

Mergers, Acquisitions, and Organizational Effectiveness

PART 1 OF THIS BOOK consists of three chapters:

- Chapter 1: Mergers, Acquisitions, and Organizational Culture
- Chapter 2: The Organization as a System
- Chapter 3: Organizational System Alignment

In these chapters we present the data and research findings on the success of mergers and acquisitions, present the business case for cultural due diligence and assessment, define and discuss organizational culture and performance, and establish the prerequisite concepts and understanding required to deal with the details of *cultural assessment* and *cultural integration* presented in Parts 2 and 3 of the book.

Mergers, Acquisitions, and Organizational Culture

AFTER A RELATIVELY SHORT HIATUS following the infamous events of September 11, 2001, and their impact on the U.S. economy, the pace of mergers and acquisitions (M&A) around the globe is again on the rise—in spite of an abysmal financial track record to date for these deals. According to recent government statistics, a major increase in merger activity is already underway, based on what is anticipated to be a 300 percent increase in applications for antitrust clearance (required for mergers valued at more than \$50 million). The \$318 million in antitrust application fees so far in 2003 is the largest amount ever raised from the pre-merger notification program and represents some 2,800 mergers of over \$50 million in value anticipated in 2004—more than twice the number of mergers reported to antitrust agencies in 2002.

Driving this wave of M&A activity is the desire by companies—large and small—all over the globe to gain competitive advantage through growth,

consolidation, and entry into new markets. In order to do this, they must find and form some type of alliance, merge with or acquire partner companies offering strategic synergy. Such alliances can offer the combined companies economies of scope and scale, a more comprehensive product and services inventory, broader geography, access to new markets, and a solid platform for globalization.

The deals all look good on paper, but serious problems lurk in the process, as can be seen in their track record.

THE M&A REPORT CARD

The failure rate of mergers and acquisitions is unreasonable, unacceptable, and unnecessary. Clearly, mergers and acquisitions will continue to be the growth strategy of choice, as they were in the 1990s, which—with some notable exceptions—flies in the face of the marked lack of success of such deals to date. In a 1995 review of thirty years of activity, *Business Week* came to the conclusion that most of the time the acquirers actually *lose* money on the acquisition. In *The Art of M&A Integration* (Lajoux, 1998), fifteen studies are listed that were done between 1965 and 1997, covering well over seven thousand mergers and acquisitions in depth. The bottom line for these studies and many more is that between *55 and 77 percent* of all mergers fail to deliver on the financial promise announced when the merger was initiated.

Other disquieting evidence of difficulty with mergers and acquisitions:

- The *Business Week* study also showed that stock prices of acquiring companies fell an average of 4 percent and that there was generally a negative correlation between mergers and acquisitions and increased profitability.
- Typically there is a 50 percent dropoff in organizational productivity during the first four to eight months after the merger or acquisition.
- Stock price declines approximately 70 percent of the time on a company's announcement of a merger or acquisition.
- Only 23 percent of acquisitions earn back their capital cost.
- General Electric states that 95 percent of its acquisitions over the past decade yielded "disappointing results."
- A 1992 University of Chicago survey showed that almost half of the businesses acquired in mergers were later sold again, many times at a significant loss.

- A McKinsey Consulting study showed that, of 115 large acquisitions in the early 1990s, 60 percent were considered failures within five years.
- Studies show that some 40 percent of cross-border mergers among large companies end in what is termed “total failure,” with the acquiring companies never recovering their capital investment.

Overall, the success of mergers and acquisitions over the last decade gets a grade of C- at best (Galpin, 2000).

M&A FAILURE COSTS

The cost of failure is significant. According to *Fortune* magazine, thirty years of M&A activity has resulted in an average of 3 percent loss of equity. Other direct “hard” failure costs include:

Lower Share Price

- Over the last three decades, almost 17.5 percent of merger acquiring firms lost more than 5 percent of their value upon announcement of the merger, while only 11 percent had corresponding positive returns (AMS, 2001).
- The average acquirer lost almost 4 percent of its value (3.8 percent) in the medium term as a result of the merger (Andrade, Mitchell, & Safford, 2001).
- In deals financed by the issuance of equity, acquiring firms lost over 6 percent of their value over the medium term as a result of the announced merger (Andrade, Mitchell, & Safford, 2001).
- A *Journal of Economic Perspectives* report (Andrade, Mitchell, & Safford, 2001) using a sample of mergers from 1961 through 1993, showed that, in the three years following the merger point, estimates of abnormal stock price reactions are quite negative: –5 percent for an equal-weighted portfolio of firms (–9 percent when the deal was financed with stock), and –1.4 percent for a value-weighted portfolio. In addition, growth firms underperform by an average of –6.5 percent equal-weighted and –7.2 percent value-weighted.

Excessive Acquisition Premiums

- Acquirers pay premiums that average as much as 25 percent (Andrade, Mitchell, & Safford, 2001, and many others), indicating that most if not all of

the economic benefits of mergers accrue solely to the shareholders of the target firm and not to the acquirer owners.

Decreased Profitability

- Approximately 60 percent of mergers result in lowered profitability for as long as seven years post-merger, compared to a control group of non-merger firms (Schenk, 2000).

Changes in Productivity

- McGlickin and Nguyen (1995) report that, while industrial acquirer plants show increased productivity in the short run, acquirer plants endure longer term productivity losses. AMS (2001) and Schoar (2002) point out that the net productivity gain for mergers is thus zero on average.

Loss of Market Share

- Some research asserts that acquired firms involved in mergers lose 75 percent of their pre-merger market shares on average, compared to firms in the same industry that were not acquired (Mueller, 1986).

Bad Bidders Become Good Targets

- Stock price reactions of acquirer firms whose acquisitions were subsequently divested (likely failures) are reliably and strongly negative (about –4 percent of firm value) (Mitchell & Lane, 1990), indicating that the market often punishes firms for making bad or unsuccessful merger decisions.
- In addition, acquiring firms that are unsuccessful themselves become targets, and the market appears to sense this. Firms whose acquisitions result in divestitures and who subsequently become targets lose about 7 percent on average at the initial announced merger. About 40 percent of these bad bidders soon become acquisition targets themselves, according to Mitchell and Lane (1990).

Indirect “soft” costs of failure or ineffective integration are significant as well, and include:

Lack of External Focus on the Customer, Competition, and the Marketplace

- News of a merger or acquisition attracts attention and can prove unsettling to customers and the financial community. Competitors can take advantage of this

turbulence and actively market and sell on the basis of it. At the precise time when strong external focus is essential, the acquiring and target company can become distracted by the complex internal issues of integration and fail to focus sufficiently on their external *stakeholders*.

Low Staff Motivation and Morale

- In most mergers and acquisitions, the rumor mill accurately runs months ahead of any formal corporate communication about a merger or acquisition. Meetings of executives between the two companies, visits by consultants, and requests for documentation are all evidence that something is going to happen. As staff hear the rumors and business news reports, speculation runs rampant in both companies. Absent any formal communication on the merger or acquisition about what will happen, why, when, and how, survey after survey indicates widespread anxiety, loss of motivation, and decreased morale—all with serious negative impact on performance and service levels.

Loss of Key Executives—Nearly Half Within Three Years

- One observable indicator of a pending merger or acquisition is the daily arrival—morning and afternoon—of the Federal Express truck delivering documentation from executive recruiters and picking up the completed documentation from key executives. Again, the news of a merger or acquisition creates a window of opportunity for competitors to take advantage of a period of uncertainty and to poach executive talent away from the acquiring or target company. Research indicates that up to half of the executives in firms involved in a merger or acquisition leave within three years (Galpin, 2000).

Loss of Key Staff—Many Long-Serving High Performers and Informal Leaders

- In times of organizational upheaval—as with a merger, acquisition, or other large-scale change—if communication about the change (specifically about staff reduction, reassignment, or relocation) is not handled well, the best and brightest leave first. Obviously, the more talented, technically competent, and experienced are the most in demand in the marketplace, and they find little difficulty in obtaining a new job—often with the competition and at significantly higher compensation. This can represent a serious “brain drain” in areas of technical expertise, with replacement being costly and time-consuming. The

antidote to this problem is disclosure—as early and as full as possible—about the architecture of the merger or acquisition and the reasons behind it. This is especially true in the case of key staff, who should be helped to see clearly the new vision and strategy and the opportunities it represents for them in the new company.

Brand Confusion—Loss of Brand Focus

- Often in mergers and acquisitions, one of the brands goes away. In the case of the merger of Bank of America and Nations Bank, even though Nations was the acquiring company, the corporate brand became Bank of America because of its global brand recognition. When First Union and Wachovia merged, the decision was to operate through 2003 under both brand names, and then take on the strong Wachovia brand, even though First Union was the larger of the two organizations. First Union became the corporate brand except in certain areas like the securities business, where Wachovia had better brand recognition. With the Hewlett-Packard and Compaq merger, the new company assumed a new brand identity as *hp*, except for certain Compaq products well-known in the PC marketplace that continue to carry the Compaq brand. All of this can be very confusing and emotional, especially to the target company whose staff feel a real sense of loss of identity. Customers perceive this lack of brand focus and confusion as indicators that there is no real commitment to the merged operations, and again an advantage for competitors is created. The logic and business rationale of re-branding, selective branding, and product line consolidation should be made clear early in the communication process.

Decreased Customer Service Levels and Satisfaction

- All of these factors and more can contribute to significantly decreased levels of customer satisfaction. Integration problems, if not properly anticipated, can unintentionally put barriers in the path of customer service—as with conversion to a new telephone or e-mail system, consolidation of customer data bases, integration of billing systems, and so forth. All the customer knows is that telephone calls are not returned promptly, e-mail messages are kicked back, and billing errors are frequent and difficult to resolve. All too often, customer focus is lost due to a poorly planned and inefficient integration. No one is talking to the customer about the merger or acquisition prior to the fact about new

customer benefits or checking with the customer during the integration process. Even key accounts are left unattended and vulnerable to the competition.

Given this dismal history, there have been numerous studies to ascertain why the merger and acquisition record is so poor. In *The Synergy Trap*, Mark Sirower, (1997) places part of the blame on the payment of excessive acquisition premiums for the alleged synergies that will be gained in the future by the new organization. He also points out that, above all, speed is of the essence in the merger and acquisition process, in that—given the value of money over time—time really is money. But while this excessive premium cost may well be a major factor, it is not the primary cause of the high failure rate.

WHY MERGERS AND ACQUISITIONS REALLY FAIL

In short, *culture clash*, the impact of operational and cultural problems stemming from cultural differences of the two organizations involved in the merger or acquisition, is undeniably the primary causal factor in the failure of mergers and acquisitions and strategic alliances.

Coopers and Lybrand, the British Institute of Management, Watson-Wyatt, and a long list of researchers have all come up with the same findings—*culture clash* results in internal confusion and in-fighting, characterized by different or unfamiliar ways of “*doing things and talking about things*.” These in turn result in huge inefficiencies, loss of time, and increased internal focus at the exact same time that the new company needs absolute ringing clarity on purpose, plan, and action, with strong external focus.

What is culture clash? It is best defined by its symptoms:

- Observable differences between the companies involved in a merger about: *What is believed; what is important; what is valued; what should be measured; how people should be treated; how people treat one another; how decisions are made; how to manage and supervise; and how to communicate.*
- The disruption that occurs when the way one company conducts its business and treats its people is folded in with another company’s way of doing business.
- Differences of opinion, disagreements, arguments, and different assumptions regarding the internal process of implementing the new business plan and strategy.

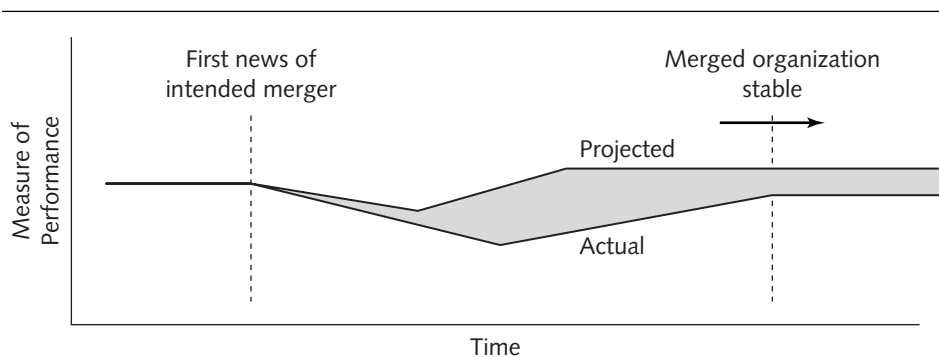
- Perceived differences in organizational beliefs, values, and practices.
- Perceived differences between the two companies in degree of formality in style of dress, language, work space, communication, and so forth.
- “Winner-loser” language used by either organization’s people.

Since speed in implementing the integration and achieving post-merger effectiveness is absolutely critical, and culture clash is the biggest obstacle to achieving the clarity and focus necessary for rapid implementation, then what is generally being done to anticipate and manage culture and management style integration issues?

The general answer is *very little or nothing at all*. In their 1999 study of 190 CEOs and CFOs experienced in global acquisitions, Watson Wyatt found that cultural incompatibility is consistently rated as the greatest barrier to successful integration, but that research on cultural factors is least likely to be an aspect of due diligence. What a conundrum! The greatest barrier to success of a merger or acquisition is the least likely to be researched during the due diligence process.

Why does this situation exist? The answer seems to lie with the arrogance of CEOs, Boards, and senior management teams, who assume cultural compatibility of the two organizations in the absence of any due diligence, or strongly believe that even if culture clash does occur nothing can really be done about it. These assumptions persist in the face of a dismal M&A track record and significant research and literature on the impact of culture on M&A success. The result? Post-merger performance that looks like that shown in Figure 1.1.

Figure 1.1. Typical Post-Merger Performance



ORGANIZATIONAL CULTURE AND CULTURE CLASH

This kind of false assumptions about cultural compatibility and the inevitability of culture clash were clearly demonstrated at the Best of Mergers and Acquisitions Conference in Tampa, Florida, in 2000. Ten of the twelve speakers made it very clear that, while organizational culture was undoubtedly an area that was important to M&A success, they didn't feel it was possible to do much about it.

At a Conference Board seminar in New York in 2001, the majority of speakers said that culture was critical, but that it was impossible to deal with it in an effective and predictable manner. The collective wisdom seems to be that the cultural impact on a merger or acquisition and the inevitable culture clash issues that arise *just have to be lived through!*

In these post-Enron/WorldCom/TYCO times, when the individual and collective behavior of corporate Boards of Directors, CEOs, and the executive team is under increased and continuing scrutiny, does negligence stemming from arrogantly held positions and false assumptions about the impact of cultural compatibility on the success of mergers and acquisitions become malfeasance? The data are clear, research and examples abound, and there is a large body of knowledge on organizational culture, cultural due diligence, and cultural integration. Certainly senior HR executives, CFOs, and chief counsels are aware of this body of knowledge, as it is a frequent topic of discussion in their respective journals and professional societies.

Soon the shareholders of a company that is party to a mismanaged and failed merger or acquisition won't be willing to take their lumps silently. They can and will allege malfeasance on the part of the Board of Directors and executive team for overlooking the impact of cultural compatibility as part of the due diligence process.

A clear precedent can be found in a 1991 decision by the Delaware Chancery Court—the same court that dismissed Walter Hewlett's suit attempting to block the HP-Compaq merger in 2002. In the Time Warner versus Paramount suit, the court concluded: "Consistent with the general law, the moral issues must be decided pursuant to moral values that, in bid cases, include as one factor the internal culture of the target corporation and presumably also the host culture in which the corporation carries on business."

The assumption that corporate culture clash in M&A cannot effectively and reliably be managed is absolutely false. Corporate culture can be and has been

managed very effectively in a number of companies over the years. Kotter and Heskett, in their book *Corporate Culture and Performance* (1992), demonstrated with painstaking research that corporate cultures are real, that they can be effectively managed, and that, if managed properly, they will also produce long-term economic performance that far outstrips the results of companies that do not manage their cultures.

A CASE STUDY IN MANAGING CULTURE—BRITISH AIRWAYS

From 1984 to 1994, British Airways under the leadership of Colin Marshall clearly demonstrated the ability to fundamentally change its longstanding and deeply embedded organizational culture in order to deliver dramatically improved results in terms of customer satisfaction, employee satisfaction, shareholder satisfaction, and profit—regardless of general overall trends in the airline industry. This culture shift is generally considered the first large-scale corporate transformation to have been successfully achieved.

During this period, British Airways acquired British Caledonian Airways and found itself in the midst of a full-blown culture clash, particularly within the Gatwick airport operations, where service levels and profits were plummeting while they were steadily improving at Heathrow. Once the cultural issues were focused on, this situation was turned around definitively in less than six months—even though resolution of culture clash after the fact takes far more time, effort, and resources to resolve than does cultural integration that is planned from the beginning of the merger or acquisition process. (More details are presented in Appendix A.)

THE PREVAILING WISDOM IS WRONG

A number of similar cases have been reported, both in terms of successful internal integration of culture/style within an existing company, as well as in part of an integration of merged company cultures—but it is still clearly the exception rather than the rule. The primary reason for this rests with the abundance of misinformation and misunderstanding about corporate cultures, how they are formed and managed, how they can be analyzed, and how they can be merged or modified.

Partly because of the fact that full understanding of the culture aspect of organizations is still developing, a problem exists with definitions and general understanding of what is meant by corporate culture. It is complicated because corporate culture has many components and in fact is only a manifestation of an overall system.

“Culture” cannot be dealt with in isolation; a simple and focused “culture change” program is almost assuredly going to fail to create sustainable, measurable change. To work with the culture of an organization is to work with all of the factors of the company that have any bearing on why people behave the way they do on the job from day to day. To effectively manage the organizational culture is to deal with hiring, firing, incentives and compensation, decision making, organizational structure, policies, procedures, technology, work flow, management and leadership styles, processes, and measures—at a bare minimum.

CULTURE AS THE CULPRIT

When we first began researching and writing on organizational culture (Lineberry & Carleton, 1992), there was still active debate as to whether or not corporate culture existed and, if it did, whether or not it had a significant impact on organizational performance. Over the intervening years, that debate has been resolved: it is now generally agreed that all organizations, irrespective of size, have a corporate culture and that its impact on organizational performance and results is enormous (Kotter & Heskett, 1992). The debate now focuses on how to best align the organization’s strategy, culture, and supportive infrastructure to achieve and maintain competitive advantage in an increasingly turbulent global business environment. This is a significant priority because of the exponential increase in mergers, acquisitions, and strategic alliances as a strategy for corporate growth and industry consolidation into the millennium.

The importance of compatible cultures in mergers, acquisitions, and alliances has given rise to a need for cultural corporate due diligence (Carleton, 1997) as a consideration of equal or greater importance than the traditional financial and legal due diligence that typically precede such deals.

“Culture clash” is a term that appears frequently in the world’s financial and business press, usually in explaining why the intended merger, acquisition, or alliance failed or was abandoned at the last minute by one or both parties.

Corporate culture has been clearly established as a major driver of organizational performance and results, and of individual performance within organizations. Over the past decade, the evolution and development of a technology for the analysis, assessment, and management of corporate culture has quickened. Culture and culture change are now common business terms, heard on the line and on the shop floor, not just in the Boardroom or HR department. The clear research-based business case for cultural due diligence in planning and executing mergers and acquisitions can no longer be ignored, neglected, or denied.

DEFINING ORGANIZATIONAL CULTURE

So what is this thing that has so captured the attention of managers, consultants, and now Wall Street and the world's financial markets? It certainly is not new; corporate or organizational culture, by definition, has been around for as long as organizations have. Various definitions of organizational culture have been reported by Schein (1985), among them the following:

- The norms that evolve in working groups, such as the particular norm of “a fair day’s work for a fair day’s pay” that evolved in the Bank Wiring Room in the Hawthorne studies (Homans, 1950);
- The feeling or climate that is conveyed in an organization by the physical layout and the way members of that organization interact with customers or other outsiders (Tagiuri & Litwin, 1968);
- The dominant values espoused by an organization, such as product quality or price leadership (Deal & Kennedy, 1982);
- The philosophy that guides an organization’s policy toward employees and/or customers (Ouchi, 1981; Pascale & Athos, 1981); and
- The rules of the game for getting along in the organization; “the ropes” that a newcomer must learn to become an accepted member (Ritti & Funkhouser, 1982; Schein, 1968, 1978; Van Maanen, 1976, 1979)

All of these definitions touch on certain aspects of organizational culture, but none can be considered full and complete in itself. Schein (1985) provides a fuller and more essential definition of the term as “a pattern of basic assumptions— invented, discovered, or developed by a given group as it learns to cope with its

problems of external adaptation and internal integration—that has worked well enough to be considered valid, and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems.” Or, in the tersely eloquent words of Burke and Litwin (1989), organizational culture is “*the way we do things around here.*”

Many key organizational issues relating to effectiveness—quality, customer satisfaction, teamwork, innovation, decision making, and flexibility, to name a few—are primarily driven by the organization’s culture. Therefore, organizational culture is a critical aspect of organizational survival and success, and the ability to analyze, understand, and manage the culture of the organizations that are merging is vital.

Whether dealing with an overall organizational culture or with a subculture, the term *managing the culture* can wrongly imply a much larger effort than is appropriate. It can conjure up notions of total creation, replacement, or transplantation of a culture, when what is intended is some modification of the existing culture—a change in the values/beliefs/behaviors system. Change efforts may be relatively small, as in altering a particular behavior pattern (using the customer’s name in all telephone contacts), or relatively large, as in establishing a new value within the culture (continuous improvement or customer focus). The scope of the effort and its focus result from a systematic and empirical analysis of the organization and its culture(s).

No matter what the scope and focus of the intended culture change, it is wise to keep in mind the caution offered by O’Toole (1985): anthropology indicates that culture changes in one of two basic ways, revolution or evolution, and attempts at revolutionary culture change always fail; it is the shared experience and common history of a group over time that changes the culture.

CULTURE AND PERFORMANCE—THE HARD DATA

The impact of corporate culture on organizational performance and financial results is very real. As we have said, analysis and management of corporate culture is key to business success and can no longer be considered as corporate social work to be looked after solely by the HR department, if at all.

It is real business, as demonstrated by Kotter and Heskett (1992) in their long-term study of largest ten to eleven high-performing companies in each of twenty-two industries over a seventeen-year time period. The study included

companies such as Hewlett-Packard, Xerox, Nissan, and First Chicago and a quantitative study of the relationship between culture and performance in more than two hundred companies. They reported that those companies that actively managed their cultures to be adaptive and flexible outperformed companies with strong but rigid cultures by an impressive margin, as shown below.

Adaptive Versus Non-Adaptive Culture Results*

- Revenue increase of 682 percent versus 166 percent
- Workforce expansion of 282 percent versus 36 percent
- Stock price increase of 901 percent versus 74 percent
- Net income increases of 756 percent versus 1 percent

They concluded that “the vast majority of firms currently do not have cultures that are sufficiently adaptive to produce excellent long-term economic performance.” Clearly, managing the corporate culture is a significant activity in leading and managing the business—and it merits special focus in mergers and acquisitions.

NATIONAL VERSUS ORGANIZATIONAL CULTURE

Increasingly, mergers and acquisitions are done internationally, attempting to bring together two or more companies representing different national cultures, for example, Chrysler and Mercedes-Benz, Volkswagen and Rolls-Royce, British Petroleum and AMOCO, Groupe Schneider and Square D. Even without a merger, as companies globalize, they have operations in countries other than the company’s home country. In any case, multiple national cultures introduce an additional complexity that must be considered when analyzing corporate cultures.

Although it is beyond the scope of this book to deal comprehensively with the special challenges and increased complexity that different national or ethnic cultures bring to a merger or acquisition, some basic points of consideration may prove helpful.

Stephen Rhinesmith, one of the world’s leading researchers and strategists on globalization, relates an anecdote in *A Manager’s Guide to Globalization* (1996) that provides a glimpse of the unique difficulties that can be part of cross-cultural

*From Kotter & Heskett (1992).

alliances: “Life can be tough on the frontier of globalization. Take the joint venture among three competing high tech companies from three continents—Siemens AG of Germany, Toshiba Corporation of Japan, and IBM. They are trying to develop a new chip together in East Fishkill, New York. The Triad, as they call themselves, are working in an IBM facility in the Hudson River Valley with over 100 scientists from the three organizations. Not surprisingly, cultural factors are a major challenge in the operation. *The Wall Street Journal* (May 3, 1994) reported:

‘Siemens scientists were shocked to find Toshiba colleagues closing their eyes and seeming to sleep during meetings (a common practice for overworked Japanese managers when talk does not concern them). The Japanese, who normally work in big groups, found it painful to sit in small, individual offices and speak English; some now withdraw when they can into all-Japanese groups. The Americans complain that the Germans plan too much and that the Japanese—who like to review ideas constantly—won’t make decisions. Suspicions circulate that some researchers are withholding information from the group.’

“Global homogeneity was never a desirable vision culturally, creatively, or philosophically. But now it has become clear that living with and managing diversity will be the central theme of the coming century.”

In his book, Rhinesmith explores what he views as the seven key factors of multicultural team leadership:

1. Personal styles of the team members.
2. Functional cultures of team members (finance, engineering, marketing).
3. Corporate culture of the company, division, or unit represented by each team member.
4. National culture of each team member.
5. Stages of team development.
6. Effectiveness of team functioning.
7. Stage of professional development of each team member.

These management factors operate at the *team* level. Gert Hofstede’s empirical research project, *Culture’s Consequences* (1980), updated in *Cultures and*

Organizations (1991), overviews four major national culture variables across forty countries and examines their implications for managerial differences at the *organizational* level. Any company considering a merger or acquisition across borders involving a company from a different national culture must be conversant with this research and factor it into its cultural due diligence process.

According to Rhinesmith, most Western companies select, recruit, and reward people who are achievement-driven, control-oriented, and time-sensitive and who exhibit a *bias for action*. This is a very “American” profile, and certainly not desired in all national cultures. Other implications of national culture differences for operating a business can be seen in the area of *risk management*. People from cultures in which people feel a sense of control over their environment, typically Western cultures, will have a higher tolerance for risk than will people from cultures in which people feel constrained by their environment, typically Asian subcontinent and African cultures.

Factoring national differences in culture into the cultural due diligence process is probably best accomplished by assessing the national cultures on the same characteristics. A very useful model is presented in the book *Doing Business Internationally* (Medina-Walker, Walker, & Schmitz, 2002). The authors present and define ten characteristics of national culture that can be used for comparative analysis. These include: *environment, time, action, communications, space, power, individualism, competitiveness, structure, and thinking*.

Reflect on a trip you have taken out of the country and contrast your own orientation on these characteristics against that of the country visited and you will probably see the point. Did you find yourself upset by what you perceived as lack of punctuality? Being crowded on public transportation or in the marketplace? Not being able to clearly identify who was in charge? These are small but predictable examples of *culture clash* stemming from differences in national culture and, in part, the basis of the “Ugly American” stereotype. Cultures are not wrong; they just are as they are. Unfortunately, we tend to lack cultural sensitivity as individuals and organizations and expect our culture to prevail wherever we go.

A final word on the topic, again from Rhinesmith (1996): “When managing across cultures in which your company’s values and behaviors are inconsistent with local culture values, it is important to fully understand local culture values, so that, when you violate them, you can do it in a culturally sensitive manner.”