The Impact of Culture on Mergers & Acquisitions

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According to a KPMG study, "83% of all mergers and acquisitions (M&As) failed to produce any benefit for the shareholders and over half actually destroyed value". Interviews of over 100 senior executives involved in these 700 deals over a two-year period revealed that the overwhelming cause for failure "is the people and the cultural differences". Difficulties encountered in M&As are amplified in cross-cultural situations, when the companies involved are from two or more different countries.

Seven Pitfalls on the Path to Merger Success

Merger success is possible; however, being part of the 17% that succeeds, rather than the 83% that does not deliver, requires more than insight. Merger success is based on acceleration, concentration and creating a critical mass for operational change (adaptation).

Up to the point in the transaction where the papers are signed, the merger and acquisition business is predominantly financial - valuing the assets, determining the price and due diligence. Before the ink is dry, however, this financially-driven deal becomes a human transaction filled with emotion, trauma, and survival behavior - the non-linear, often irrational world of human beings in the midst of change.

The seven pitfalls represent the critical and vulnerable areas of the M&A transaction. These areas must not only be valued for their negative impact on the critical success factors that drove the "deal", they are the very agenda for the organization's action in the critical first 90 days of the new entity.

In the case of international mergers and acquisitions, the complexity of these processes is often compounded by the difference in national cultures. People living and working in different countries react to the same situations or events in very different manners.

Therefore, a company involved in an international merger or acquisition needs to consider these differences right from the design stage if it is to succeed.

Pitfall #1: Preoccupation

In Canada, individual preoccupation with "How is this all going to impact me?" weakens commitment to the job at hand. This, in turn, translates into people looking for work in other companies. Often a firm in the midst of transition loses some of its own talent - strengthening the competition.

In countries where people identify largely with groups, people tend to look for support within their group. In France and Italy, people caught in the midst of a merger or acquisition often turn to unions. If unions cannot provide answers because they have been excluded from the negotiation process, they are likely to go on strike. These strikes may do much more damage to the organization than comparable Canadian strikes; for example, the strike by French railroad and subway workers in December 1995 resulted in the demise of the Juppé government.

What is less apparent is the pervasive loss of productivity of those who remain. Studies indicate that line employees and managers at all levels lose a minimum of 15% of personal effectiveness as a result of rumors, misinformation, and worry. They also indicate that teams tend to break down and become less effective during mergers and acquisitions.

To quantify these losses, determine the number of individuals involved, multiply by their fully-loaded hourly wage, consider just one hour lost to confusion, waiting for clarity, figuring out who should do what to whom (assuming you know who "whom" is) and a likely job search. This is how much productivity is lost per day to the company (and the new owners). Multiply this by 65 (there are 65 working days per quarter) and compare this number with the amount in gross sales revenue that the firm will have to generate to the bottom line to offset this loss in productivity.

The strategy: Acceleration. Speed the integration to reduce the uncertainty and anxiety. Delayed decisions to "ease the pain" only magnify and sustain the pain and prevent the company, the individuals and /or the groups from getting on with the work and their lives. In the case of international M&A's, ensure that both individual and collective concerns are addressed.

Pitfall #2: List-making

You may also call it compulsive-obsessive list-making; whatever the name, it's real. In the face of overpowering uncertainty and rising fears of insecurity, it will happen. Making comprehensive lists is a very logical response to one's world thrown upside down. Lists of things to do fill the space and suppress the anxieties; they even make sense, except to the bottom-line and the economic drivers that were the very basis of the merger.

As soon as the merger is announced and the first calls to action proclaimed, the reality sinks in. The "list" is overwhelming. Personal and departmental needs drive the allocation of resources. Quickly, as the days build, there is a widening disconnect between the financial and market-based goals of the merger and real-time allocation of effort.

Tolerance for uncertainty varies widely around the world and this variation can play havoc in international M&As. For example, Mexicans tend to require more structure and definition of their role and responsibilities than do Canadians. When a Canadian corporation acquires a Mexican company, its Mexican employees are often looking for information and structure that is not forthcoming, because their new Canadian managers deem it unnecessary. The Mexican organization often grinds to a halt, since Mexican employees are unlikely to go and ask for the information they need, since this may be viewed in Mexico as questioning management's authority.

The strategy: Concentration. During the first 90 days, focus and get everyone to focus on the 20% of the goals that yield 80% of the economic value. Dealing with uncertainty explicitly is critical to the success of M&As.

In the case of international M&As, the economic value of a foreign organization may not be where its Canadian partners expect it. For example, a Canadian company acquiring a company operating in a country where the government controls much of the economy may find that the value of its new acquisition lies more in the personal ties between its managers and high level government officials than in its quality of service.

Pitfall #3: Organizational Proliferation

In Canadian organizations, many task forces, committees and integration teams are created to handle all the lists and to plan new lists. Integration structures and transition teams designed to be all-inclusive and to represent a sign of "new partnership" will weigh heavily on an organization seeking to keep its eye on its customers and the market. More effort will be placed on temporary rules and reporting relationships than the work itself.

In the case of international M&As, this issue is compounded by the fact that organizational change is brought into companies in different ways in different countries. For example, in countries where the sense of hierarchy is much stronger than in Canada (like France and Mexico), change is brought about from the top and employees at all levels expect new directions from their managers. This may paralyze cross-cultural M&As, since top Canadian managers expect input from these teams and committees, while French members of these committees and teams expect direction from their managers.

The strategy: Accelerate, concentrate and adapt. Form small, agile, quick-acting teams, including people from both sides of the M&A, with a clear mission and empowered integration team managers with direct access to senior management and to their support. Transitions do not need to be demonstrations of democracy in action.

Clear leadership and strong support is essential to these teams; without it, they often break down into sub-teams (one sub-team for each side of the M&A). This is particularly common in the international case, since language and cultural differences create significant communication issues.

Pitfall #4: Infrequent and irrelevant communication

Fear and a lack of all the answers deters top management from providing the information that customers, shareholders and employees need to redirect their action to the value-added of the deal. Rumor fills mystery and vacuums. When there is communication, it often lacks information and substance that explains and supports stakeholders' interests.

In many international M&As, the working languages of the two organizations involved are not the same. Communication can break down even when the employees of the foreign M&A target speak English. Consider the case of a Norwegian - American joint venture. Because Norwegians tend to be more relationship-oriented while Americans tend to focus on tasks, the parties almost came to blows over when and how to bring the discussions to a conclusion. The Norwegians complained that they had not built up enough trust to negotiate final details and needed more time. The Americans responded that they could not waste valuable time on further meetings and that the matter should be settled by the legal team. Tension decreased when the teams realized that their goals were the same but their ways of achieving them were quite different; a deal was eventually struck.

The strategy: Accelerate, concentrate and adapt. Frequent communication, repeated at least 7 times through multiple avenues

- print, voice mail, e-mail, meetings, and video. In times of stress, the "noise" of survival and uncertainty drowns out the message. Over-communicate and remember that responsibility for a message being received lies with the sender as well as with the receiver. A recent PricewaterhouseCoopers survey of 124 mergers indicates that those firms that implemented effective communications strategies showed better results in customer focus, employee commitment and productivity than those firms that had a delayed communication strategy.

In the international case, communication often requires translation as well as adaptation. Indeed, the best way to make a presentation and to reach an audience differs from country to country 1. The communication strategy needs to take communication style preferences into account, as in the Norwegian - American example mentioned above.

Pitfall #5: Triangulation

Without clear lines of authority and clear understanding of where they fit in, employees and managers are caught in a web of conflicting objectives and old loyalties. This type of organizational and personal strangulation robs the new entity of the very energy it needs to overcome the losses in productivity.

The tolerance for "fuzzy", temporary organizational charts and decision-making processes depends on the countries involved in the merger or acquisition. In hierarchical countries, like the Philippines, both organizational chart and chain of command need to be clearly defined, more clearly than in Canada. If employees do not understand them, paralysis often results. A Filipino employee reporting to two managers, as in a matrix organization, will likely be quickly overwhelmed. He / she interprets the situation as having to meet two complete sets of expectations and perform two separate jobs. For Filipinos, asking managers to discuss their conflicting requests would be viewed as insubordination.

The strategy: Concentrate and adapt. Concentrate on substance rather than form, and focus on helping people adapt. Management needs to provide the information that people need to be comfortable with the new organization; this information depends on people's cultural backgrounds. In Canada, people need to know how they fit with the value drivers rather than short-lived organizational charts; such may not be the case in other countries.

Pitfall #6: The relatives

Not the "in-laws", but the relative forces of time and space. Time in a merger is accelerated, compressed and merciless. In Canada, publicly held companies need to show clear results at the end of the first quarter after the announcement. Individuals going through a merger have to work at an accelerated pace at the very same time that the inner adaptation of change - personal and psychological transition - weighs them down and operates on personal, rather than linear time.

Change is easy; inner adaptation is not. And time is relative - the leaders started their adaptation to the new reality far before those who learned of the merger on announcement day. The leaders have ridden the wave and are way in front of this shock wave now crashing down on the others. They wonder about why people don't seem to "get it" and often mistake shock and confusion for resistance to the new realities.

The concept of time is also related to culture. While long-term in North America tends to mean three years, it means up to 30 years in Japan. Consequently, Japanese strategy discussions are likely to take into consideration events that Canadians consider irrelevant, since they are expected to take place beyond the Canadian planning horizon.

Space is also relative. In an increasingly virtual world, those not "connected" in the same space and time feel disconnected from the decisions and the center of the action. Irregular and incomplete communications at headquarters becomes a daunting challenge for those who live in different time zones, regions, countries and organizational units.

The strategy: Adapt. Adapt to the realities of change and transition - they are different experiences and each individual will have their own way of going through them. Help guide and support employees through the endings that they need to come to terms with before you expect them to embrace the new world. Provide temporary structures to enable people and departments to navigate between the old ways and the new. Actively manage the merger across time, space and organizations, keeping in mind the different concepts of time and space that may be at play. Create the appropriate communications tools and the accountabilities and standards that will enable the organization to better operate across time and space.

Pitfall #7: The guiding light

At a time when leadership and active management is most called for, the stress and uncertainties associated with the merger causes an inward focus and a retreat to safe and high ground. More leadership is needed, at this time, than less. One of the primary roles of a leader is to articulate a vision and inspire others to join in that vision. Proclaiming a new vision and handing out laminated cards, however, does not create a new vision for the new entity. A clear new vision captures the critical success factors and economic drivers that brought the entities together.

In the case of international M&As, the need for leadership remains, but the nature of leadership changes. Being a good leader requires different skills and attributes in different countries. For example, charisma and a positive personal image are important attributes of leadership in the U.S., more so than in Canada.

The strategy: Adapt. Only a new culture can create the context for true change to happen and hold. Changing culture means changing behavior. One of the quickest way to effect change and create the new company is to place in all key positions those individuals who are true representatives of the new culture and who can lead effectively people on both side of the company's cultural divide. These people are the role models who demonstrate, with the visible active support of senior management, what the new culture is.

Conclusion

These pitfalls of mergers and acquisitions challenge today's leaders to a new standard of managing change. The strategy is clear - accelerate, concentrate, adapt, and in the case of international M&As, consider cultural differences. The human and cultural issues that separate the 17% from the 83% are not about some abstract values or the "soft stuff", but the concrete reality of productivity, economic value and sustained growth.

References

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