Cross Border M&A Deals – Unmapped Territory

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Any time an explorer ventures into unknown territory, he is usually wise to contract the services of an experienced guide, acquire the most accurate map on record, and have the most sophisticated communication equipment available. It is also critical that each member of the exploration team is selected carefully and carries out the responsibilities assigned. Those are the essentials of survival whether the exploration is of remote places on earth, exploration of underwater depths, or exploration of outer space. The essentials are critical because expeditions into the unknown are high-risk ventures. Any poor leadership decision, unexpected hazard, or breakdown in communication carries serious consequences in an unknown, unforgiving environment. If the exploration team venturing into a merger or acquisition ceases to function as a team, what began as a well-planned expedition into global markets and increasing profitability can rapidly deteriorate into confusion and disagreement about the best way forward or back to a safer, more predictable growth strategy.

Many M&A deals fit the characterization of "high-risk ventures" and for good reason. The National Bureau of Economic Research reports in the 20-year period between 1993 and 2013, acquisitive US businesses destroyed $226 billion in value.[1] For longer than a decade, branded global advisory firms have reported that 70-90 percent of acquisitive US businesses fail to achieve their projected financial objectives.[2] Although this research does not carve out the percentage of cross border M&A deals included in the reported statistics, it is clear that cross border deals are represented in the total.

The consensus seems to be that there are similarities between domestic deals and cross border deals – allowing for the fact that cross border deals are more complicated and therefore represent a higher level of risk. That's a common sense conclusion. What seems to be missing is a description of the universal hazards an acquisitive business is likely to encounter that would lend clarity to the degree of risk exposure encountered by electing one route over another. While all of the research contributes to the development of a useful map for cross border M&A deals, for almost all M&A deals, it seems that the maps currently available tend to be high-level, aerial maps when acquisition teams are actually in need of more practical maps showing the topography of the land and pointing out natural and man-made roadblocks that can delay or derail the business strategy. In assessing the risk of any deal, the decision-makers – just like any experienced guide – need to be aware of how long it could take to travel the route, the obstacles in the way, the cost of surmounting those obstacles, and what challenges there will be to holding the team together while continuing to drive performance in less than optimal working conditions

[1]The National Bureau of Economic Research, "Big Firms Lose Value in Acquisitions," June 17, 2013, NBER Paper No. 9523.

[2]KPMG, "Culture Shock," John W. Bing, Ed.D and Lionel LaRoche, PhD, 1999 and 2013.

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attributable to a high-change environment. A detailed integration strategy map is required and that's very different than a list of projects to be accomplished in the first 100 days following deal close.

In recent years, various researchers have begun to take note of the impact of "culture" on the success of M&A deals. Unlike assessments of financial risk and legal risk, there are no established approaches to assessing the impact of culture on deal success. What is clear is that the impact of culture is best understood in relation to business strategy. *A strategy is only as valuable as the ability and the predisposition of the organization to implement it.* "Culture" dictates how receptive or how resistant the workforce will be to implementing the integration strategy. Cultural norms – strong shared beliefs developed over time about the way something is done – can present formidable roadblocks to the implementation of strategy. Strategic M&A deals involving domestic businesses are frequently impacted by misalignment of "business cultures." Cross border M&A deals are additionally impacted by "national cultures" that may create conflict over which language will be the language of choice and that expose differing attitudes toward workers' rights, acceptable leadership styles, and the values that will be given priority in how business will be conducted. The powerful influence of culture should never be discounted. From a national perspective, we know that world wars have been fought in which hundreds of thousands of lives have been lost to "preserve a way of life." Culture is no less deeply embedded in the hearts and minds of people who work in companies they believe in and are loyal to – especially when they work for companies that are proven strong competitors.

Conventional wisdom suggests that when two strong companies are merged, the merged business will demonstrate the strengths of both businesses. Research reveals that the stronger the two businesses prior to the deal and the longer their individual track records of financial success, the more difficult the integration of the cultures will be. After deal close, a merger or acquisition may create a new legal entity and the organization may be restructured to reestablish clear lines of authority, but sustainable culture change requires respect for new leadership and the collective will of workers to find a way to work effectively with new co-workers who think differently, perform the same jobs differently, and may apply different measures for strong performance. *Culture change cannot be directed*. It must be understood, accepted, and embraced by a workforce that is motivated to pursue new approaches to achieving shared business objectives. As a result, it is imperative for integration teams to understand the business strategy (the route), the changes that must be sustained in order to successfully navigate the route, and in cross border deals, which changes will very likely violate the cultural norms of the businesses

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and the nations involved. Those are the changes that will tend to divide the leadership team and demotivate the workforce, undermining the ability to stay on course.

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