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When Cultures Clash
A cultural risk assessment may help HR prevent a merger from going bad -- so long as the right approach is taken.
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A German company had recently acquired a U.S. firm, and managers were struggling to make the combined organization work. Undercutting their efforts, however, were the starkly different ways of doing business between the German employees and their American counterparts. The Germans were much more deliberative and process-focused, whereas the Americans just wanted to go ahead and get things done. The result was chaotic dysfunction. Chalk it up to cultural differences -- a factor that is often dismissed by bottom-line oriented managers yet has the potential to do enormous damage to a company's well-being and possible survival if they aren't identified and addressed, say experts.

"One of the trickiest areas of business to manage is very diverse cultural groups coming to work together," says Matthew Murrell, CEO of the Foreign Investment Group in New York. The failed merger between Germany's Daimler Benz and the U.S.-based Chrysler Corp. is a perfect example of how such differences can lead to an unraveling, he says.

Cultural clashes don't just involve different nationalities. Within the United States, mergers between American companies often come undone because of clashes between unique company cultures.

And, within individual corporations, the culture and ethics promoted by top managers often fail to filter down to -- or are outright ignored by -- rank-and-file employees, says Brent Daily, CEO of RoundPegg, a Denver-based consulting firm.

This may have been the case at investment bank Goldman Sachs, says Daily, citing the public beating the firm's public image has taken -- including the recently published book titled Why I Left Goldman Sachs: A Wall Street Story, in which former Goldman employee Greg Smith writes about coworkers who mocked clients as "muppets" and routinely ignored ethical guidelines for the sake of profits. (Company leaders at Goldman, including the CHRO, have disputed Smith's account.)

In order to avoid such failures and to protect their reputations, companies have increasingly turned to so-called "cultural risk assessments," which consist of face-to-face interviews of executives and key managers by an outside consultant, along with a broad survey of the workforce. The goal is to present corporate leaders and HR with a clear picture of their organization's culture and identify whether differences exist between how it's perceived by top managers and employees, or if it's effective in motivating managers and employees to behave ethically.

"I think in Goldman's case, we would have been able to identify what may have been a big chasm between the folks leading the company and the people doing the work on an everyday basis," says Daily, whose firm provides cultural risk assessments.

A CRA can also be used prior to a merger to gauge the cultural differences between the two organizations -- regardless of whether they're U.S.-based -- so HR can be prepared to institute training to help blend the two or, at the very least, alert managers to the different ways of doing things within the two entities so conflict can be avoided, says Murrell.

A CRA can also determine whether a company's culture could actually be harming its mission, says Prashant Kumar, president and CEO of MLC & Associates, a Costa Mesa, Calif.-based consulting firm.

One of Kumar's clients, a healthcare organization, was struggling to reduce medication errors. Previously, it had sought to encourage the reporting of such errors by instituting a "blameless" culture, in which employees would not be penalized so long as they honestly reported such incidents instead of covering them up. Although reporting improved, the rate of errors kept growing. After a CRA established a correlation between the blameless culture and the error rate, the organization implemented a new approach that included a method for working with employees to prevent errors from occurring.

"The change led to continued improvements in reporting and it reduced error rates," says Kumar.

Some clients incorporate CRAs into executive searches, he says.

In 2009, executive-search firm Russell Reynolds Associates launched Culture Analyst, a process designed to provide a quantitative, multi-dimensional measurement of an organization's culture. Many clients use the process to help them determine whether a good cultural fit exists between the company and executive candidates, says Bennett Hanig, Russell Reynolds' managing director.

"Most search firms have competencies covered," he says. "But the next level of analysis seems to be neglected, and that is culture."

When a poor fit exists between a newly hired executive and a company, the result can be akin to "the body rejecting an organ transplant," he says.

At one company, Hanig says, his team was brought in to help after a CEO clashed repeatedly with his management team.

"They'd hired a CEO who was strategically brilliant, with great global experience, yet who was also very opinionated and challenging," he says. "It turns out the organization's culture was highly innovative and low on rules, whereas the CEO was highly process-oriented. It was a serious mismatch."

Unfortunately, many companies only realize the importance of cultural differences too late, after a merger or joint venture is already unraveling due to these intangible yet crucial differences, he says.

However, the dismissive attitude of many, if not most, managers toward the very concept of company culture can often impede preventive measures, says Joe Aberger, president of Pritchett, a Dallas-based firm that has advised on mergers such as those between Mobil and Exxon and Pfizer and Wyeth.

" 'Corporate culture' is a broad, vague concept to many managers," he says. "It's dismissed as 'soft.' "

Managers often think " 'If it's not quantitative, then I don't need to pay attention to it,' " says Murrell. "But by the time they realize culture really does matter, the merger is already foundering."

A good way to get managers to take the concept of culture seriously is to frame it in the context of operational risk, he says. "It's important for managers to understand the relationship between culture as a risk variable and operational performance," says Murrell.

Earlier this year, Murrell launched a new product called CORM, based on a risk model he's been developing since 2004. CORM is designed to provide an illustration, with hard numbers, of how intercultural differences can impact the financial well-being of a company if they aren't properly addressed, he says.

It's important for HR leaders to remember that a CRA should have a limited focus if it's to be effective, particularly when it comes to a merger, says Aberger. "A lot of cultural issues are lightweight and trivial, and only a few carry enough voltage to affect the bottom line," he says. "You've got to prioritize -- change only the vital few traits that impact profit, and learn to live with the small, annoying stuff."