Newsletter

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Editorial

As a direct result of globalization, the past decade saw a sharp increase in international mergers and acquisitions. More and more companies are choosing this path as a growth strategy.

It is common practice for potential acquirers to perform financial, IT, legal and market due diligence in order to assess the level of risk involved in acquiring another company. A quick glance at the transaction value of these business deals explains why: in 2004, Royal Dutch Petroleum paid the tidy sum of 74 billion USD for Shell Transport & Trading; four years later, Inbev wrote a cheque for 52 billion USD to acquire Anheuser Busch. That's a lot of money. A lot of money to lose if things go wrong.

In this month's newsletter, Jérôme Dumetz reveals some disquieting information about strategic alliances: their failure rate and the reasons why many do not produce the expected results. It is ironic to think that investments driven by efficiency motivations flounder because management teams fail to see an unavoidable chain of events: If employees from different countries can't get along, their levels of productivity, creativity and reactivity will suffer and the strategic "adventure" will spiral into economic hell.

Here at Managing Worldwide, we have a sense that 2009 marked a turning point in the level of attention paid to these issues in boardrooms. Let's see if 2010 will prove us right!

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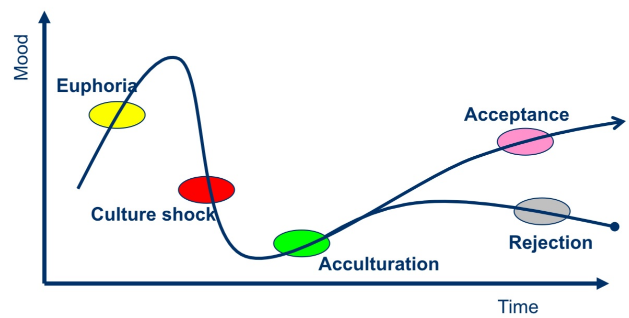
International Mergers & Acquisitions:
The role of cross-cultural management

By Jérôme Dumetz, Senior Consultant based in Moscow

Cross-cultural management issues are all too often relegated to the "not-so-urgent" category by the stakeholders in a strategic alliance until the divide between the parties is too great. According to a KPMG study, "83% of all mergers and acquisitions failed to produce any benefit for the shareholders and over half actually destroyed value". Interviews held with 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".

Strategic alliances are like love stories: they start with passionate hope, follow a bumpy road and have an uncertain outcome. The difficulties encountered are amplified when the companies involved are from two or more different countries.

The cycle of these ventures follows a typical cultural adaptation curve. The mood is initially euphoric with everyone glad to be participating in such a unique project.



Then, after a few weeks or months, things start to go wrong. Misunderstandings turn to mistrust, miscommunication becomes *non*-communication, and decisions made in one country are rejected in another. Many companies do not understand that they are in fact experiencing culture shock. If actions are not taken rapidly (ideally, steps should be pre-emptive ones), the entire success of the venture can be at stake.

It quickly becomes essential for all parties to agree on common goals and ways of doing things through open discussions bearing the mark of open-mindedness and empathy. Sadly, things almost never happen that way.

The road to salvation is called “acculturation”, in other words, the process of adapting to, and assimilating traits from, another culture.

When the acculturation process is conducted properly, it is possible to create a “meta-culture”, one which reflects the uniqueness of the cultural blend. As with any organization, the new entity should have its cultural components defined, understood and assimilated by all, in order for it to function at full capacity. A new logo, a flamboyant top manager and “end-of-trade-show” parties... the explicit artefacts of the new organization’s culture can be formed quickly. The hard part comes when corporate values have to be shared.

How should we deal with deadlines and certifications? Which criteria should we use to promote people or to share bonuses? How do we decide which employees to keep or let go? These are managerial questions that relate to values, and each value involved is intrinsically influenced by the culture of origin of the decision makers. Emotions can run high when these topics are discussed. This is why, as the proverb goes, **“an ounce of prevention is worth a pound of cure”.**

So what concrete actions can companies take to avoid the cultural pitfalls of strategic alliances?

- For large investments, perform cultural due diligence before deciding to sign anything.
- Cross-cultural training or coaching for the top-management team is strongly advised. The more knowledge they have, the more effectively they will be able to act when confronted with difficulties.
- Communication and language skills development is a must and should start as soon as an M&A has been agreed upon.
- Internal communication staff and tools must be fully mobilised to share knowledge about the corporate and national cultures involved.
- *Staff swapping* must be done on a significant scale to rapidly create positive informal communication channels. You need to send open-minded people, possibly volunteers, on short-term missions to the other office. Perfect for back-office positions shared across the organization, it needs be proposed to staff members from all departments. Being in the shoes of your counterpart for a few weeks is an effective way to create a team spirit!
- Long-term mobility should be encouraged to promote cross-fertilization, and the expatriates given the tools and training they will need to foster the meta-culture you are aiming for.

Promoting greater cultural understanding may not prevent all future difficulties, but it could make a life or death difference to an alliance!

Mini bio of Jérôme Dumetz

Born in France, Jérôme has more than 10 years of experience with Russia. He has been working as the only foreigner in a state-owned organization with thousands of employees for the last 7 years. He has organized major cross-cultural trainings for foreign and Russian corporations in Russia and runs cross-cultural managerial coaching for managers in multinational companies.

Cultural Tips

Managing cultural differences in a strategic alliance

1. Perform a culture risk assessment as early on as possible.
2. Swap as many open-minded staff as you can early in the process
3. Encourage open discussion on cultural differences at all levels in the organization.
4. Look for quick wins and common ground and communicate generously about them.