CHAPTER 7

The Role of Culture in Cross-Border M&A

Christophe Van Gampelaere

CHAPTER LEARNING OBJECTIVES—IN THIS CHAPTER, YOU WILL LEARN:

- The importance of culture in an M&A environment
- How cultural awareness will improve deal success
  - Setting definitions
  - Making distinctions between various kinds of culture: global, local, corporate, and innovative
  - How to create cultural awareness in deal teams
- How to integrate cultural elements in the deal strategy
  - Cultural dominance and leniency
  - The importance of language in deals
- How to practically incorporate the culture dimension before signing, between signing and closing, and after closing

CHAPTER SUMMARY

This chapter describes the importance of culture in a merger or integration environment. It shows how to create awareness of cultural elements in both the deal teams and integration teams. The importance of company values and local language is highlighted before going into practical ways of turning culture into a success driver in a transaction.

UNDERSTANDING CULTURAL MANAGEMENT

The sentiment is that cultural considerations are essential in making cross-border deals (i.e., mergers, acquisitions, or divestments) succeed. This is certainly supported by countless studies. A Bain & Company survey found

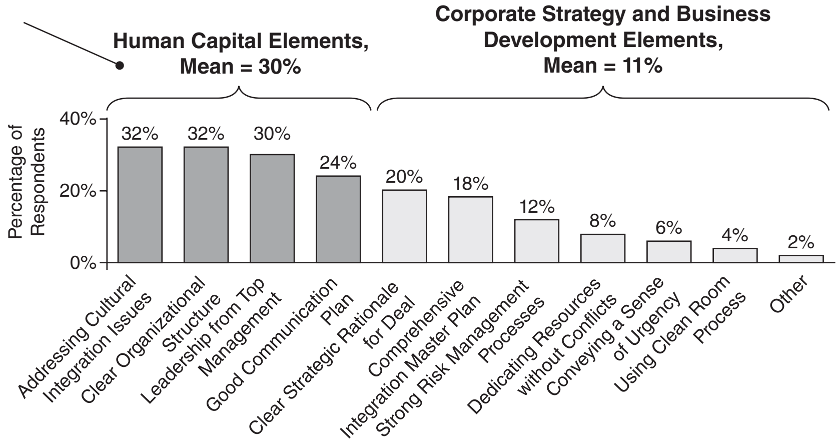

FIGURE 7.1 Top Integration Challenges

that cultural management is the single most important M&A success driver when it queried some 10,000 managers from 73 countries (see Figure 7.1). An Economist Intelligence Unit (EIU)/Accenture study shows that the top integration challenges are all related to human factors—and the most important one of these is culture.

Deal-makers are the persons skilled at bringing commercial deals to a satisfactory conclusion. The deal-makers who take practical actions to address cultural issues will hold an important key to success. Deal-makers who take practical actions to address cultural issues hold an important key to turning commercial deals into success. They take into account bottom-up cultural pressure from both buyer and target. They have a head start on individual decision makers who brush aside decades of evidence and any consideration to address the topic.

NOTE

A "buyer," or "acquirer," is any company buying another company, or assets of a company; a "target" is the company or assets of a company being bought by the buyer.

"Culture in cross-border M&A" is in itself worth a whole book. The purpose of this chapter, however, is to provide the reader with a practical manual and tips that allow him to identify culture pitfalls and transform these into opportunities.

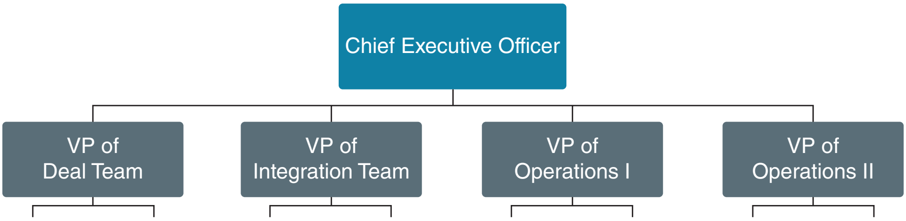

FIGURE 7.2 Organizational Chart Example

There is much at stake, and it is essential to recognize culture management as a distinct competency, spanning the transaction life cycle from pre-deal to post-closing.

Indeed, the M&A department is often not responsible for the operational integration of the acquisition. We often see an organizational disconnect between the deal team and the operational line managers. As a consequence, no funds are set aside and no energy is spent to assist the acquirer and the target with cultural integration (see Figure 7.2).

To get the ball rolling, a two-pronged approach is recommended: first, to create an awareness that by nature, most people are not conscious of the fact they are not equipped to deal with culture; second, a systematic and facts-based approach to manage cultural differences. It is surprisingly easy to quantify such an emotional topic, and to bring it into the fold with the larger integration management exercise.

CULTURAL AWARENESS

This section covers the general topic of "awareness," and then goes into a definition of culture, and the difference between global, local, and corporate cultures.

From a personal comfort zone it may appear that cultural differences are not really all that difficult to overcome. It is a false feeling of confidence fed by the fact that we are not exposed to the breadth and the depth of what cultural differences really are. There are so many cultural dimensions, and so many ways that people react and interact that it is a miracle to get along at all.

The Four Stages of Skillfulness

The EIU/Accenture study concludes that both deal and operational people (such as department heads and managers for finance, marketing, sales, IT, supply chain, operations, manufacturing, and so on) are aware of the importance of culture. However: they are not skilled in the matter. Psychological terminology describes these four steps toward becoming skilled (see Figure 7.3):

1. **Unconsciously unskilled:** The individual does not understand or know how to do something and does not necessarily recognize the deficit. He may deny the usefulness of the skill. For culture, this happens when managers are new to the M&A process, despite the fact that their company may have done many deals in the past. It is possible to be blinded by deal euphoria.
2. **Consciously unskilled:** Though the individual does not understand or know how to do something, the deficit is recognized, as well as the value of the new skill set needed to address the deficit. This is typically the case with seasoned deal professionals who know how to get internal or external support in the matter.
3. **Consciously skilled:** The individual knows how to do something. However, applying the skill or knowledge requires concentration. It may be broken down into steps, and there is heavy conscious involvement in executing the new skill. This may be the case for integration professionals who are actively acquiring cultural skills.
4. **Unconsciously skilled:** The individual has had so much practice with the skill that it has become "second nature" and can be performed easily.

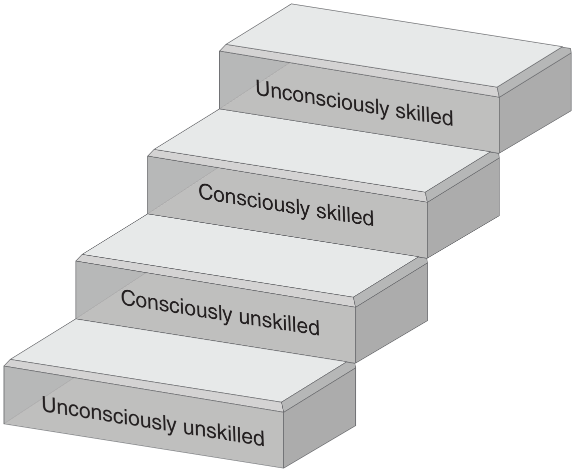

FIGURE 7.3 The Four Stages of Skillfulness

Definition of "Culture"

There are as many definitions of the word "culture" as there are focus areas and points of view. We will use a definition geared toward the needs of cross-border M&A. Culture in an M&A environment can be defined as

> A combination of shared local and corporate norms, behavior, symbols, values, systems, and laws.

Cross-border cultural management is the systematic and facts-based management of differences between local and corporate attributes. The strength of an integration manager lies in the extent to which he can reinforce the positive elements and defuse any negative tendencies potentially leading to explosive situations.

Global, Local, and Corporate Culture

In an interconnected world, every country balances global culture with the local culture. Some cultural elements are changeable and flexible; others represent "no go" areas. Try to touch them and tensions may awaken and a culture clash erupts. Each region has its own way of coping with these tensions. It is up to the local teams to solve and digest this clash—the acquirer can facilitate, educate, and act in an informed manner.

Global Culture Every country in some way supports a global culture. People across the world share the same brands, watch the same movies, and hear the same news stories. The interpretations, however, might differ depending on the cultural glasses a country wears. In an economic sense, the concepts of generating profit and international expansion are evidence of shared cultural exponents. The very essence of globalization lies in the worldwide integration of economies, finance, trade, and communications.

However, the consequences of global culture diverge into opposite directions. In one sense, we move toward the homogenization described above, which crystallizes around Western patterns. In another sense, we move toward resistance against this homogenization and a polarization against Western norms symbolized by consumer capitalism. The resistance takes the form of global movements of the downtrodden such as "Occupy," the movement against social and economic inequality. It can result in extremism where ideologies in some parts of the world turn the clock back on education, gender equality, and science. The third direction is a hybrid of the two, where cultures blend by borrowing from each other. This hybrid differs from society to society, just like there are numerous varieties of capitalism, ranging from the United States' take on individual responsibility, over the more social variant in Europe, to the communist version of capitalism in China.

This contradiction makes it all the more difficult for international players to read cultural signals. Signals may look familiar, but have quite a different underlying meaning. For corporate managers, this global culture is a fact they have to deal with—it is not something they can change.

Globalization has so far had a limited impact on international law, even though law has a huge impact on corporate life. Time and again corporate management is surprised to learn that the legal framework they are familiar with at home does not apply in other territories. Just ask any U.S. company planning to lay off employees in Germany or France, where legal proceedings by unions can put plans on hold for months, even years. Even where the law is formally the same, the practical application may differ. Given that multinational acquirers by definition operate in many jurisdictions, they run the risk of litigation in any of those jurisdictions.

In addition to the formal legal restrictions, companies face certain cultural no-go areas. These tend to reside in the local taboo zone, so mentioning them may be controversial. Chapter 14 will discuss that.

Local Culture The term "national culture" is avoided in preference to the adjective "local." As some citizens may acknowledge, there can be a difference between the culture in one city or region, and that of another in the same country. Nevertheless, some overarching and relevant generalizations can be made on a country level. Some of the classic sources of cultural values within the literature are the World Value Survey, Schwartz's cultural values, and Hofstede's cultural dimensions. Fresh perspectives on the subject are offered by Richard Barrett's Value Center and Erin Meyer's work, which we feature in Chapter 14.

Next are some reflections on Gerard Hendrik Hofstede's work. Hofstede is a Dutch psychologist who has studied national intercultural relationships extensively. We find his work particularly suited to creating a first-level understanding of how one country compares to another. Hofstede sets out five axes, called "dimensions." They are: (1) social orientation, (2) power distance, (3) gender roles, (4) uncertainty avoidance, and (5) time orientation (see Figure 7.4).

> **Social Orientation.** That is, individualism versus collectivism: Individualism can be defined as a preference for a loosely knit social framework in which individuals are expected to take care of only themselves and their immediate families. The opposite, collectivism, represents a

preference for a tightly knit framework in society in which individuals can expect their relatives or members of a particular in-group to look after them in exchange for unquestioning loyalty. A society's position on this dimension is reflected in whether people's self-image is defined in terms of "I" or "we." For example, the United States scores the highest on individualism and China the highest on collectivism.

Power Distance. That is, respect versus tolerance: The degree to which the less powerful members of a society accept and expect that power is distributed unequally. The fundamental issue here is how a society handles inequalities among people. People in societies exhibiting a large degree of power distance accept a hierarchical order in which everybody has a place and which needs no further justification. In societies with low power distance, people strive to equalize the distribution of power and demand justification for inequalities of power. Hofstede demonstrates this with the reaction of Chinese authorities to the fact that Chinese author Liu Xiaobo was given the Nobel Peace Prize. According to people in the West, the writer advocates moderation; according to Chinese authorities, he advocates power sharing—and is imprisoned for political reasons.

Gender Roles. That is, masculinity versus femininity: The masculine side of this axis represents a preference for achievement, heroism, assertiveness, and material rewards for success. A male society at large is more competitive; see, for example, Japan. The opposite, the feminine society, stands for a preference for cooperation, modesty, caring for the weak, and quality of life (e.g., Sweden). The use of this gender-related terminology is becoming increasingly controversial.

Uncertainty Acceptance versus Uncertainty Avoidance. This dimension expresses the degree to which the members of a society feel comfortable with uncertainty and ambiguity. The issue here is how a society deals with the fact that the future can never be known: Should we try to control it or just let it happen? Countries exhibiting strong uncertainty avoidance maintain rigid codes of belief and behavior and are intolerant of unorthodox ideas. Societies accepting uncertainty maintain a more relaxed attitude in which practice counts more than principles.

Long-Term versus Short-Term Orientation. Every society has to maintain some links with its own past while dealing with the challenges of the present and the future. Societies prioritize these two existential goals differently. Some societies prefer to maintain time-honored traditions and norms while viewing societal change with suspicion. Those with a short-term orientation take a more pragmatic approach: They encourage thrift and pragmatism.

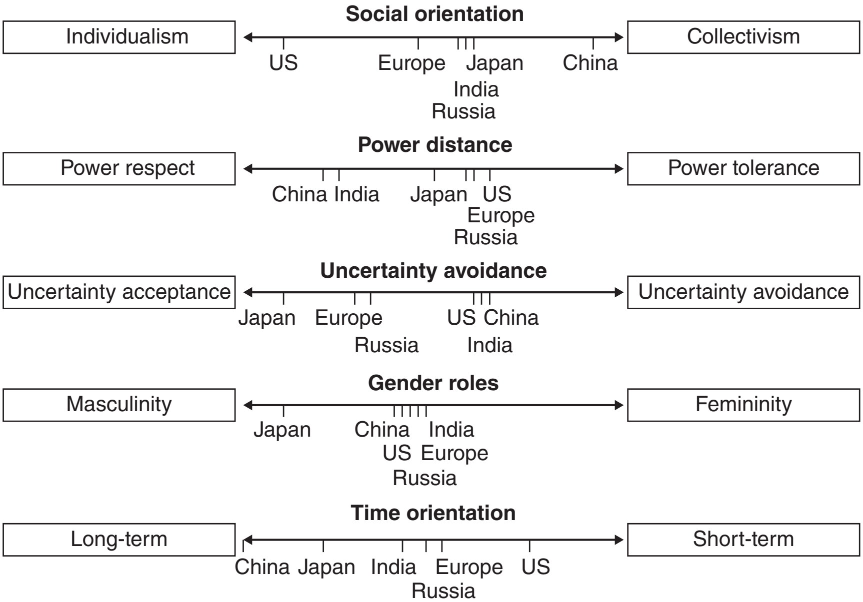

FIGURE 7.4 Hofstede's Cultural Dimensions

Visit the site and check out the country comparison tool on http://geert hofstede.com/countries.html. It provides one-page summaries per country, and is a great starting point to create a first level of awareness of cultural differences.

While the reader may not individually recognize his country's characteristics in the next example, the Daimler-Chrysler case illustrates how organizational cultures can be very much aligned with country cultures.

Country Culture Collision in the Daimler-Chrysler Merger

The attempted Daimler-Chrysler merger is an example of strong local cultures embedded into the corporate cultures. Seven years into the deal, when the author of this chapter worked on the break-up of Daimler and Chrysler in 2006, the cultural differences between the two firms were still very much alive.

Looking at the country background, the two countries score markedly different in their long- versus short-term orientation. According to the Hofstede dimensions, the United States is a country leaning toward one absolute truth, a concern for stability and a traditional approach to values. In line with that attitude, Chrysler management had "no lessons to learn" from Daimler, and was convinced of the absolute truth of the superiority of its products and production process. It did not want to uproot the stability of existing ways of working. In keeping with tradition, the Pentastar logo was resurrected on the very day Chrysler regained its independence from Daimler. Fireworks and fanfare accompanied the reinstatement of the old logo to the cheers of the employees.

Germany scores as a country with many truths and a pragmatic approach to problem solving, setting clear objectives, detailed assignments, formal control systems, and not accepting flexibility on quality. This clashed with a lower cultural acceptance of structured activities and written rules at Chrysler.

Similarly, German "Gründlichkeit" (thoroughness) was applied to the brand portfolio where Daimler had decided—for sound economic reasons—to terminate two Chrysler brands. One of them was a hallmark of blue-collar stability and tradition: Plymouth. Many years later, customers were still saying: "How dared they kill off the brand."

Corporate Culture We do not necessarily see corporate culture as a subset of national or local culture, although we do notice that companies in the early stages of internationalization tend to be more centered on their own local culture. Corporate culture is very much influenced by a variety of factors, only one of which is local culture. Another important factor is the management style at the top. Harking back to our definition of culture,

> Culture: A combination of shared local and corporate norms, behaviors, symbols, values, and systems

it is clear there is more to a company's culture than the country where it is based. Norms, behaviors, symbols, values, and systems can differ very much from one company to another. Following is a story of two vastly different cultures in the same country.

Corporate Culture Collision in France

Two €300m revenue companies; one, the patriarchal acquirer: a centrally led organization with multiple silos and no clear allocation of responsibilities (managers are not used to taking decisions); the other, the target: a lean management machine with a clear delegation of authorities.

The acquirer had obtained additional bank financing, based on achieving deal synergies. After closing, the patriarch decreed no effort was going to be put into aligning both companies. The systemic differences remained and escalated, prohibiting management from achieving the projected synergies. Two years later, external capital was needed to help the acquirer honor bank covenants.

The lesson learned here is that either the merger should have been called off, or the issue of the organizational differences should have been addressed head-on.

Corporate Brand Culture Brand decisions are not taken lightly. Just like customers, employees develop a loyalty to their brands, and associate their culture and values with them. Slashing the brand is perceived at a minimum as a sign of disrespect and potentially as an attempt to wipe out the company culture, military style.

Deal-makers are familiar with applying financial goodwill to a brand portfolio. In accounting, goodwill is an intangible asset that arises when one company acquires another, but pays more than the fair market value of its net assets. However, employees do not apply accounting rules when they value their company's brand. Treat the target's brand with respect, and it will be of financial benefit, and:

- Create integration goodwill
- Alleviate employees' fears
- Tie stakeholders closer in
- Keep strong performers on board
- Remove distance
- Set a positive precedent

The right treatment of corporate brand culture is an ideal entry point to a successful integration. It deserves not only serious thought, but also a solid, fact-based approach, duly researched and documented in a brand evaluation analysis. Management can then decide in an informed manner, based on the merits of various scenarios, taking all pros and cons into account. That may mean that the acquirer keeps the target's brands, like Air France and KLM did. It's not about the ego of the acquirer; it's about creating value for the shareholder. And it saves a few bucks on the rebranding exercise.

Innovative Management Culture There are signs of very innovative management cultures. One such test ground is Brazil, where a company called Semco is challenging traditional ideas on management structure, growth, and remuneration. There are no job titles, people set their own salaries, and they decide for themselves whether or not to show up for work.

"It's all insane, except that is seems to work." This formula has allowed the company to grow consistently in a volatile economic environment. Since the article appeared, Semco has spawned a portfolio management company, helping foreign companies leverage business in Brazil.

STRATEGY AND CULTURE

When culture is made part of the acquisition strategy, it is possible to be a step ahead of the other acquirers. In the pre-signing phase, imagine your advantage over competitors who do not take culture seriously, and:

- Are hampered by misunderstandings
- Do not pick up and read negotiation signals
- Lack the tools to build trust and respect
- Fail to understand the fragile balance between giving and receiving
- Make target management feel uncomfortable, despite the ability to pay more

Linking the Deal with Cultural Factors: "Know Thyself"

It is good to map your organization's cultural traits, both from a local point of view and from a corporate point of view. It will help in putting a target's culture in perspective.

For each cultural element, map values and cultural elements in three categories: culturally dominant, culturally lenient, and culturally shared. Table 7.1 is an example.

TABLE 7.1 Acquirer and Target Cultural Mapping

	Culturally Dominant	Culturally Lenient	Culturally Shared
Acquirer	Hierarchical Higher power distance Silo structured organization Male dominated Centrally led Stability and tradition We do it better when we do it ourselves	Willing to learn Company cars Drinks on the work floor are paid	Individualistic Brand loyalty Passion for the work
Target	Flat organizational structure Clear allocation of responsibilities Continuous improvement, eager to learn We outsource noncore activities Company cars Free quality coffee	Short power distance Short-term orientation Female	Customer focus Individualistic Brand loyalty Passion for the work

Culturally Dominant A culturally dominant trait is one that in size or influence towers over those of the target—unless the target shows the same trait. An acquirer will need to know where he wants his ideal target to be situated on that same cultural value axis. Being culturally dominant in a cultural dimension is a given fact; it is neither good nor bad. If both acquirer and target differ in how they are dominant in the same cultural dimension, it is advisable to tread carefully. In the example of the two €300m revenue companies, the issue was ignored, the owner did not take a decision on how the organization was to be run either way—and he paid for it by losing some of his ownership.

Culturally Lenient An organization is culturally lenient on certain values if it is not too concerned about those elements being different between acquirer and target, or from one location to another. In Belgium, for example, most people in middle management and up have a company car, whereas in Japan, such a perk is highly exceptional. Take away the company car, and the acquirer risks losing target employees. If an organization can accept such a difference, it is culturally lenient on it. If the reasons behind this example are not clear, go to the facts. Company cars are popular in Belgium because the costs to the employer are lower than giving a similar advantage to the employee via regular salary.

Culturally Shared A culturally shared trait is part of the DNA of your company, and it cannot be compromised. It is context-invariant and time-invariant. Infosys, a global corporation with Indian roots that provides business consulting services, defined five cultural attributes that need to be inherent to any target in order to be "Infosys-compatible."

- Openness
- Meritocracy
- Speed
- Imagination
- Excellence in execution

Values In addition to the cultural traits, also examine the company's shared values. Infosys thought about this. The company summarized its value system in the acronym "C-LIFE," which stands for Customer delight, Leadership by example, Integrity and transparency, Fairness, and pursuit of Excellence.

The Infosys values are:

- The ability to accept deferred gratification
- An agreed protocol of do's and don'ts
- Subordinating individual egos and putting the interest of the organization ahead of individual interest
- Recognizing people's competency
- Accepting leadership of people in different areas
- Leadership by example—for example, the Infosys Leading Institute: "Our company is our campus, our business is our curriculum, and our leaders are our teachers"
- Start every transaction from a zero base
- Only an argument that has merit wins, nothing to do with hierarchy. Assertions need to be substantiated with examples
- Not using corporate resources for personal benefit

These values can be recognized as very close to your company's values, and you may feel quite alien to others—every company is different. A second example comes from the Netflix Culture Statement, with these nine values:

1. **Judgment:** You make wise decisions (people, technical, business, and creative) despite ambiguity, you identify root causes and get beyond treating symptoms; you think strategically, and can articulate what you are, and are not, trying to do; you smartly separate what must be done well now, and what can be improved later.

2. **Communication:** You listen well, instead of reacting fast, so you can better understand; you are concise and articulate in speech and writing; you treat people with respect independent of their status or disagreement with you; you maintain calm poise in stressful situations.
3. **Impact:** You accomplish amazing amounts of important work; you demonstrate consistently strong performance so colleagues can rely upon you; you focus on great results rather than on process; you exhibit bias-to-action, and avoid analysis-paralysis.
4. **Curiosity:** You learn rapidly and eagerly; you seek to understand our strategy, market, customers, and suppliers; you are broadly knowledgeable about business, technology, and entertainment; you contribute effectively outside of your specialty.
5. **Innovation:** You reconceptualize issues to discover practical solutions to hard problems; you challenge prevailing assumptions when warranted, and suggest better approaches; you create new ideas that prove useful; you keep us nimble by minimizing complexity and finding time to simplify.
6. **Courage:** You say what you think even if it is controversial; you make tough decisions without agonizing; you take smart risks; you question actions inconsistent with our values.
7. **Passion:** You inspire others with your thirst for excellence; you care intensely about Netflix's success; you celebrate wins; you are tenacious.
8. **Honesty:** You are known for candor and directness; you are nonpolitical when you disagree with others; you only say things about fellow employees you will say to their face; you are quick to admit mistakes.
9. **Selflessness:** You seek what is best for Netflix, rather than best for yourself or your group; you are ego-less when searching for the best ideas; you make time to help colleagues; you share information openly and proactively.

Systemically speaking, there are three universal values that any system needs in order to function well.

The Right Order of Positions. This is related to the goal of the organization. Whoever created the framework within which all others can function comes first. Those who create the framework for the next level down come second, and so on. This way, everyone has a stable position, in the right order.

A Fair Exchange between Giving and Receiving. Every employee gives something to the company, and gets something in return in an ever-continuing exchange.

Every Person's Right to His Place in the Organization Is Equal. Whether he is an inventory manager or a CEO, he needs to have earned the right to work in that position. This is true for the current employees, as well as for the people who were important in the past. They need to be "honored."

Company values are part of the organizational system in that they are part of the contract between the company and its employees. It would be highly coincidental if this contract in the acquirer mirrors the contract in the target company. The acquirer who unilaterally changes this agreement does so at his own peril.

In order to create a combined set of accepted values, the integration manager needs to know how to initiate and drive change. This is an ongoing process, where regular measurements of key value performance indicators are taken, and adjustments are based on the results, exactly like one would manage a company's accounts.

The elements to measure are the personal needs of the employees, the extent to which they feel aligned with the culture of the organization (values alignment), and the extent they feel the organization is on the right track (mission alignment).

Step by step, the values and behavior can thus be coached toward what is working for the combined organization.

Adjusting the Strategy to Optimally Leverage Differences in Values and Cultural Elements

The cultural differences and similarities described previously will need to be reflected in the integration strategy and in the day-to-day management of the integration. Mirvis and Marks have created a simple model of how these differences impact the type of deal (see Table 7.2).

The two variables they use are the degree of changes in the acquirer and the target. There are five resulting types: (1) "stand alone," where both acquirer and target have a low need for change, (2) "transformation," where both companies change significantly, (3) "absorption," where the target undergoes most of the change, (4) "reverse acquisition," where the target's ways of working eventually dominate, and (5) "best of both" mergers.

This typology is not only valid on a company level, it is also applicable to individual work stream and territorial dimensions. A well-prepared buyer will know beforehand how the acquisition fits the company's strategy and business model.

TABLE 7.2 Different Types of Mergers

Degree of change in target	**High**	Absorption		Transformation
			Best of both	
	Low	Stand alone		Reverse acquisition
		Low		**High**
			Degree of change in acquirer	

Mirvis, P. H., and M. L. Marks, *Managing the Merger: Making It Work* (New York: Prentice Hall, 1992).

Language

Language reflects culture, not only in apparent but also in subtle ways. The undetected cultural differences have the potential to cause organizational problems. The use of English as a common language for business has a ramification for staff using English as a second language. There are tongue-in-cheek comparisons like the ones shown in Table 7.3.

The underlying reality is that mismatches in communications can decide if integrating is successful or not. Practical guidelines can be found in Chapter 14.

Digitization

The manners in which target and acquirer are digitized are equally part of their cultural DNA. A company's digital platform refers to its information and communication technology (ICT) and information systems (IS), such as its intranet, collaboration tools, enterprise resource planning (ERP) systems, human resource management systems, customer relationship management systems, blogs, and corporate social networking tools.

It includes the work structures built into that platform, for example, capabilities, process flows, guides, and the underlying financial, legal, and operational models, and employee feedback tools. The acquirer and the target can be on different levels of digitalization of the company.

In a brick and mortar business, culture may be:

- "Built into the walls"
- "The nail the picture is hung on"

TABLE 7.3 "What the British Say . . .": Communicators' versus Listeners' Perspective

What the British Say	What the British Mean	What Others Understand
I hear what you say	I disagree and do not want to discuss it further	He accepts my point of view
With the greatest respect	I think you are an idiot	He is listening to me
That's not bad	That's good	That's poor
That is a very brave proposal	You are insane	He thinks I'm courageous
Quite good	A bit disappointing	Quite good
I would suggest	Do it, or be prepared to justify yourself	Think about the idea, but do as you like
Oh, incidentally/by the way	The primary purpose of our discussion is . . .	That is not very important
I was a bit disappointed that	I am annoyed that	It doesn't really matter
Very interesting	That is clearly nonsense	They are impressed
I'll bear it in mind	I've forgotten it already	They will probably do it
I'm sure it's my fault	It's your fault	Why do they think it was their fault?
You must come for dinner	It's not an invitation, I'm just being polite	I will get an invitation soon
I almost agree	I don't agree at all	He's not far from agreement
I only have a few minor comments	Please rewrite completely	He has found a few typos
Could we consider other options?	I don't like your idea	They have not yet decided

In a digital corporation, the culture may be:

- "On the intranet"
- "Will send a link"
- "There is a webcast"
- "Have you taken the online tutorial?"
- "Have you seen the latest video?"
- "Just fill in the online form"
- "Have you not read the blog?"
- "It is all over the social network"

In most deals and integrations, the mere integration of the ICT and IS systems takes the longest to be implemented. Durations can range between four months up to two years and longer before both target and acquirer are on the same digital platform.

Consider If a brick and mortar target that is merging with a digital corporation, and the issues are amplified. There is a real risk that the target will never really belong and cannot merge into the acquirer's culture and information flow.

Resistance to change in the target and acquirer is at its lowest at the time just after deal announcement, and increases over time to a level where a crisis is needed before issues are tackled. The ICT and IS integration is typically ready by the time resistance to change is at its highest. Communication, involvement, and journey management of employees are therefore highly advised.

The mitigation is to build bridges and interim solutions to the digital platform. The target employees need to be involved in the integration to the digital platform. Training or introduction to the possibilities within the digital platform can help.

IMPLEMENTATION

This topic deals with the practical tools and actions to help implement the elements from the other topics in this chapter. It follows the chronology of the integration phases.

Phase 1: Before Any Deal Is on the Table

How to practically go about creating cultural awareness? There are several options that can be combined into a mix that is suitable for your company.

Management Training. Some leading companies embody management training on culture as part of their annual strategic get-together. Typically such a training module would take from one hour to a full day. The topics covered would be very much aligned with the content of this chapter as well as Chapter 14.

Online Training. Similar content can be delivered via online trainings. The advantages are that it allows the monitoring of who has completed the course, and that participants can complete it at a time that is suitable for them.

Manual on Culture. A manual on culture serves as a reference document and is helpful both to complement trainings and as a stand-alone document. A separate manual on how to approach culture in an M&A situation can be handed out to anyone involved in an acquisition. These manuals are typically tailor made for a company, for obvious reasons.

A Culture and Values Statement. This is a very public way of stating the company's identity. The Netflix example earlier in this chapter comes from the firm's 124-page culture statement. Below are some snippets from that manual:

- The actual company values, as opposed to the nice-sounding values, are shown by who gets rewarded, promoted, or let go
- Our culture focuses on helping us achieve excellence
- You challenge prevailing assumptions when warranted, and suggest better approaches
- You keep us nimble by minimizing complexity and finding time to simplify
- You say what you think even if it is controversial
- You care intensely about Netflix's success
- You only say things about fellow employees you will say to their face
- You share information openly and proactively
- Adequate performance gets a generous severance package
- You question actions inconsistent with our values

Company Culture Expert. Invest in an independent, external culture expert who coaches the leadership on culture issues. The expert would be in a trusted coaching position and needs to be an external advisor in order to maintain his independence. He can advise an internal team to act as the Cultural Competence Center, in order to implement culture and value alignment.

Cultural Competence Center. Some serial acquirers have embedded the cultural work stream as an actual Center of Excellence within their business development team. This is not done out of charity, but from hard-earned experience, having to pull out of a country or a deal after it backfired for cultural reasons.

> Those who don't know history are destined to repeat it.
>
> —*George Santayana*

The remit of the Culture Competence Center includes:

- Creating cultural awareness within the team
- Promoting cultural competency

- Creating and delivering culture workshops aimed toward understanding and integration of companies. These workshops are tailor made, depending on the local and management cultures involved.
- Gathering on-the-ground feedback from current and past acquisitions
- Researching cultural competency within the organization's management team
- Creating guidance on how to deal with linguistic sensitivities
- Developing the elements of a culture due diligence
- Overseeing the cultural dimension throughout the M&A life cycle: integration structure, team creation, mixing teams, handling global teams
- Frequent reinforcement of culture and values

Phase 2: When a Deal Is Being Considered

As soon as reasonable, do a cultural due diligence and fact gathering. A due diligence is an investigation into certain aspects of an organization, conducted with all due care and diligence. A due diligence can focus on many different areas, and is traditionally limited to such areas as financial, legal, and tax.

A cultural due diligence does not necessarily have to be as substantial as a financial due diligence. It is an iterative process, starting with first impressions, and gradually working into more granularity while moving along the M&A timeline.

Start with taking stock of what is known about the target's country and local cultures. What is the acquirer's experience there? Maybe suppliers, customers, or employees can tell more about the country. What can be found on the Internet? A comparison between country cultures can be done by using Hofstede's Cultural Compass, or by flipping to Chapter 14 in this book, which focuses more on Erin Meyer's work. That will give the acquirer easy one-on-one comparisons, and will already provide some great insights.

Continue with the facts of the acquirer—the "know thyself" part. Some examples of facts that shape an organization's culture are:

Behavior

- Statements and practices
- Decisions of senior leaders and key influencers
- Organizational design
- The way employees and managers interact on a daily basis
- Messages to peers, customers, and suppliers
- Forms of remuneration
- Overtime tracking and payment
- Informal rewards and recognition

- Corporate social responsibility
- Meetings and mail protocols (e.g., punctuality, keeping to agenda)
- Communication and employee feedback
- Consensus seeking versus top-down directives
- Freedom and responsibility versus restrictive
- Masculine versus feminine
- Chaotic versus systematic and organized
- Pragmatic versus rules based
- Social events, team parties, informal get-togethers
- Getting things done versus taking forever to finish a project
- Proactive compensation versus remedy compensation
- "Striving for excellence" versus "good enough"
- Value statement
- Extent to which the official value statement is aligned with what is really valued at the company
- Rewarding innovation

Symbols

- Logos
- Brands
- Office layout
- Availability, price, and quality of coffee, food, snacks, and so on
- Location
- Dress code
- Company pay level versus market pay level
- Language, terminology, and jargon used for formal and informal communication
- Awareness of company vision and mission
- How to promote and develop within the company

Systems

- Reporting and measuring
- Goal setting and budgeting
- Human resource policies and practices
- Time tracking and badging
- Learning and improvement

Values

- Examples: accountability, achievement, adaptability, ambition, balance home/work, being liked, being the best, caring, caution, clarity, coaching/

mentoring, commitment, community involvement, compassion, competence, conflict resolution, continuous learning, control, courage, creativity, dialogue, ease with uncertainty, efficiency, enthusiasm/positive attitude, entrepreneurial, environmental awareness, ethics, excellence, fairness, family, financial stability, forgiveness, friendship, future generations, generosity, health, humility, humor, independence, initiative, integrity, job security, leadership, listening, making a difference, openness, patience, perseverance, personal fulfillment, personal growth, recognition, reliability, respect, reward, risk taking, safety, self-discipline, teamwork, trust, vision, wealth, well-being, wisdom

After having listed these, determine which ones are most significant to the organization. Some of the items above can be positioned on an axis with two extremes. That will help to define the essence of the company's culture. More on this in Chapter 14.

Then, start to compare those facts with the target's facts. Much may be available via public sources. The way the data room and its documents are organized and the interaction with the target's management will gradually provide clues. If there are significant gaps, specific clarification can be asked in writing or during Q&A sessions with the target's management.

Approaches to the Cultural Due Diligence Outcome Based on the comparison, define the approach. Depending on whether the result was culturally dominant or lenient on any given issue, it is possible to:

- Implement the acquirer's culture and take no prisoners
- Adjust to local culture for essential elements and build consensus
- Adopt a "pace and lead" approach and give the process of integrating ample time
- Go for the opportunistic, profit-driven approach and keep the target as a stand-alone entity
- Abandon the deal. If the acquirer has a very strong culture with very explicit values like Netflix's, which are opposite to those in the target, consider exiting the process and stop any further due diligence.

The findings from the cultural due diligence need to be embedded in the execution plan for the integration strategy and the individual work stream actions.

Communication One of the first public signs of cultural understanding that an acquirer can make will be in the communication: what is said and what is not said, how is it said, what jargon and terminology is used.

Cultural understanding will manifest itself in the target audience addressed by the acquirer: who is being addressed, and who is not. Will suppliers be notified?

Customers? Workers? Will that be done in a person-to-person chat, via a call, or by mail?

It will be apparent in the consistency of the message across various target audiences: Will the same message be given to top management as to employees, unions, the community, and investors? It will be in who makes the announcement: a representative of the acquirer or the target, the CEO, or business unit management.

The preparatory work done on culture can be implemented immediately by tailoring the communication on the signing of the deal to some specifically sensitive issues.

Phase 3: Between Signing and Closing

After signing, there is often an opportunity for more dialogue between buyer and target. That window can be used to dive a bit deeper into mutual cultural understanding.

Solicit feedback on the signing communication. Check with the work stream heads what specific sensitivities may be, and refine the communication in time for the closing of the deal.

Prepare a question and answer list, as a guide for senior and middle management, to help them bring the right message across. Consider the creation of a company web page with the same questions and answers, and provide a feedback forum.

Welcome Pack Preparation It is customary in some cultures that the acquirer distributes a welcome pack to the various target stakeholders. Examine the suitability of the welcome pack: Is it aligned with the culture implementation plan? Whatever the approach to culture—dominance, lenience, pragmatism—the message can be sent in the welcome pack.

Workshop Prepare a culture workshop to be implemented soon after closing, and directed toward the outcome of the pre-signing information gathering. Elements to include in such a workshop can be:

- Stimulating face-to-face contact
- Use of serious gaming techniques
- Working around the combined business model and the deal rationale
- Mutual inclusiveness

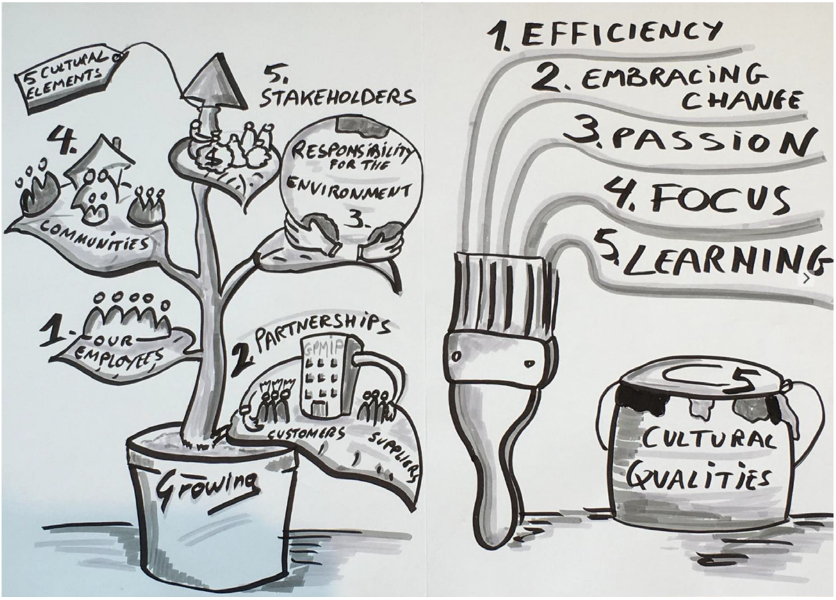

FIGURE 7.5 Visual Mapping of Culture Workshop

- Laying the foundation for the creation of international buddy teams
- Working on the "know thyself" elements mentioned above, but then with a view from both sides.

Figure 7.5 shows a snippet from a visual mapping of a culture workshop at a global fertilizer company, focusing on the company's five cultural elements and five cultural qualities.

Preparation of Management and Integration Team

- **Terminology:** Create a common project terminology, with actual definitions and examples; if the integration managers are aligned, you will be off to a great start
- **Business model:** Ensure mutual understanding of the deal rationale, and where the acquisition fits in; the Business Model Canvas® is recommended as a simple and effective tool
- **Techniques:** Use inclusive techniques to foster a common approach and team alignment; an example of a technique is the Lego® Serious Play® methodology: This is a process designed to bring out the best business performance in new teams.

Phase 4: After Closing

If it was not possible to prepare the cultural integration prior to closing, it can still start after closing—even months later. The acquirer is now free of the pre-closing restrictions, it is the right time to start implementing and refining all the actions prepared so far. This is best done in an iterative way, gathering feedback and incorporating that in the actions. Cultural enablers help to achieve that goal.

Cultural Enablers Once cultural differences have been identified, a plan can be developed to address hindering differences. Table 7.4 is a list of cultural enablers.

TABLE 7.4 Cultural Enablers

Category	Enabler	Expected Result
Leadership	Senior leadership embraces cultural awareness	Cultural issues are part of the M&A fabric
Training	Senior leaders and managers are trained on culture integration techniques	Leading by example Mandate and endorsement from the top
	Employees be trained on one set of standard forms, systems, and procedures	Efficiency through alignment and sharing of leading practices Professionalization of the company
Respect	Leaders show respect for employees and peers in other cultures	Development of a shared frame of reference
Involvement	Leaders disseminate a values and culture manual via informal chats and formal, uniform presentations	Dissemination of values and cultures through all levels of the organization
	Feedback system for all employees to provide feedback and improvement suggestions	Involvement of everyone in the integration effort
Humility	Solicit input from clients, employees, suppliers, and other constituents	Credibility, persuasion, consensus, buy-in
Repetition	Creates a "command and control" setting	Effective where employees are expected to do as they're told
	Go for the long term	Development of trust and bonds

Value Alignment A company's values are what keep it on track to realize its mission. Vibrant cultures display high levels of values alignment. Richard Barrett has developed a widely utilized framework around values-based leadership, with books, trainings, web-based tools, and practitioners who support companies worldwide. Organizational values tell you how you need to be, individually and collectively, to achieve the organization's mission and vision. At the start of an integration process, the combined company needs to move from the current state of mixed values to a desired state of shared values.

When the values of the organization are in alignment with the personal and desired culture values of employees, you will experience high levels of employee engagement. People will bring their discretionary energy to their work and go the extra mile to get the job done.

The value alignment envisaged is that between the employee, the target, and the acquirer. Imagine that the desired state for all three is to share values like "making a difference," "goal orientation," "open communication," and "trust." At the time of the acquisition, any discrepancies in alignment are measured: there may be some on "trust" and "open communication." To measure is to know, and the sheer fact of measuring and sharing common goals is a step in the right direction.

Dissemination Last, disseminate values and culture to all levels of the organization in a uniform manner. This can be achieved via a values and culture manual, through local opinion leaders and change agents, and with informal chats and formal presentations. A frequent reinforcement of values and culture tops things off.

CHAPTER CHECKLIST

- Cultural considerations are essential in making cross-border deals succeed
- There is local, national, global, and organizational culture
- Hofstede sets out five cultural dimensions: social orientation, power distance, gender roles, uncertainty avoidance, and time orientation
- On any aspect of culture: determine cultural dominance or lenience
- Cultural elements have interdependencies with all other integration work streams
- Preparations on culture start before any deal is under consideration, and continue throughout the complete deal life cycle

BIBLIOGRAPHY

Accenture/Economist Intelligence Unit. *Top Integration Challenges* (New York: Economist, 2006).

Barrett, Richard. *The New Leadership Paradigm* (Raleigh, NC: Lulu, 2011).

Coisne, Christine. *La gestion des différences culturelles dans les fusions-acquisitions internationales: Une compétence distinctive?* (Roubaix, France: Edhec Business School, 2012).

Hernandez, Daniel Guardiola. *Cross-Border M&A and the Impact of Cultural Differences* (Roubaix, France: Edhec Business School, 2012).

Hofstede, Geert. *Culture's Consequences: Comparing Values, Behaviors, Institutions, and Organizations across Nations*, 2nd ed. (Thousand Oaks, CA: Sage, 2011).

Laneve, Marc, and Thomas Stüllein. *The Influence of National Culture on Cross-Border M&A* (Sweden, Linnaeus University, 2010).

Pollan, Michael. *The Omnivore's Dilemma: A Natural History of Four Meals* (New York: Penguin, 2006), 99–100.

Renison, Daniel R., Byan Adkins, and Ashley M. Guidroz, *Managing Cultural Integration in Cross-Border Mergers and Acquisition: Advances in Global Leadership 6* (Bingley, UK: Emerald Group Publishing, 2011), 95–115.

Stam, Jan-Jacob. *Het Verbindende Veld* (Avonhorn, The Netherlands: Het Noorderlicht, 2004).

Vaara, Eero. *Constructions of Cultural Differences in Post-Merger Change Processes: A Sensemaking Perspective on Finnish-Swedish Cases. M@n@gement 3*, no. 3 (Helsinki: School of Economics and Business Administration, Department of International Business, 2000), 81–110.

Valentini, Todd, "Cultural Enablers," *Thoughts from Taddeo* blog, 2016, http://thoughtsfromtaddeo.blogspot.be/2016/02/shingo-dimensions.html.