Journal of Intercultural Management
Vol. 1, No. 1, April 2009, pp. 64–81

Agata Stachowicz-Stanusch
Politechnika Śląska

Culture Due Diligence based on HP/Compaq Merger case study

Of course the merger was a success. Neither company could have lost that much money on its own.
Steve Case, Former Chairman of the Board
AOL/Time Warner

1. Introduction

From the smallest businesses to the world's largest corporate titans, the search for synergy often leads people to seek new markets and new partners. The vast majority of these efforts are driven by business factors, but according to numerous experts, they succeed or fail more often because of cultural factors than for any other reason. As a result, the organization that understands its core values is much more likely to reach the kind of growth and success that nearly all businesses seek [Gallangher 2003, p. 165].

Mergers and acquisitions, or "M&A" as they are known in the trade, serve as a prime example of how intangible aspects such as corporate culture can hold sway over billions of dollars and thousands of careers. When done well, they have the potential to grow markets, build on complementary strengths, and eliminate inefficiency. But because they involve human beings, it is impossible to predict their success on a balance sheet solely through tangible factors such as infrastructure, head count, or market share. What ultimately matters in an acquisition is what happens in the hearts and minds of the people who remain with the new organization and what culture these formerly distinct entities-choose to build while moving forward [Gallangher 2003, p. 201].

The sad truth is that nearly two-thirds of corporate mergers do not worn out as well as expected, even in the short term, and the reasons often have little to do with business issues. In the Mercer Consulting Group's study, figures show that even leveraged buyouts (which often lack the business synergies of other mergers) do better than merged companies taken as a whole. In explanation, they state bluntly that many of these failures are caused by not conducting the same kind of "due diligence" on the culture, structure, and processes of an acquisition target as they do on the financial balance sheet [Gallangher 2003, p. 200].

Due diligence is one of the methods used to study, investigate, and evaluate business opportunities. Although the term was popularized in the 1980s, the activity has been a part of business transactions for years [Bouchard, Pellet 2002, p. 167].

Historically, due diligence has focused on the legal and financial aspects of an organization and its operations.

Due diligence is typically done before major decisions are made or shortly after they are announced to the public. The scope of due diligence determines the length and cost of the procedure and typically varies with factors such as the size and complexity of the organization or businesses that are under scrutiny; the size of the deal; the relative risk to all parties involved; and time and budget constraints.

What is due, or sufficient, diligence varies with every situation. At a minimum, due diligence typically analyzes the following:

– Historical activity (prior five years' worth, if available).
– Ownership and structure of entity.
– Management team.
– Products and services, including market share by category.
– Assets and liabilities.
– Information systems and technology.
– Organizational culture [Bouchard, Pellet 2002, p. 168].

Due diligence is universally conducted as part of the analysis for mergers and acquisitions, increasingly, it is used when evaluating all types of business combinations or affiliation agreements. However, the focus of due diligence continues to be on the so-called "hard" data. However, this soft side of personal due diligence still seems to be lacking in organizational due diligence.

In a 1997 position paper, J. Robert Carleton, management consultant and senior partner of the Vector Group, says, "Unfortunately, little or no time is generally spent analyzing the nature, demeanor, and beliefs of the people who will be involved in carrying out the business plan". He believes that standard due diligence does not address some of the key questions that must be asked to accurately assess organizational readiness for a major change, such as a merger or acquisition. Even when some of the "right" questions are asked, Carleton argues, they are often limited to brief interviews with key executives, who likely have differing views from the rest of the employee group. The people in the trenches, the ones doing much of the actual work are not even involved. He finds it interesting that "in financial and legal due diligence no such 'act of faith' is acceptable" in terms of the investigative procedure [Bouchard, Pellet 2002, p. 171].

Companies must examine organizational cultures as well as the other key elements.

"Cultural due diligence" is a term borrowed from the financial due diligence that is part of any merger or acquisition, when the acquiring firm pores over the/ books and balance sheets of the company it is acquiring to assess its financial health. No one would ever think of moving forward with a merger without this detailed financial check, but if it did the same for assessing a partner's business culture, it would get to examine factors that often loom far larger in the success of a new partnership. By adding this cultural due diligence to your own process for growth by acquisition, you gain a substantial competitive advantage over those firms who do not, and in the process, preserve the values that make you successful as you grow [Gallangher 2003, p. 204].

Cultural Due Diligence is the process which analyzes key cultural domains that include:

– leadership and management practices, styles, and relationships,
– governing principles,
– formal procedures,
– informal practices,
– employee satisfaction,
– customer satisfaction,
– key business drivers,
– organizational characteristics,
– perceptions and expectations, and
– how the work gets done in your organization [Bouchard, Pellet 2002, s. 173; see also Carleton, Lineberry 2004, pp. 53–58].

2. Culture Due Diligence during HP/Compaq Merger – case study[1]

During the HP-CPQ merger, we claimed that values hold one more beneficial power – they are a source of democracy in the organization. Why? An organization is a child of a society. During the HP and CPQ merger we found that our organizations were not only children of democratic societies, but also, that even in the period of sudden changes, they were champions of democracy. Senge stated that "the more stress we put into an organization, the stronger a tendency to return to its most primitive behaviour shall be", and values, or in other words, this that specifies an identity of an organization, may be the first thing to be thrown out of the window. In case of the HP and CPQ merger, it was the values that enabled the realization of all the process, making it

[1] Based on internal materials of HP and direct quality research in HP/COMPAQ Post-Merger Integration office Munich, 2002/2003.

possible to recover from a crisis and build a new organization. Thus forming a new organizational society meant discovering common values, which then acted as a platform for our new organization. This process may be called a process of value democratisation, because discovering and defining values engaged all our organizational society. In our case, we did not deal with ever so prevailing dictatorship of organization values, where "core values" of an organization are simply imposed on employees by top management. The process of discovering, defining, and adjusting organization activities to its main values has made each New HP employee identify with the values and goals of the organization. Our employees are aware of the fact that they are entities possessing their own values and needs, but it is sharing common "core values" that harmonises them with goals of the whole organization. Both all the society, as well as its individual parts, understand that in their best interest is to stick together and they believe the New HP will enable them to achieve their individual objectives. The employees shall then grow with the help of the organization and the organization with the help of its employees. Values are not about what is said about them to employees, but how they work. In that case, we shall present a short description of the process that made it possible not only to maintain, but also develop democracy during the CPQ and HP merger [Stachowicz-Stanusch 2004, pp. 91–92].

HP has been guided by a strong value system since the inception of the company. Company values were first documented in 1961 and were referred to as the "framework" for the corporate objectives. In 1989, John Young, the CEO of HP, rewrote the introduction to the "The HP Way" document and identified five "values" of the HP Way. These values remained unchanged until the Compaq–HP merger in 2002.

Corporate objectives

The common objectives were established in 1957 at the first annual manager's meeting and have been modified from time to time to reflect the changing nature of our business and environment. There have been four modifications where the objectives, not just the supporting documentation, were changed.

Evolution chart

The chart below shows past changes in HP's values and corporate objectives. Some years, only changes to the supporting documentation were made. The year these minor modifications were made are captured in parentheses at the bottom of each list.

Figure 1. Evolution of HP's core values and corporate objectives.

Core values

1961	1977	1989	1989
• Select the most capable people for each assignment • A high degree of enthusiasm must be encouraged at all levels • Work in unison toward common objectives	• Highly capable, innovative people throughout the organization – and provide opportunity for skill development • Objectives and leadership which generate enthusiasm •Conduct affairs with uncompromising honesty and integrity • Work in unison toward common objectives	• We have trust and respect for individuals • We focus on a high level of achievement and contribition • We conduct our business with uncompromising integrity • We achieve our common objectives through teamwork • We encourage flexibility and innovation	• We are passionate about our customers • We have trust and respect for individuals • We perform at a high level of achievement and contribution • We achieve our results through teamwork • We act with speed and agility • We deliver meaningful innovation • We conduct business with uncompromising integrity

Corporate objectives

1957	1961	1966	1969	2002
Profit Product Contribution Inexpensive Quality Employee Importance Corporate Citizenship Stable Growth ('59)	Product Contribution Profit Employees Corporate Citizenship Strenght for Future	Profit Customers Field of Intrest Growth Employees Organization Citizenship	Profit Customers Field of Intrest Growth Our People Management Citizenship ('74, '77, '80. '82, '86, '89, '97)	Customer Loyalty Profit Market Leadership Growth Employee Commitment Leadership Capability Global Citizenship

Note: Years with minor updates or republications in parentheses.

Much shorter history of the Compaq Company has hindered "evolution" of its values and therefore at the moment of the merger, the company's main values included:

Compaq values (2001)
Listening and solving customer problems
Being passionate about everything we do
Driving innovation and building cool stuff
Partnering for our customers' advantage
Communicating openly and honestly
Doing what we say
Having fun

whereas, its strategic goals were:

Compaq objectives (2001)
Extend our enterprise
Capabilities
Growand achieve critical
mass in services
Improve PC economics
and increase supply chain
velocity

4. Discovering new after-merger values

At the announcement of the merger, there was an instant response from the merger opponents. One of the key issues raised by the adversaries was that the two corporations presented completely different cultures. Analysing the history of both companies we have a feeling that their roots, management styles, as well as employees' attitudes were so much diverse. Therefore, one of the major steps undertaken straight after the declaration of the merger was conducting a comparable analysis of their organizational cultures. It was believed that the analysis' results would provide significant information to help the integration of both companies, and most of all, the integration of their organizational cultures. The analysis' project was approved and agreed by managers of the two companies. The research sample covered 127 executive directors and 138 focus groups including altogether 1,600 managers and employees from 22 countries. The research was eventually conducted in autumn, 2001. The subject of the study was the companies' organizational culture, differences and similarities between the two corporations, as well as its individual features for each of the companies. It also dealt with each company's own as well as mutual perception of the environment, resources, history, people, formal and informal organization.

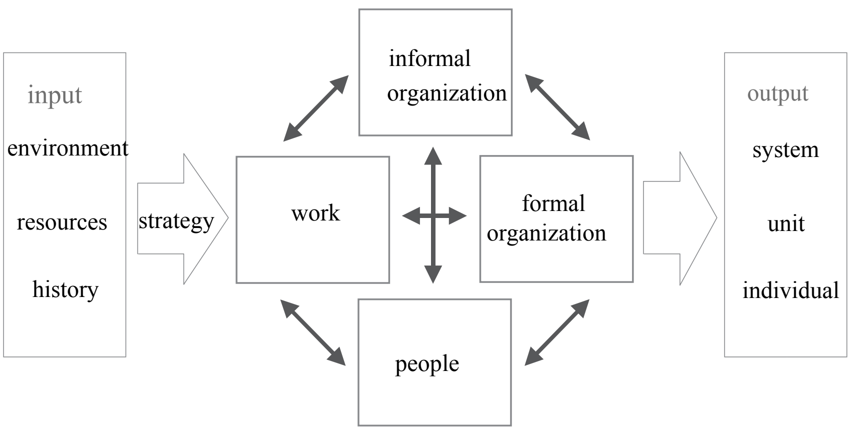
The findings were organized using the model of organizational functioning: every company has input (on the left hand side of this model) that forms a starting point for the company – its environment, available resources, and history. Companies seek to transform various inputs, like raw materials, into desired outputs (on the right hand side of the model). However, the quantity and quality of those outputs depend on a number of factors, internal to the company.

The first is how well the strategy is articulated and how well it positions the company to deal with the realities of its inputs, like the competitive landscape or the cost of resources to the company. Also, there are four additional factors that must be in harmony, or congruence, in order to translate that strategy into desired output.

Those factors include the nature of the work, the people and quality of leadership to accomplish the work, the formal structures and processes to organize to do the work, and the informal organization or the unwritten rules of the road for how work actually gets done.

When these factors are in harmony, or congruence, a company has the greatest likelihood of executing on its strategy and producing desired results.

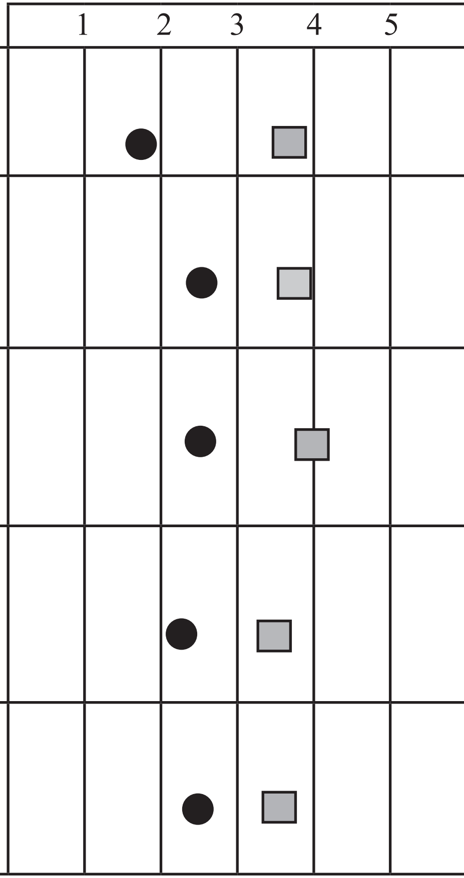
Figure 2.



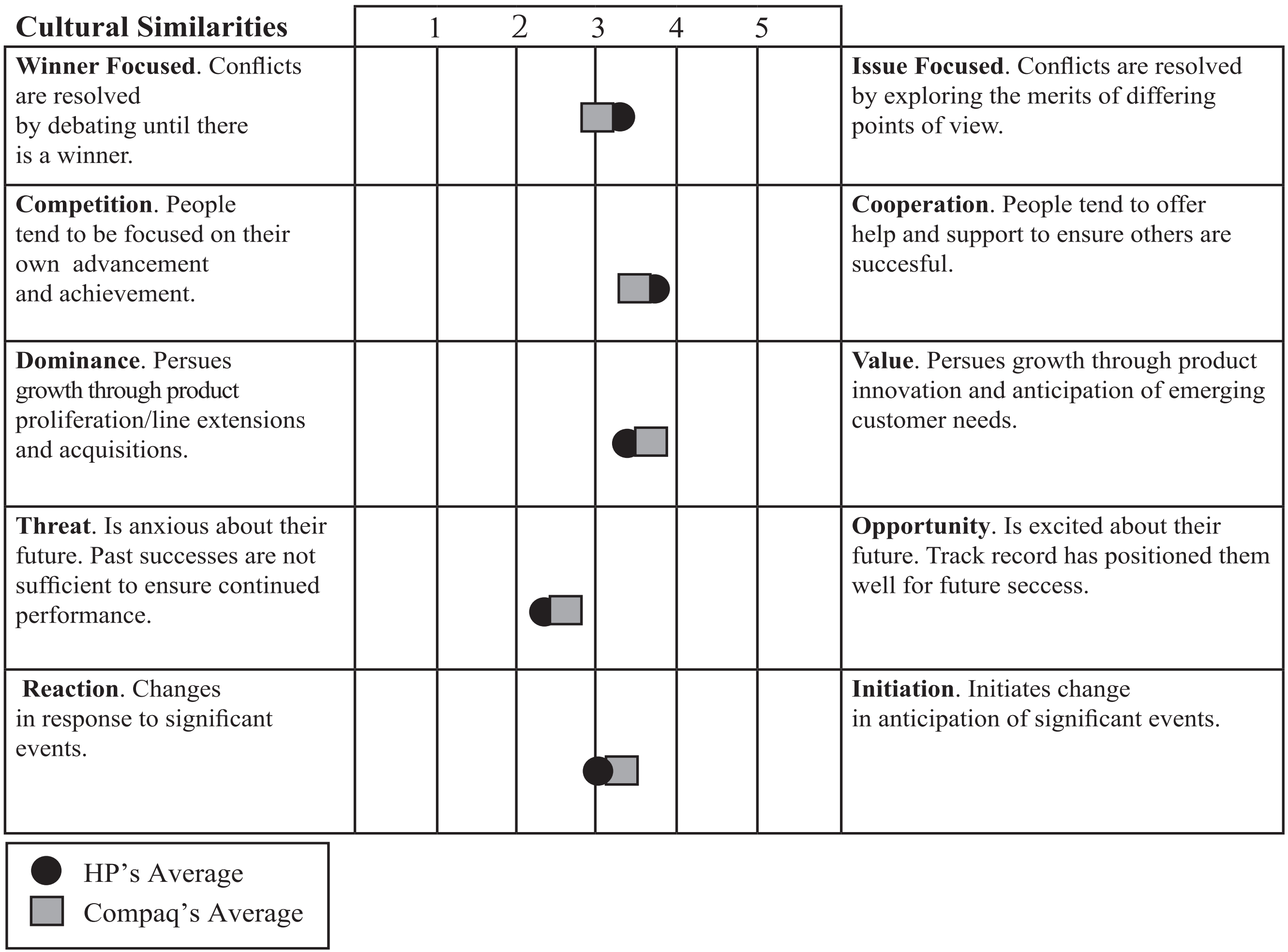
Source: HP internal materials.

Most results were presented in the form of comparing similarities and differences between both companies, as well as their individual characteristics. The chart below shows the enterprise wide biggest gaps and similarities from the focus groups for HP and Compaq for both companies as a whole.

Figure 3. Comparison of hp with Compaq – Enterprise wide.
Cultural gap differences are statistically signifiant.



Cultural Gaps	
Precedence. Looks to the organization's rich history as a source of knowledge.	**Inquiry**. Focuses on future possibilities and learn as they go.
Internal Focus. Focuses mostly on improvement of internal processes and structures; has moderate awareness of our competitors.	**External Focus**. Focuses mostly on pursuit of new markets and customers; is very much aware of competitors and closely follows the moves they make.
Systematic. Relies heavily on organized plans for our work. Work processes are clearly defined.	**Spontaneous**. Relies on ability to respond to just-in-time opportunities; continually "turns on a dime" to meet demands.
Precision. Getting the job done "right" is more important than getting it done quickly, even though it may take extra time.	**Speed**. Getting the job done fast makes "roughly right" outcomes acceptable even though we may sacrifice discipline or rigor.
Reflection. Values review of significant events; debrief events to share insights and best practices.	**Iteration**. Values a "trial and error" approach; forges ahead without looking back.


Cultural Similarities
1
2
3
4
5
Winner Focused. Conflicts are resolved by debating until there is a winner.
Issue Focused. Conflicts are resolved by exploring the merits of differing points of view.
Competition. People tend to be focused on their own advancement and achievement.
Cooperation. People tend to offer help and support to ensure others are succesful.
Dominance. Persues growth through product proliferation/line extensions and acquisitions.
Value. Persues growth through product innovation and anticipation of emerging customer needs.
Threat. Is anxious about their future. Past successes are not sufficient to ensure continued performance.
Opportunity. Is excited about their future. Track record has positioned them well for future seccess.
Reaction. Changes in response to significant events.
Initiation. Initiates change in anticipation of significant events.
HP's Average
Compaq's Average

5. New Values

One of the first steps in bringing HP and Compaq together as one team was conducting a detailed review of both companies to figure out what employees valued, what moved them and what motivated them. This effort included interviews with more than 120 employees and focus group sessions with another 1,500 employees across the globe.

The objectives of this review were to identify the key attributes of both HP and Compaq, recognize the strengths of each organization and find a shared point of reference for the new HP. Preserving the best, reinventing the rest.

The new HP Way adopted HP's concentric circle framework. The selection of the cultural cornerstones (the first two circles of the framework) was evolutionary in nature, not revolutionary, leveraging the rich historical traditions, strengths, values and objectives of both Compaq and HP. They are also consistent with the Rules of the Garage, a document drafted by HP's executive team in 1999 to reconnect HP's employees with the spirit and intent of the company's founders (see Fig. 4, next page).

New values formed foundations for the specification of strategic goals, strategies, processes, structures, measures, policies, practices and behaviours.

Each of the main values was defined and presented by the means of best practices instances. Underneath, I shall present a definition of a value as well as examples of New HP best practices.

Value: "we are passionate about customers".

Value definition: We put the customer first in everything we do and in every decision we make. We create a culture and management process that motivates and empowers employees to act in the best interests of the customer.

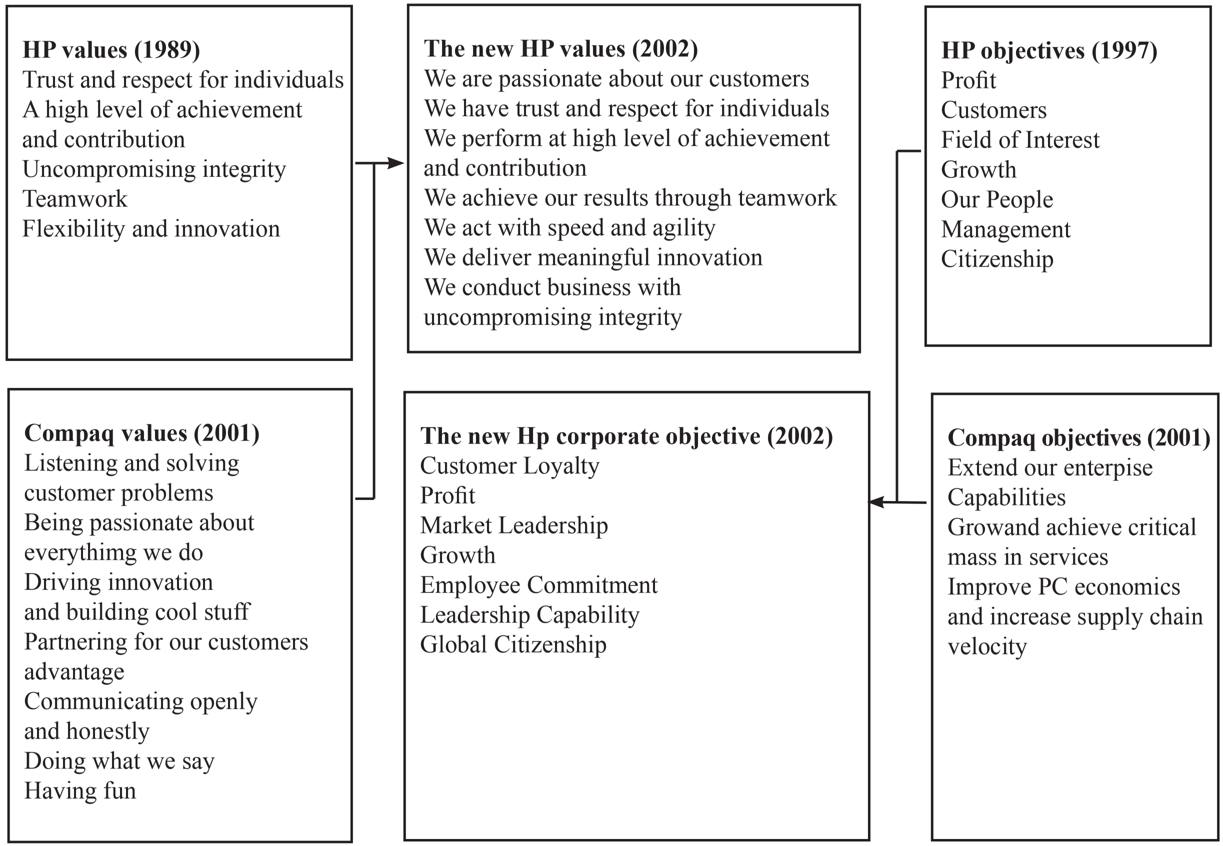
Practices: Examples of how this shows up…

– Measure Total Customer Experience (TCE) performance across customer segments and product/service categories.
– Living the HP Customer Experience Standard.
– Employees take ownership of customer issues brought to them and know who to contact to resolve them.
– Clear line-of-sight accountability and direct link to compensation and performance management.
– We honor our commitments to customers [Stachowicz-Stanusch 2007, pp. 213–219].

On the basis of defined values the strategic company's objectives were generated.

In addition to examples of practices, each corporate objective has a list of underlying beliefs that add meaning to the objective statement. Often the words mean different things to different people. The beliefs are meant to give insight into what we mean as a leadership team with the words we chose to describe our objectives.

Figure 4. The values and corporate objectives of the New HP.
Integrating the Best of Both Compaq and HP.



Objective: customer loyalty.

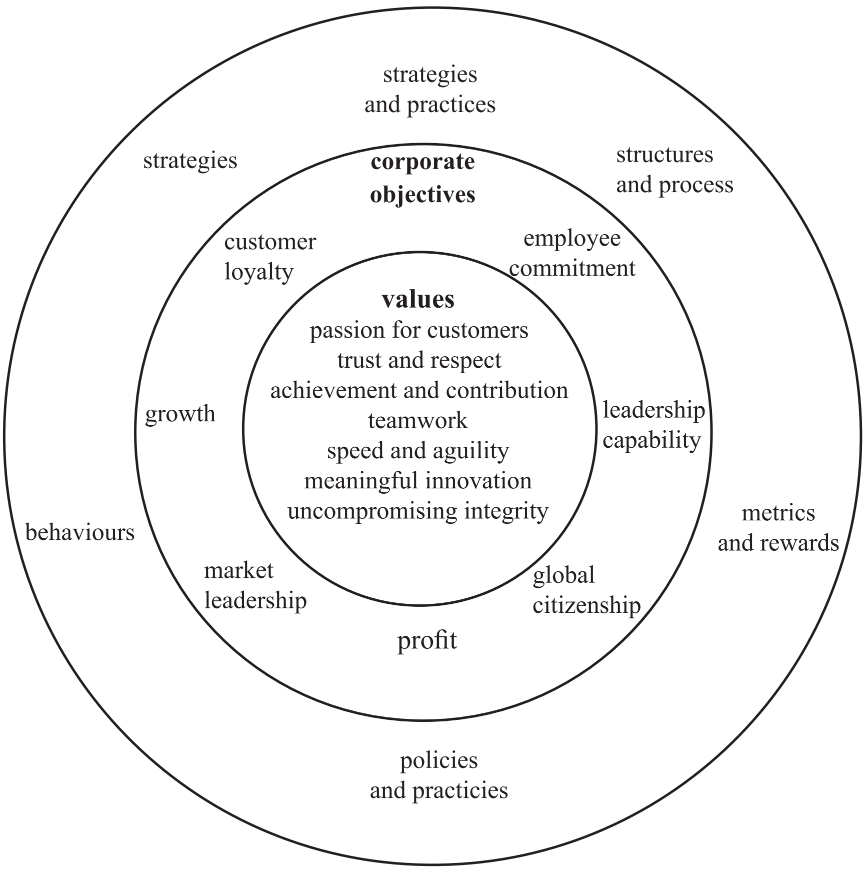
Explanation: To provide products, services and solutions of the highest quality and the greatest possible value to our customers, thereby gaining and holding their respect and loyalty.

Practices:

– Strong TCE-measured competitive performance (balanced scorecard).
– Focus on delivering real customer value, focused outside not inside beliefs.
– Our continued success is dependent on increasing loyalty of our customers.
– We must listen attentively to customers to truly understand their needs, then take the appropriate action.
– Competitive total cost of ownership, quality and the way we do business drives customer loyalty.
– Our products, solutions, and services work better together.

The values, corporate objectives, strategies and practices were presented at the “cultural cornerstones for the new HP” model:

Figure 5.



6. Fast Start

To liven up the Core Values of New HP, the company developed a dedicated program: FAST START. Fast Start is two-days business meeting for intact teams designed to speed execution excellence. They are a vital communication vehicle for transmitting, interpreting, and incorporating information about the new HP strategy, organization model, brand, culture, and transition plan.

Fast Start provides the structure and content of every team's first staff meeting in the new HP. It was designed to:

– provide clarity of direction and roles so that people can execute effectively in the new company,
– engage managers and their teams in taking action to assure smooth, rapid, and successful integration.

Fast Start had four key objectives:

– accelerate leadership readiness throughout HP, building on Leadership Readiness Summit,
– deploy critical business information through line-driven meetings,
– establish team agreements that drive execution excellence and build the new HP culture,
– review, understand, and action plan for change and HP integration management.

Every manager was required to conduct a Fast Start meeting for his/her intact team. Therefore, all employees had an opportunity to participate in a Fast Start meeting.

There were certain requirements for Fast Start. These requirements had to met in order for the session to be counted as a Fast Start. They included:

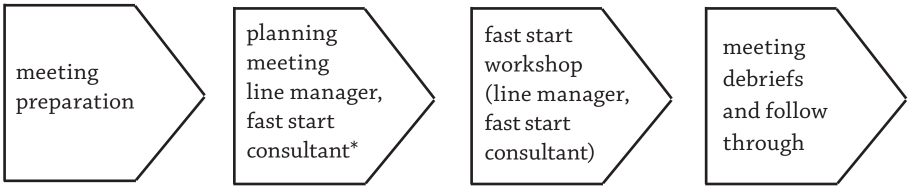
– the Fast Start session had to be completed within 30 days of when the team was announced,
– there had to be a majority of team members present,
– the team had to devote workshop time to information sharing, discussion, and dialogue on the following:
• the new HP strategy, structure, brand, and culture and its implications for own unit,
• the Cultural Cornerstones and culture-in-action exercises,
• the establishment of the team agreement, team norms, and key goals,
• the development of their organization architecture and roles and responsibilities (Decision Rights matrix),
• producing an Integration Plan of Record (I-POR).

Fast Start meetings had specific deliverables, including:

– understanding of new hp direction,organization and business context,
– organization design and selection plan,
– integration plan,
– meet new team members,

– team agreement,
– integration issues identified.
The whole Fast Start Process was presented at the chart below:

Figure 6.



• ipor information
• od&s mat'l
• team interviews
• team charter & roles (if existing)
• leadership ideas
• logistics and resources for fs session

• meeting objectives and agenda
• review of modules
• anticipated "tough issues" or moments truth
•meeting planning agreements (roles, logistics, subject matter experts to be included)

• per agenda

• line manager/fast start consultant debrief/planning
• line manager w/own line manager debrief
• fast start consultant with local hr coordinator (team agreement, fast start checklist)
• team members lead sessions with their teams

* consultants have attended orientation/hr traning
fast start consultant may be hr managers or other oe professionals

Reporting and Tracking:
The HP Executive Committee felt so strongly about the importance of Fast Start to the success of the merger that the completion of Fast Starts at all levels of the organization was a measure on its Balanced Scorecard.

Each Fast Start consultant was responsible for entering the results of their Fast Start session into the Fast Start data capture tool located at HP intranet.

To make Fast Start more efficient, several valuable resources were created to facilitate Fast Start sessions. These included:

Fast Start Overview – A summary presentation on Fast Start. It highlights the purpose, objectives, proposed agenda, and deployment process.
• Facilitation Guide for Managers and Consultants – This guide provides the specifications for a Fast Start session and includes new guidelines for in--person and virtual delivery. It replaces the "Consultant's Guide". The guide incorporates the learning and experience of HR managers and consultants who have delivered these modules during the initial months of integration (prior to launch). We identify the core topics to be discussed, and actions to be taken in preparing for and completing a Fast Start session.

• Fast Start Checklist and Discussion Guide – The checklist and discussion guide is a tool to facilitate the initial planning meetings between a line manager and Fast Start consultant, and to capture feedback from the Fast Start session to assist the Fast Start team in continuously improving the format of and material supporting the running of a session.
• Fast Start line manager's presentation – The presentation template includes the key slides all Fast Start meetings should include. The template also provides slide "place holders" to cut and paste slides from the supplemental slides presentation and partially completed slides that require managers to provide their own content. This template makes it easy for managers to customize the content of their Fast Start sessions.
• Printable version for black and white printer – A version of the line manager's presentation for printing with a black and white printer.
• Fast Start Supplemental Slides – The supplemental slides are a compilation of slides from the owner's manual (a group of clean room presentations on various integration topics) and other sources that will enable line managers to easily customize their Fast Starts to their businesses, functions and/or regions. The supplemental slides include such things as organizational charts and additional group exercises.
• Fast Start FAQs – Commonly asked questions about Fast Start.
• Fast Start Performance Tracker – This spreadsheet will track who has completed and who has yet to complete their Fast Start sessions. The sheet will also summarize the performance of the cascade of Fast Start through each leader and leadership level.

Supplemental Resources:

This section includes links to additional leadership and change management tools and resources that can assist managers in the team development and integration process.
• Fast Start Consultants' Best Practices – An HP change management web site dedicated to helping managers, change agents and individuals lead and deal with organization change.
• HP and Compaq culture due diligence executive summary
• Succeeding in the New HP, an online training solution that accelerates integration through the development of a personal "call to action" plan. Managers and employees will build their understanding of the HP values, corporate objectives, strategies, our customer value proposition and the HP organizational design.
• Merger Background Reading – The background reading includes articles about better practices related to merger integration. These articles will help managers understand some of the challenges related to the integration of two organizations and equip them with tools and ideas for pre-empting or addressing these challenges.

• Merger Case Studies – These case studies highlight some of the successes and failures in the area of corporate mergers and acquisitions. They enable managers to learn from the experiences, both positive and negative, of other organizations.
• Culture Slides.
The main element of Fast Start was two-days workshop consists with 10 modules. We present roughly the content of every module below:
Module 1: Welcome and Meeting Objectives
– Review agenda, objectives, and desired outcomes.
– Logistics covered: including break processes, phones, support.
– Address any logistical questions.
Module 2: Introductions
– Provide an opportunity for group members to get to know each other.
– Get information/input which helps shape two-day experience to meet group members needs (by stating participants' objectives).
– Prioritize member requests and needs in terms of contribution toward group effectiveness.
Module 3: The HP Business Context
– Provide information and understanding about the HP vision, mission, strategy, and brand.
– Set the business context for own team's work.
– Generate sense of material to be covered.
Module 4: Leadership Session
– Provide a line manager an opportunity to shape direct reports' understanding about himself/herself.
– Provide a venue for line manager to state expectations and preferences for working style.
– Offer team members an opportunity to get to know their line manager.
– Offer team members an opportunity to shape expectations for the manager relationships.
– Share information on business context, team agreement.
– Have team identify positives in business strategy/situation.
Module 5: New HP Culture in Action
– Provide face-to-face cascade of new HP cultural cornerstones.
– Discuss what cultural cornerstones mean to us.
– Raise awareness of potential conflict and disconnects on the team.
– Create clarity about the team's goals and roles.
– Develop Operating Principles to guide team member behavior.
Module 6: Team Agreement Development
– Review team purpose from morning.
– Co-create team processes.
– Build a team agreement document.
– Clarify Team Operating Principles (Values).

Module 7: Organization Design and Selection
– Share the corporate selection approach.
– Share and align team members design and selection processes.
– Review and finalize own team's process and timeline.
– Structuring choices.
Module 8: Management Resources
– High level review of key HR practices and resources in New HP.
– Understand group's needs and potential resources to address them.
Module 9: Review of Integration Implementation Plans
– Inform team of work done in the clean room and translate into implications for us.
– Build understanding of corporate Integration Plan of Record (I-POR).
– Develop team plan of record.
– Prepare deliverables for management, integration team.
Module 10: Action Planning and Team Debrief
– Review action items that have been generated during two days; consolidate into streams of work.
– Be clear on who is accountable for doing what.
– Give team time to reflect on how the meeting went – things to do again, things to try differently.
– Discuss what will be shared from this meeting (and what will not)
Follow-Up Meeting
– Discuss meeting outcomes and effectiveness.
– Review action items and determine plans to follow up.
– Discuss Fast Start report back to Integration Steering Committee; line management; HR.

We must remember that no organization is immune from external forces such as market pressures, or internal ones such as changes of leadership. And no corporate culture guarantees your success in the future. No single organization in existence today can afford to stop listening to both its employees and the marketplace, and, is a result, every business culture requires constant fine-tuning to survive and flourish. And while no corporate culture represents an ironclad guarantee against failure, the right core values still remain the biggest factors in your success.

What profits a man if he gains the world but losses his soul?

Abstract

The paper presents problems of organizations occurring in mergers and acquisitions processes in connection to adjusting organization cultures of joined companies. The „Due Diligence" method was described as a tool enabled to solve given above problems. The author pays special attention to the cultural dimension of "due diligence" and presents its application in relation to values in case of HP and Compaq Computer merger.

References

Gallangher, R.S. 2003, *The Soul of an Organization*, Dearborn Trade Publishing, Chicago.

Bouchard, P.J., Pellet, L. 2002, *Getting you Shift Together. Making Sense of organization Culture Change*, CCI Press.

Carleton, J.R., Lineberry, C.S. 2004, *Achieving Post-Merger Success. A Stakeholder's Guide to Culture Due Diligence, Assessment, and Integration*, Pfeiffer, New York

Stachowicz-Stanusch, A. 2004, *Zarządzanie poprzez wartości. Perspektywa rozwoju współczesnego przedsiębiorstwa*, Wydawnictwo Politechniki Śląskiej, Gliwice.

Stachowicz-Stanusch, A. 2007, *Potęga wartości. Jak zbudować nieśmiertelną firmę*, Helion, Gliwice.