

CLASH OF THE

DOWNSTREAM IMPLICATIONS OF CROSS-BORDER MERGERS AND ACQUISITIONS



CULTURES

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AS A FORM OF INTERNATIONAL GROWTH, MERGERS AND ACQUISITIONS (M&AS) ARE HIGHLY POPULAR AND PROFITABLE, EVEN IF MORE THAN HALF OF THEM FLOUNDER. EATON EXPLORES HOW TO AVOID BUSINESS CULTURE CLASHES THAT COULD SINK A CROSS-BORDER M&A.



Mergers and acquisitions (M&As) continue to dominate the global stage, serving as an accelerant of profitable growth and, ultimately, enabling globalization. As stated in the August 10, 2007, *M&A Advisor* M&A Alerts, “M&A activity peaked this year with acquisition volume surpassing \$1.1 trillion (in six months ending June 2007).”

However, as previous statistical summaries have indicated, the M&A failure rate continues to range between 60 and 75 percent. Why does three-fourths of all M&A deal flow fail to deliver the intended benefits?

The Best-laid Plans

Consider the following real-time

example (name changed to protect the “innocent”):

For expatriate Ingrid Peterson, trying to focus her sales team on getting an international acquisition back on track was proving to be more challenging than she had anticipated.

On paper, it appeared fairly straightforward. The deal made sense—a small roll-up of a peer competitor into one of her fastest growing product lines should have mapped beautifully, function by function, customer by customer. Even geographical synergy should have been easy. So why was everything falling apart?

As she sat on a plane somewhere over Eastern Europe, returning to headquarters from her new base in Asia, she thought about her latest

meeting with the regional team in Singapore.

- No one could explain why sales continued to slide—customers of both organizations were slipping away like water through a sieve.
- The performance management system/bonus scheme that was used successfully for years in Europe and North America was having little or no effect with the new employees in Southeast Asia.
- Ingrid’s ability to gather high-quality data on this last trip was limited—every question she asked seemed to lead to additional complications and vague answers.
- There seemed to be so many layers added to the decision-making process, with an almost hierarchical, power-hungry reaction from some

ALL ABOUT INTEGRATION

There are five misconceptions that continue to plague cross-border deals in particular, even those consummated by the most brilliant officers of corporate development or M&A.

1 Functional integration. “Marketing is marketing, IT is IT, and finance is finance.” While some functions do share common terminology and professional training, in the post-acquisition period standard practices for processing claims or administering the IT function may not be so compatible.

2 Geographical integration. “Geographies will meld together; my Northern Germany EMEA HQ will serve as a fine headquarters for the acquiree’s team, who will happily relocate from Stuttgart in the south.” Even in an era of transnational management, many employees still are very much tied to their local communities and family commitments, and will leave an organization that demands them to move.

3 Customer integration. “Customers who previously used two competitive suppliers will be happy to benefit from a single-source solution. Our pricing strategies for the combined organization will be easy

to implement.” Customers tend to have their own way of looking at the world and may not see the merger of rival suppliers as a plus.

4 Manufacturing/supply chain integration. “Closing redundant plants and merging supply chains into one robust system will be a relatively straightforward consolidation exercise.” In many regions of the world, personal ties to employees and long-time suppliers, along with deep-rooted organizational systems, can lead to highly charged debates that make supply chain rationalization surprisingly difficult to achieve.

5 Human integration. “Our corporate cultures seem to be pretty compatible.” Acquiring companies consistently underestimate the challenges of post-merger integration of human capital. Often, the most critical success factor in making a deal work is not the financial projections, the strategic plan, or the organization chart, but the ability of the principals to mesh as a new team. Different personal styles, thought processes, and informal patterns of communication shaped by both organizational and national cultures all can make human integration a challenge.



members of the group her company had inherited from the acquisition, while others hung back and awaited their next tasks.

➤ It also seemed to be difficult for some members of new management to accept their fates—to understand that they needed to join the Asia-Pacific management team and demonstrate ownership for the integration strategy laid out by senior leadership at headquarters in Europe.

Ingrid has the challenging task of successfully integrating this acquisition across the geographies, functions, and customers for which she is responsible. But how did she get herself and her company into this situation?

We are all smart people—we have read the articles, we know we need to concentrate on these issues as we contemplate a joint venture, a merger, or the acquisition of another organization. So why do these issues continue to challenge us? Why can we not anticipate these challenges and develop a plan to minimize the “noise in the system?”

It is quite common for employees from an acquiring organization or a new partner to think, “for years, we have been successful with our methods of manufacturing, financial reporting, and staff training. If the other organization’s ways were so

superior, would they not be in better financial shape?”

The challenge resides not so much in whether our way is more right than theirs. The challenge is creating a mutually-respectful environment where even exchange of “why we do it this way” creates the opportunity to build a better post-M&A culture without “giving up” what is not negotiable from either sides’ “mothership.”

Building a Third Culture

During more than 20 years of working with companies that struggled with these issues, we have found that one good way out of this perpetual hurricane is to build a third culture, or a third way of operating that rises above either party’s traditional methods.

It has been said many times that “the whole is greater than the sum of its parts.” But the whole is not simply gathering all components to make a big heap in the center of the warehouse floor. In our view, the whole actually is the cumulative effect of the best ideas derived from the individuals/teams/organizations involved, and the contribution of new and innovative thinking arising from the synergies of the merger.

In other words, the best success stories we have witnessed begin when a topic is placed in the center of the table. All the best minds available gather to discuss and brainstorm great ideas and innovative solutions, and it is fantastic if an element from a previous system or organization should contribute to the final solution mix.

Building a third culture requires humility, open-mindedness, flexibility, comfort with risk, and creativity. It also depends on the ability of group members to value other opinions, fresh thinking, and the potential to create something original. But

most of all, the team can achieve third-way solutions only if they are in a place where they can navigate stylistic differences successfully.

Follow the Rapids

To minimize the costs inherent in unsuccessful cross-border M&A/joint venture activity (longer cycle times, opportunity costs, and even business failure), Ingrid could consider the following seven steps to successfully navigate the rapids and resolve her current predicament:

① **Scope the activity.** Ingrid needs to be focused on the problem she is trying to solve. For example, what will be the key account strategy for the region, what system needs to be built, or which function needs to be integrated? In other words, how does this acquisition affect her overall strategy?

② **Metrics that move.** If she achieves a successful outcome as a result of bringing key individuals or teams together, what metrics will move as a result? Examples include improved cycle times, cost reductions, increased sales, customer or employee retention, one fully integrated key account or reward system moving forward, and so on.

③ **Human interaction touch points.** Who needs to be invited to the party? Ingrid must identify key stakeholders per category and involve them in the process by which a creative, innovative solution will be developed to achieve the desired state. We call this a “human interaction across cultures” audit. In essence, we are looking for the places within the newly combined organization where two or more people will interact across multiple definitions of “culture”—company, national, functional, geographical, headquarters versus subsidiary, industry, and the like—in a

way that addresses the problem and the metrics being considered.

4 Personal styles inventory.

Each individual arrives at the incubator table with his or her own style of “human interaction.” It is vital to understand the “pile of styles” that have been hard-wired by our cultural conditioning and that shapes each individual’s behavior. Team members must achieve a level of acceptance/respect, to gain awareness of each other’s styles, and to understand the “why” behind that behavior, so they can appreciate each individual’s starting point.

5 **Building team systems.** Before we can navigate the business issue we want to solve, we need to create a “human operating system” that will drive how we interact as a team going forward. The team must define a shared vision of what goals it seeks to achieve, the key business problems it must address, and individual roles and responsibilities. In addition, the team needs to co-author a number of key shared systems, the components of which tend to vary widely according to national and organizational cultural norms:

- › decision-making system;
- › communication (virtual and face-to-face);
- › meeting management;
- › conflict resolution; and
- › other group norms (e-mail, conference calls, agenda-setting, and the like).

Out of the array of individual styles present at the table, team members need to create the most appropriate “team culture” to achieve a successful outcome.

6 **Solve the problem.** A business workout can be accelerated in the initial stages by an internal or external facilitator who not only can guide

the team through the process of developing an innovative solution to the business challenge, but also can serve as a process coach. The facilitator helps to enforce—and reinforce—the newly created team culture, ensuring that team members stick to their agreements and use shared processes to drive problem resolution.

7 **Loop back around.** All good processes contain an element of self-reflection and evaluation. We encourage a process of review against the previously mentioned “metrics that move.” Measuring progress toward stated goals and experiencing improved results is a powerful elixir with which to motivate any individual, team, or organization.

Moving Forward

Successful mergers, acquisitions, and joint ventures depend on the eventual integration of two or more organizations. The net effect of the seven steps described above is nothing less than the creation of a “third culture” within the newly combined organization. We ultimately are judged on how well we achieve the stated objective: to buy, merge, or collaborate with another entity—sooner, faster, cheaper, and better.

If we know we are bringing together diverse colleagues and cultures, asking them to merge systems, processes, and procedures into one organization in the future, then there are specific steps we can take to enable these teams to rise above their competing styles and develop a third culture, one that can fuel integration and superior business performance. ■

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