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Acquisition Services

Cultural Issues in M&A Deals

Company culture is hard to define and manage, but it is a critical factor in making an M&A deal successful. It is often ignored or misunderstood during and after due diligence of a deal. This is because culture is a “soft” science instead of a “hard” subject. “Hard” subjects are anything like finances, legal contracts, IP, or accounts receivable, among other things, which makes culture a difficult factor to deal with.

How to define a “soft” subject like “culture”?
Many business owners can look at a piece of equipment and understand if it is old, new, well-maintained, or ready for the scrap heap.
Meanwhile, many business owners may say something like, “We treat employees like family,” but what does that really mean? Many families are dysfunctional. We all have a crazy uncle or aunt, and in-laws are usually weird.

Cultural factors often derail deals before they even get started. Usually, one or both parties say that there was **not a good fit culturally**.
However, more than often, that is **due to a personality clash** between the owner and buyer, not due to culture. Deals sometimes die during due diligence because of cultural factors; however, that is fairly rare.
Typically, culture is number 23 on the top-25 **priority list**, and the parties stopped paying attention after number 15.

Worse of all, culture can cause deals to fail after closing.

- For the buyer, that can be disastrous.
- For a seller, if any of the proceeds of the sale are deferred for after closing (and very few private deals are 100% cash), it’s financially important that the acquisition be successful.

Some general examples of **how cultural factors derail deals after closing include:**

1. Buyers think they can professionalize companies that have a family culture, but a laid-back culture can be truly ingrained in the company.
2. Owners think they have one culture, but the culture below top management may be different, and buyers do not get to talk with employees below top management usually, so they do not find out about the true culture of the company until it’s too late.
3. Buyers put an executive in charge who has never run that type of business, does not care what the culture has been, and makes changes without any feedback from employees.
4. Buyers ignore the company they acquired for months or years, causing all of the highly motivated employees to leave.

Culture can be determined by a boss' style or dictated from the top. It can be **different from group to group**. For example, the sales department is usually different from engineering, quality, production, shipping, etc.

Many buyers say they are not going to change anything, but then what's the point of doing the deal if the buyer is not going to improve the business? If a buyer is looking to change the culture, they should be open about it with both management and employees. Some employees may leave, but the ones that stay will be more in-line with the company's new focus. However, don't blow out everything related to the acquired company's culture, as there must be a few things that were working right.

Most smaller companies start with an entrepreneurial culture, but then become a place where employees are just trying to keep their jobs. Most public or PE-backed companies are more results-driven, which often clashes with a small, mom-and-pop family-business culture.

Culture does not equal benefits or compensation packages. A ping pong table and free cold brew coffee may be reflective of a company's culture, but it is more than that. **Culture is**

- how a company reacts to change,
- how employees react to each other,
- how information is communicated,
- how knowledge is generated and shared, and
- how customers, vendors, and stakeholders are treated.

Depending on which study you look at, there are between four and 50 types of company cultures. Add foreign cultures, different generations, and multiple locations to the mix, and the variations are endless.

When considering the sale or acquisition of a company, be sure to consider culture and identify the **top four to five issues that are relative and important.**

For a seller, prepare in advance of a sale to identify the company's culture, and work to fix anything that is fixable (you will be paying yourself through a higher valuation). **It is better to take on cultural issues early in the process rather than try to fix things later that you did not know were broken.**

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