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Upping the likelihood of Merger & Acquisition Success through Intercultural Synergy

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ABSTRACT The intense concentration process taking place in the financial system across the world has attracted substantial attention from stakeholders and academicians. The impact of M&A on value creation and efficiency / effectiveness improvements of companies involved appears to be on the whole, disappointing and hard to create value for customers. Also it can help solve problems relating to motivation and turnover of employees. Corporate culture is measured using an ethnographic approach focusing on language as its special artifact. The assessment is based on the definition of some key concepts that are relevant for the industry such as competencies, competition, customer, disclosure, human resources, innovation and risk. This article shows the relationship between the organization culture and Mergers and Acquisitions, it emphasizes on the effect of inter- cultural synergy of organizations post-merger. This article shows how the inter-cultural synergy can be incorporated in the organization to achieve success through Mergers & Acquisitions.

Introduction

A Harvard Management Update recently reported that "Most mergers fail to add shareholder value-indeed, post-merger, two-thirds of the newly formed companies perform well below the industry average" The questions before us is Why is it that an idea that makes so much sense on the balance sheet seems to be doomed for failure??; why and how to rectify this dilemma ??

According to the experts, most mergers fail because executives place a priority on integrating the business elements, but practically ignore the human integration aspects of the merger.

Many business commentators are now acknowledging that failure does not have its roots simply in financial, monetary and legal issues but in lack of intercultural synergy. Research suggests that up to 65% of failed mergers and acquisitions are due to 'people issues', i.e. intercultural differences causing communication breakdowns that result in poor productivity. This disappointment occurs because a deeper analysis of the systematic culture of the organization is overlooked.

Organizational Culture and M&A

The word "culture" when applied to the topic of M&A may be one of the most misunderstood terms in the management field. Organizational culture springs from many sources, but on a concrete level, it means how things are done in a company. Culture is manifested in policy and procedures, organizational structure, and everyday behaviors, both formal and informal: Is a workgroup judged on its ability to produce high volumes of work in a short time, regardless of a 10% error rate, or is flawless work the desired goal? Does information travel informally, or are there strict rules that must be followed? Is the company decentralized, or are corporate services and decision-making centralized at the corporate level? Are decisions made slowly or quickly? What is the level of teamwork vs. a top-down approach to getting projects accomplished? Does the company promote from within or go outside to find the talent it needs? How does "bad news" travel, and how does leadership deal with the messengers? What is the orientation to change?

Whether it's a merger, a spin off, or a stand-alone acquisition, how the culture adapts to new ownership will have crucial implications for the success of the deal. "Differences in leadership style, systems of management, decision making and communication are the most difficult to resolve," wrote Laurence Schein for the Conference Board report on M&A in 2003. We tend to think about "cultural match" as applying to a merger, but understanding the culture can be just as important for a stand-alone acquisition, because key cultural characteristics of the target company will be very important in determining how the company adapts to change in general and to the new ownership. In a roll up, the issues are similar to a merger: the parent will expect the target to adapt, to some degree; to the ways of doing things that the parent co. wants.

In the Systemic Organisational, the company or organization is depicted as a system made up of three basic and interactive elements, the Business constructs, the Environmental factors, and the People or human capital. These three elements are dependent on each other but each one has a blend of cultural aspects. Culture is the core of all these elements which results into overall business environment.

The reason seems to lie in the difficulty of governing a post-merger integration process. Post-merger integration generally requires good governance, management practices, significant experience, and attention to cultural profiles and individuals' behavior. More in detail, management literature recognizes the importance of corporate culture to be considered as the set of values and decisions that drive individuals' behaviors within organization for explaining alliance's success in M&A operations. In fact cultural clashes could determine conflicts and negative effects on the timing and the effectiveness of the post-merger integration processes.

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Why Culture is overlooked?

Indeed, the rationale underlying mergers and acquisitions is typically based upon various types of business performance metrics, including size and growth, economies of scale, profitability, and increases in market share.5 In addition, heavy emphasis on merger and acquisition technical issues may occur because they are generally more concrete and quantifiable. Thus, executives may feel more comfortable focusing on these issues rather than cultural issues, which are more difficult to effectively measure in quantitative terms.

How to create Intercultural Synergy?

Managing intercultural synergy is a very complex mission to achieve. There is a need to have a perfect blend between the three interacting elements of business mentioned at the earlier stage of article. Culture is the factor which is created ideally if there is synergy among those three elements.

1. Cultural Audit: A cultural audit helps determine the culture that currently exists within a company surveying employee opinions helps to understanding what the employees are used to in terms of organisation culture.

Are you being compensated fairly?
Are your benefits comparable to those of the competitors?
Does open communication exist in the company?
What are the basic values of the organisation?
How do decisions get made within the organisation?
Do your values match those of the company?

2. Cultural Due Diligence: Effective cultural due diligence calls for the following steps to be conducted:

Integrate cultural criteria early in the merger discussions.
Prepare due diligence teams with cultural criteria.
Have the due diligence teams collect data on culture apart from operational & financial aspects.
Use tools to assess potential culture fit and issues.

3. Intercultural Staff Training: Employees should be given organised cross-cultural training in order to make them understand the other culture and respect its values. This helps in smoothening the process of post-merger integration.

4. HR Role in the process of Cultural Integration (post-merger stage):

- Introduce measures to retain Key talent.
- Revision in incentive & bonus structures.
- Revise the compensation plan. By taking into consideration the existing plan and make changes which are favourable and appealing to the employees.
- Relocation of staff so as to facilitate cultural fit.
- Reduce workforce as per the capacity and requirement.
- Manage employee relationships.
- Revision in pension policies and arrangements.

5. Value identification in the organisation in terms of trust, ethics, autonomy, and adaptability/flexibility.

6. Merger success is based on acceleration, concentration and creating critical cross-cultural situations when the companies involved are from completely different cultures.

7. Create frequent communications that include all stakeholders-employees, suppliers, customers, government leaders and the community.

8. Identify the talent in both organizations that would leave the greatest gap if they were to leave. Bailing out is contagious. Focus a disparate amount of energy to retain talent support and commitment.

Conclusion

If intercultural understanding is to be recognised within the systems of processes of mergers and acquisitions, then staff training is very crucial. It is the leaders, managers and HR personnel of companies that must have intercultural competency. But mostly, it appears that companies are not investing enough in intercultural, or for that matter any, training.

Companies should be more aware of these deficiencies and their possible future impacts. If the mergers and acquisitions of the future are to prove fruitful, companies must design and implement comprehensive intercultural training programs for staff; assess and tackle possible areas of intercultural difficulties prior to, during and after mergers. They should take efforts to create a framework including mutually agreeable intercultural aspects of understanding to act as guidelines for post-merger synergy.

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