MAKING YOUR CROSS-BORDER ACQUISITION WORK

By JoAnn Lombardi, President VR Business Sales / Mergers & Acquisitions

JOANN LOMBARDI
PRESIDENT

VR Business Sales
Mergers & Acquisitions

American companies are seeking foreign acquisitions in greater numbers than ever before. If an international deal is possibly in your company's future, start thinking about how you'll handle the complex cultural differences that sometimes sink foreign M&As.

GO WITH WHAT YOU KNOW

Domestic M&As are already challenging without dealing with foreign legal and regulatory systems and a workforce whose makeup and culture can be quite different from what you're used to. Even with a Canadian or British company, there will likely be some elements of friction - such as the persistence of cultural stereotypes and differing perspectives on office culture. But you can take preventive steps to make a cross-border transaction and integration go a little more smoothly.

Most important is to avoid the complications related to buying a business that's radically different from your own. Making your international acquisition in an unfamiliar industry can be dangerous to your bottom line. Instead, target companies:

- Those are in the same or a related industry;
- That make or offer similar or complementary products and services;
- Whose workforces resemble your own in terms of size, types of positions, and education levels;
- Whose management structures are roughly parallel to yours.

The more your businesses are in alignment, the less you'll have to discuss during negotiations. Integration, too, is likely to be easier.

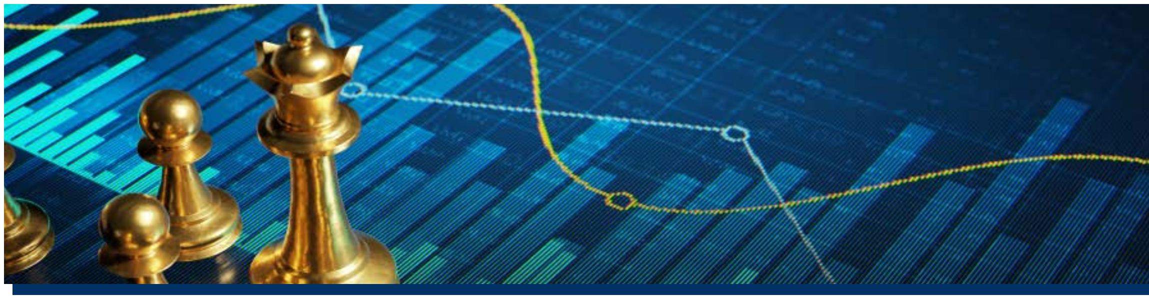
HOME COUNTRY ADVANTAGE

As important as it is for domestic deals, due diligence is even more critical when evaluating a cross-border transaction. To be sure you understand how the company's culture and government regulations affect its financial statements, legal agreements, and other vital information, hire legal, accounting, and regulatory advisors who work, or have an office, in the country of your acquisition target. Even if you also retain American advisors, seek the input of foreign professionals. They're more likely to spot red flags and give you a heads-up about issues that might alter your deal, such as new legislation or a change in the political climate.

Your local advisors can also guide you through the cultural rules that dictate business interactions - Japan's hierarchical management structure or the importance of clan ties in some developing nations, for example. This kind of knowledge is critical at the negotiation stage when the wrong form of address or an insufficient show of appreciation can derail proceedings.

If you've made cross-border deals in the past, review them for best practices before pursuing a new international transaction. For example, say that the last time you made a foreign acquisition, you reorganized the newly merged company's management structure to create parity among nationalities. That wound up being ineffective because considerations

VALUED REPRESENTATION



JOANN LOMBARDI
PRESIDENT

VR Business Sales
Mergers & Acquisitions

of balance overwrote those of experience and skills, creating resentment among employees. You might, therefore, consider a more merit-based management structure for the new target.

Also, consider assembling a task force of your employees to serve as cultural ambassadors to the foreign company. This group can provide the target acquisition's employees with insights into your country's traditions and work practices, and it can organize meetings that enable future co-workers to interact and discuss potential stumbling blocks before the two organizations merge.

RETAINING YOUR WORKFORCE

Essential to a successful international M&A is respecting the national culture of your potential acquisition. Rather than trying to "Americanize" your target, work on creating a merged international culture that draws the best ideas from both sides.

And focus on retaining your key employees and putting the most effective managers in place. In most mergers, some employee turnover is inevitable, but losing executives and managers in an international deal is potentially catastrophic. Not only do these individuals walk out the door with valuable knowledge, but they may also take loyal rank-and-file workers with them. Long before the deal is complete, interview employees to determine who are likely to be the best management candidates. When choosing managers for the newly merged company, you might be tempted to go with what you know and put only your staff in key leadership roles. But both companies should be as fairly represented as possible.

MAKING IT WORK

The more culturally sensitive you are to your new business partner, the more successful your cross-border deal is likely to be. Embracing diversity, respecting the traditions of your acquisition's country, and, if necessary, providing greater autonomy may seem like work, but the dividends down the line will be substantial.