results:

- identified the end-points on the spectrum (“More Open” and “More Restricted” in this example),
- placed relative markers for the acquiring business unit and target company, and
- assessed the significance of each sub-category to the success of the acquisition.

Step 3. Develop Action Plans for the acquiring business unit’s leadership team in order to address the areas most critical to the success of the acquisition.

Evolving the Approach

The following was observed during the period from 2004, when the Culture Assessment Approach was first developed, until the time Sun announced the StorageTek acquisition:

1. The three broad culture categories we originally created: Personality, Organizational Characteristics and Employee Engagement, did not resonate with how people thought about their company’s culture.
2. The data collected in interviews during Step 1 of the Approach, could be terribly skewed – respondents offered many different interpretations of the same question and responses were further tainted by the interviewers’ biases.
3. Interviews with multiple participants in one sitting provided richer data than the traditional one-on-one interviews.

These observations led us to believe that a new framework was required to describe culture and that interviews alone were not the best method to collect cultural data.

A new framework in a “kinder-gentler” Edgar Schein

The first issue is the need for a new framework.

Considering the interviews conducted, most respondents described their company in terms of how it felt to work there, what the company aspired to and what the company believed in deeply. This is similar to how Edgar Schein describes a company’s culture as being reflected in:

- **company artifacts**, - things that are easy to see... office décor, how people interact with each other, how employees dress
- its **espoused values** – the company’s stated values
- its **basic underlying assumptions** - the beliefs at the very core of the company.

While essentially retaining the definitions as Schein articulated them, the titles were changed:

- Artifacts became **How we Look**,
- Espoused Values became **What we Value**, and
- Basic Underlying Assumptions became **Core Approaches/Beliefs**.

The team felt this small change would make the model more “approachable” as most people would know immediately what was meant by “How we look”, “What we Value” and “Core Approaches/Beliefs”

Beyond Interviews

The next evolution came in augmenting, or replacing, in some cases, our interview process with an interactive exercise designed to give participants plenty of time to discuss and express their company’s culture.

The exercise requires about 8 – 12 hours to complete and a large number of participants from both the target and acquiring company. We had about 100 participants each from Sun and StorageTek when we conducted the exercise and we allocated the time as follows:

- 3 – 4 hours for the interactive exercise (conducted with the group)
- 4 – 6 hours to analyze the output
- 1 – 2 hours to share and validate the results (conducted with the group)

Ideally, the exercise would be conducted on the first day of a multi-day offsite allowing the overnight time to be used for analyzing the output.

The group was divided into four teams of Sun employees and four teams of StorageTek employees to complete the four activities. Each group then worked on one of the following activities to ensure one Sun and one StorageTek team working on each of the four activities.

The Four Activities

- Write a personal ad for your company
- Choose between two new product development options – one represents incremental innovation; the other is revolutionary
- Coach a naïve new employee to be successful at your company
- Describe how your company would raise children

“So your company is writing a personal ad?” - - Detailed Instructions on the Culture Data Gathering Exercise

The following is a detailed description of how to run the exercise.

- Gather a large group of employees from each the target and acquiring company
- Split each group into 4 teams (so there are 8 teams in total)
- Assign each team one of the four activities
- Give the teams 45 minutes to complete the activity
- Give each team 5 – 20 minutes to report out
- Take away their flip-charts and any other material they used to report-out
- Analyze the data (described further below)

NOTE: During the exercise, it is necessary to coach the teams to help them consider culturally relevant issues. For example, guide them to ensure that topics such as accountability, rewards systems, decision-making, formality, appetite for risk, etc. are being addressed as they work on their activity.

Why the Activities work

These activities work because they were developed to generate data on multiple cultural traits. The four questions used for the StorageTek acquisition and shown in this article were designed to match the culture framework as follows:

- **Write a personal ad for your company** – It was anticipated that people answering this question, would often describe attributes about “How we Look?” as well as some touching on “What we Value”.
- **Choose between two new product development options – one represents incremental innovation; the other is revolutionary** – this question was designed to give more data on “What we Value” - especially in the areas of risk-taking and approach to innovation
- **Coach a naïve new employee to be successful at your company** – this will expose the way things

really get done ... the sometimes unwritten rules of culture that are the “Core Approaches/Beliefs”

- Describe how your company would raise children – this question will help illuminate the extent to which the company lives its Values (“What we Value”) and again, give a glimpse to the “Core Approaches/Beliefs”.

Making sense of the responses

The next part of the process was to take the responses from the exercise, make inferences about each company's culture and place the inferences into the appropriate category in our framework (How we Look; What we Value; Core Approaches/Beliefs). The team's confidence that the activities would provide rich data on the cultural categories was confirmed! The next task was to decide how to best interpret the data. For example, consider just a few of the teams' responses to the activities:

- (responding to Activity 4) “our children will always know the rules”,
- (responding to Activity 1) “adolescent male seeking a type A playmate”, and
- (responding to Activity 3) “you need to take control of your own destiny, nobody will do it for you”.

These examples and the dozen of others were great data but we had to ask ourselves questions such as is “knowing the rules” an aspect of how the company looks? Is it a Value of the company? Or does it reflect a deeply held approach/belief?

To analyze and properly reflect the data, we:

- Conducted a thematic review of the responses using the participants' flip-charts and notes taken during the report-out sessions.
- Labeled each group of themes as a cultural characteristic (i.e. Communication Style, Decision-Making Processes, Nature of Innovation, etc.). It was found that any one group of themes could reflect many characteristics.
- Identified the characteristic as either an element of Look, Value or Approach.
- Shared the results with the participants and gathered their input.

For example, the following is an analysis of responses to “our children will always know the rules”. This response was grouped with other responses that, as a whole, reflected the characteristic we termed “How things get done”. We saw this characteristic “How things get done” as part of the culture category “Core Approach/Belief”. We continued this process until all responses were grouped into a characteristic, all characteristics grouped into a culture category and each company described for each characteristic.

of this kind, reinforcing what was learned – i.e. the results of the culture assessments, the advice to managers, the refresher on teaming and change – need to be constantly reinforced through multiple communications using multiple means.

3. **“If you don’t know where you’re going...”** - as the saying goes “...you’ll make good time”. One step we missed was we did not clearly articulate the culture we wanted to emerge from this acquisition. When making an acquisition, a company has four options for the new culture:

- keep the acquirer’s culture
- keep the target’s culture
- create a new, hybrid culture – i.e. use the best from each
- create an entirely new culture – i.e. establish traits neither company has

Identifying one of the four options above is easy...specifying the traits are harder. If a company can do that in the midst of an acquisition, it will have a framework to better understand the results of the cultural assessments.

Beyond Acquisitions

The culture exercise...or any attempt at assessing and articulating culture...isn’t something that should be considered only when the “patient” is experiencing discomfort (like making an acquisition – a self-inflicted event that is intended to generate tremendous benefits, but is traumatic nonetheless!).

The exercise could be used to help multiple groups from multiple functions, geographies or businesses need to collaborate internally. The benefits of this would be similar to what was described in this article. The knowledge about how each group “does things” would provide managers insight into their teams and provide team members insight into how to work together.

The exercise could also have application for firms entering into joint ventures or for firms that work extensively with large partner organizations. In these cases, if a company develops a strong understanding of its culture, they could use this information as part of the partner selection process.

Conclusion

Internal Organization Design groups are well positioned to help their companies in a field that is gaining recognition as a key element in effective execution against strategy - - understanding and articulating culture. The exercise developed and presented here, while originally crafted for an acquisition, could provide

broader application for companies who are willing to invest the effort in painting a multi-dimensional picture of their culture.

While many things can impact the success of an acquisition (or a cross-functional effort), one critical factor is how well-prepared the managers are to manage in the newly “blended” environment. The result of our culture exercise was to surface and discuss many aspects of culture that would have taken months of post-close activity to reveal. Sharing the results of the culture exercise with managers armed them with the intimate knowledge and practical advice they needed to lead their new teams from Day 1 forward.

The exercise, while allowing us to gather lots of cultural data, was also a method to put people at ease and to encourage them to talk openly about their company. When the exercise was debriefed, participants were asked if they heard more differences or more similarities expressed about the two companies during the exercise. They answered that they saw as many, if not more, differences between the two companies. But when asked if they were more optimistic or less optimistic about the potential success of the acquisition, all but one of the 200 attendees said they were more optimistic. That added boast of optimism alone was worth the work of the exercise, and it helped carry the “new” Sun and its managers through the exciting, confusing and stressful first thirty days of the merger.

Side-Bar Titled “Change Management & Teaming Advice”

During an acquisition, managers could use reminders of some good, basic change practices and the stages that new teams usually experience. Below is a summary of what was provided to the managers.

Good Change Management Habits

- Communicate, communicate, communicate & make yourself available...in person, if possible, don’t rely on email
- Admit to not having the answer but try to get the answer
- Expect anxiety on the part of the team...and yourself
- Invite “bad” news...encourage the team to talk
- Sustain the familiar...where possible
- Celebrate successes

<i>Stage</i>	<i>Focus of Team</i>	<i>Manager Should...</i>
The Team comes together in the Forming Phase ...	Grappling with their charter, mission	Be more directive and focus on communication
.... decides how they'll operate in the Storming Phase ...	Deciding the best approach to deliver on the charter	Facilitate discussions among various, and potentially competing, ideas
...gradually establishes a character in the Norming Phase ...	Delivering on the charter – finding “our way” of doing things	Delegate more responsibly for decision-making
...and hits their stride in the Performing Phase	Meeting and exceeding expectations	Take on more of a coaching role

Table 1. Leading new teams (from Bruce Tuckman’s “Forming, Storming, Norming, Performing model).

Author’s Reflection

Sun’s Organizational Development (OD) function has been in existence for 5 years. Reporting into the Chief Human Resources Officer, it is comprised of 15 OD professionals. The team’s work generally consists of 4 to 6 month engagements involving organization assessment, strategy development and planning, organization design, team and group effectiveness, horizontal initiative support, and change management. The group maintains a bias in focusing on cross-functional or cross-departmental opportunities and a significant portion of their engagements involve clients from the highest levels within the organization.

The intervention described in my article resulted from a long-term relationship between the OD team and the mergers and acquisition (M&A) team. The sheer size of the StorageTek acquisition presented many logistical challenges that required access to internal resources in order to resolve.

As internal resources, our knowledge of our company and our access to critical personnel helped to build a cultural portrait of our existing company. This portrait could then be used to compare the cultural traits of our company to the traits of the target company as revealed during the due diligence process. An external consultant would lack the needed access, the deep relationships, and historical knowledge to complete this type of work. In addition, my knowledge of Sun’s existing culture helped to interpret some of our findings and determine which cultural traits we should focus on most in the target company.

Another challenge faced in this engagement was getting executive level attention focused on culture. With so many urgent issues to attend to during an acquisition, the important, but not urgent, issues are frequently neglected. My role as an internal consultant allowed me to trade on the goodwill my group and I had built up to ensure that proper attention was given to the culture work.

When I began the cultural assessment work on the StorageTek acquisition, Sun had already enlisted the services of an external consultant to assist in the project management of the acquisition. It was determined, however, that the experience we (the OD group and I in particular) brought to the work made us the logical choice to conduct this work on Sun’s largest acquisition ever. The argument for using internal resources is best outlined by Karen Rohde, the senior HR Executive in charge of the acquisition who said: “when it came time to assess the cultures of both Sun and StorageTek, we felt the institutional knowledge our internal consultants possessed made them the logical choice for this work. In addition, since we planned to use the resulting data to guide the newly acquired employees in their assimilation into Sun, and to help managers from both companies better manage their newly blended teams, we thought the messages would be better prepared and better received if they came from Sun personnel rather than from a third party.”