Merrill DataSite® and The M&A Advisor Present

DYNAMICS OF CULTURE

THE IMPACT OF CULTURAL INTEGRATION ON CROSS-BORDER M&A

VALUABLE GUIDANCE FROM THE MOST ACTIVE MIDDLE MARKET M&A PRACTITIONERS

BEST PRACTICES OF THE BEST DEALMAKERS

FIRST EDITION: PART 1

Introduction

Drawing on the experience and expertise of the "best in class" dealmakers, The M&A Advisor, together with the leading provider of virtual deal management services, Merrill DataSite®, is publishing the quintessential dealmakers guide series –**"The Best Practices of The Best M&A Dealmakers".**

Profiling the proven strategies and unique experiences of the leading M&A practitioners **"The Best Practices of The Best M&A Dealmakers"** Series is being distributed in regular installments for the M&A industry professionals in both print and interactive electronic media. Previously published features and chapters will also soon be available in the online library of Merrill Datasite and The M&A Advisor.

We are pleased to present the first Feature Report in the series: **Dynamics of Culture-The Impact of Cultural Integration on Cross Border M&A**. This insightful report, composed through candid interviews and thorough research, provides meaningful insight to practitioners already active in or considering cross border M&A.

"Being fired by a Frenchman is one thing, but you can't be fired by a German."

The business press is filled with many examples of culture clashes that have caused deals to fail. A primary goal for most buyers and sellers involved in cross-border M&A transactions is to capitalize on the synergies gained by combining their organizations. But synergy can quickly dissipate when the impact of decisions regarding the new organizational culture is misjudged, as the following case illustrates:

> *We were working on the sale of a French computer leasing company to an American company. We agreed to a lower selling price partly based on the premise that the buyer would take on the difficult task of terminating some of the employees. We told the buyers, "Listen; to fire people in France, you have to make a 'social plan' and present it to the work inspector. This is the procedure."*
>
> *"Yes, we have a lawyer," the buyer said, "He told us the same thing."*
>
> *In effect, the sellers were reducing the selling price by having the buyer take on the responsibility for the social plan. We said, "The only thing is that you need a personnel manager who is experienced at doing this." So we sold the business and concluded the deal.*
>
> *The next thing we know, the American buyer brings in a personnel manager from a subsidiary in Germany. A German. The CEO of the French company calls me and begs me to call the CEO in Chicago and tell them, "You cannot have a German personnel manager in France to fire people! You just can't! Being fired by a Frenchman is one thing, but you can't be fired by a German. It is impossible."*
>
> *Culturally it didn't work. They had this German guy, going to do it the German way, and because it was a German doing it in a German way, they had strike upon strike upon strike in the French operations. They thought it was all because they were an American company but nobody cared about that. It was all because they put a German HR guy in there.*
>
> *– René-Pierre Azria, president and CEO of advisory firm Tegris Advisors*

As depicted above and as numerous studies have concluded, very often it's the "people issues"—differences in management style, organizational culture, and "the way we do things around here"—that prevent an M&A transaction from achieving its financial and strategic objectives. Yet successful M&A transactions are taking place all the time, lead by experienced dealmakers who know what it takes to keep their deals on track and how to drive the greatest value for their shareholders.

The days of doing deals largely based on valuations, deal terms and due diligence are over. People really want to see that you're adding value when you invest in their companies.

This chapter will focus on the ways in which culture plays an important role in most cross-border transactions and how you can be aware of its impact, as well as how the best dealmakers diligence and integrate cultures in their cross-border deals.

The importance of successful cultural integration
For many companies, successful cultural integration is a requirement of their overall M&A strategy. Today's tougher M&A marketplace is forcing every company to put their acquisition philosophy through a more rigorous test, to improve on their criteria for identifying attractive targets and achieve more fruitful deal synergies.

"Ten or 15 years ago, people looked at the numbers without looking at the folks behind the numbers. There was a mindset of combining the two companies and making 1+1 = 3 instead of 2, forgetting the fact that you have to bring in the people as well," says Kenneth Gerasimovich, a shareholder of law firm Greenberg Traurig LLP.

Some transactions don't go through primarily because of cultural differences between management, says Gerasimovich. "What I see now is that parties absolutely try to learn about the members of management and how they do things. I've seen deals actually not go forward because the deal team identified that there was no way to integrate the two management groups. The numbers look good, but the target may not be a company worth acquiring because the management groups were not going to able to work with each other."

The Jordan Company, a private equity firm that pioneered many deals in China, agrees that culture is important. "The days of doing deals largely based on valuations, deal terms and due diligence are over," says Andrew Rice, senior vice president of international business for the Jordan Company. "People really want to see that you're adding value when you invest in their companies. They want to know how you'll help them increase their sales and grow product-wise and internationally. They want help introducing financial controls and best practices such as lean manufacturing, access to better financing for growth and more."

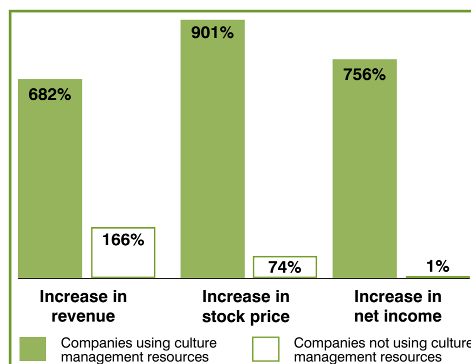
Equally important, Rice notes, is that these sellers expect buyers to have a track record that shows how they deliver on their promises. The cultural fit between two companies in a potential M&A transaction is also getting much more attention. To drive success, certain acquirers are getting much more actively involved in integrating their targets' cultures much earlier in the deal.

In their book, "Corporate Culture and Performance," John Kotter and James Heskett report phenomenal differences in the long-term results of companies that appropriately managed their cultures.

Improving the odds of successful M&A performance
The most successful acquirers have built a repeatable integration practice around a clearly defined acquisition strategy and an experienced project team to keep integration on track. These firms have found that this approach can deliver significant returns:

- Faster integration
- Lower costs
- Achieving and surpassing projected synergies
- Smoother transition to the new culture
- Higher returns on investment

How dramatic can the performance results be for companies that manage their culture well?



In their book, "Corporate Culture and Performance," John Kotter and James Heskett report phenomenal differences in the long-term results of companies that appropriately managed their cultures. Over an 11-year period, these companies increased revenue by 682 percent versus 166 percent for companies that lacked those same traits, grew their stock price increases of 901 percent versus 74 percent, and improved their net income by 756 percent versus 1 percent.

The best practices and observations of firms that have successfully integrated their acquisitions to achieve their financial and strategic objectives are outlined on the following pages.

A formula for successful integration
In general, the most successful acquirers, whether they be corporate or financial buyers, achieve better results by being sensitive to cultural issues throughout the entire acquisition process. This includes:

1. Cultural sensitivity "advisors" as an element of deal success
2. A philosophy of pre-merger, not strictly post-merger, cultural integration
3. A top-down commitment to successful integration
4. A dedicated, experienced integration team
5. A commitment to move quickly to complete the integration

Following is a more detailed discussion of each of these points.

Companies planning to enter a new country for the first time should engage the services of experienced advisors.

1. Cultural sensitivity "advisors" as an element of success

Successful acquirers are sensitive to the cultural differences that will likely exist between their own operations and the companies they acquire – and the fallout that can incur if cultural integration isn't addressed from Day One. They apply this sensitivity to every acquisition, whether the deal is domestic or cross border.

Without exception, experts recommend that first-time buyers work with professionals who have a track record of doing such deals. Marcello Hallake, partner at international law firm Thompson & Knight LLP, recommends that companies planning to enter a new country for the first time engage the services of experienced advisors who can help them navigate the culture, language and business environment.

"Even companies that have very sophisticated dealmakers with a track record in certain countries and industries may have a difficult time when entering a new market," Hallake says. "The issues are not always spelled out in black and white. For example, a company entering Brazil for the first time may be very concerned when confronted with the Brazilian approach to tax liabilities or employment laws. Without the benefit of an experienced advisor, they may misunderstand the 'true' versus 'theoretical' risks of the deal and walk away from a good opportunity. An experienced M&A advisor who has worked on Brazilian deals can quickly assess the critical aspects of a deal and translate them for the client, without taking hours to come up to speed."

Indeed, experienced cross-border dealmakers themselves often round out their deal team with local expertise when taking on an international deal.

"Different cultures have different approaches," says Gerasimovich of Greenberg Traurig. "Handshakes in one country may be considered an insult or it may be an insult if you don't handshake. Or handing out business cards is something people do all the time in some cultures, versus rarely, if at all, in others. So from our perspective, the first thing we want to do is understand what country we are working in. What is always very helpful for every such transaction is to get local counsel that is like-minded."

> When Gerasimovich was engaged to work on the $8 billion merger of Liberty Holdings Corp. (NYSE/AMEX:LIA), with Promotora de Informaciones (Prisa), the world's leading Spanish and Portuguese language media group, his firm immediately hired local counsel in Spain to assist with all aspects of the transaction. "My recommendation is to hire local counsel, a firm you communicate and get along with very well," he says. "The local firm can be extremely helpful in understanding what needs to be done, how to approach aspects of the deal and to a large degree, in resolving language barriers."

> **"There is no substitution really, to rolling up your sleeves and trying to get an early understanding of these issues."**

2. A philosophy of pre-merger rather than strictly post-merger integration planning

AOL's failed integration of Time Warner is widely seen as an example of a clash of cultures. The problem was that cultural integration was viewed as a post-merger afterthought. Since this infamously notable failure, pre-merger integration has become a priority.

Once a successful acquirer has identified a potential target, they make a committed effort to learn more about the target's culture. Again, these dealmakers treat this as a priority on all deals, domestic and cross-border. If possible, they start their investigations early, before the formal due diligence process begins, to identify cultural synergies and challenges.

This can be seen at work in a variety of ways. Some suggested approaches include:

- **Encouraging senior management teams to get to know each other before the deal is closed.** This is particularly important in countries like China, according to Selig Sacks, senior partner and co-head of China practice for law firm Pryor Cashman LLP. "Culture, as you approach business in China, is really the culture of the chairman of the company, who is omnipotent to most of the people that he works with," says Sacks, who specializes in representing U.S. and Chinese companies in U.S. capital markets. "Often that individual is used to running the company in his style and the people who surround him are there to reinforce or interpret his personal vision. This is distinctively different from a Western or U.S. system of conducting business, where we are far more oriented to process and procedures."

  Sacks recommends "getting as much face time" as early as possible with the chairman of a potential target company if you're depending on that person to continue as CEO. "Will he be able to adapt and report to another group? Will he be able to share information on a very open basis, and be open to building the management team, processes and procedures that are more consistent with the U.S. model?" Sacks adds, "In fact, there is no substitution really, to rolling up your sleeves and trying to get an early understanding of these issues."

- **Engaging the services of an organizational consulting firm to assess the fit between the two companies.** "The goal is not only understanding some of the personalities that you'll be working with," says Barbara Atkeson, consultant for organizational consulting firm Bennett Partners, "but also finding out, 'how does the company run their business? Is it in alignment with your business?'"

"You're buying a $100 million company and a management team. You don't know how they are made up psychologically or what drives them."

According to Atkeson, getting access to management and key employees in advance of the deal closing can be tough due to the secrecy that surrounds many M&A deals. However, her team can build an indicative "profile" based on detailed research to determine the synergies and issues that may arise. Sometimes, success may be defined by the client's decision to walk away from a deal based on the outcome of an organizational assessment exercise. "In one case, we had the sense going into the deal that the other party did not always look for a 'win-win' situation with its partners" says Atkeson, "So we proposed a meeting as part of the due diligence setup, and built in some key questions that would allow our client to 'test the waters.' Based on how the other company responded at that meeting, it became evident that they were not the win-win partner our client wanted. Our client saw this and backed away from the deal."

- **Employing detailed background checks into the target's executive team, management and key individuals.** Some firms have added industrial psychological profiling of key employees as a way to better understand the culture and minimize surprises that may emerge after the deal is closed.

  For example, psychological profiling is becoming more acceptable as companies strive to ensure a good cultural fit with an acquisition. That's a position James Hill, partner and co-chair at Benesch Law and seasoned legal counsel to middle market PE firms, has long supported. "Years ago, I used to say to our private equity clients, 'You're buying a $100 million company and a management team. You don't know how they are made up psychologically or what drives them. Did you ever think about, if you're actually in the process to the point of exclusivity, doing industrial psychology profiling?' And their answer was 'no', for a number of reasons. Now it's being done more often. People are more sensitized to it."

- **Establishing a "clean team" that can be deployed to get a head start on integration planning issues.** Much can be accomplished if the team can work during the pre-closing period or in situations where there is a waiting period due to regulatory review and approval of the deal.

- **Creating a human resources pre-diligence team to assess the alignment of each party's cultures before the formal due diligence process takes place.** This approach can be instrumental in identifying critical human resource policies, practices or philosophies that may influence the successful integration of the buyer's and seller's cultures.

"We send our China team into the target company's city ahead of time to understand who is responsible for making decisions."

- **Facilitating a pre-diligence integration summit.** Some companies invite both the seller and the buyer's integration teams to work together—pre-due diligence—to identify synergies, opportunities and issues, and develop the actual plan.
- **On cross-border deals, sending an advance team to the target's location.** This approach allows a buyer to gain an understanding of how an M&A transaction is handled in the target's country and to learn about cultural differences that need to be addressed. This can significantly reduce delays and surprises in the deal negotiations, closing and organizational integration.

According to Andrew Rice of the Jordan Company, this last point has proven to be instrumental in his firm's track record of multiple successful M&A integrations. In fact, the Jordan Company became one of the first private equity firms to invest in establishing a cross-functional operations team in China, where it has done 26 acquisitions, joint ventures and Greenfield start-ups.

"We have a full team on the ground in China that works with each of our portfolio companies, so they are able to make decisions without delay," Rice says, "A common mistake that many companies make is to allow their key managers to get dragged into all the administration around the acquisition. It can be onerous if you don't know the process. We send our China team into the target company's city ahead of time to understand who is responsible for making decisions; which local approvals need to be done first, etc. In some cases, if you can get the mayor to support the deal, the process can take a week; otherwise it can take two to three months or more."

The Jordan Company also capitalizes on the time period around the government approval process to ensure that they can move quickly to integrate a newly acquired company. "Once we finally reach an agreement to buy a company and we sign the purchase agreement, we need the approval of 10 or 15 government agencies—a process that can take three to six months," he says. "So during that approval period, we will often hire new senior managers and get them involved in the acquired business. We don't own the company yet, but we can introduce the managers to the company so they can start to understand the business and get to know the employees."

By the time all the approvals come through and the deal officially closes, the new management team is already in place and the integration of the new company is already underway.

Another tactic is to kick off the new culture by identifying projects for the operational integration teams that can result in quick "wins" that build morale. These projects also

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require members from both teams to interact closely to accomplish the goal. As one participant of such a process observed, "Our integration teams, including people directly affected by the changes, were able to get involved and identify cost-saving opportunities that our executives and dealmakers could not have found on their own."[1]

Tactics such as these enable the buyer and seller to get an earlier read on cultural synergies and issues. Making an early investment in understanding cultural issues also enables companies to accomplish the integration much faster.

Don't be afraid to walk away

No less important, paying attention to signals in cultural differences may even raise a red flag to abandon the deal. For example, during the final stages of due diligence for the acquisition of a British leasing-equipment company, two senior business leaders from GE Capital had a working lunch with the CEO and CFO of the company expressly to discuss some of GE Capital's expectations for how the merged company would be run. During lunch, significant differences in basic management styles and values became clear. The conversation led GE Capital to take a harder look at the management culture of the target company and to realize that integration could be difficult and contentious. On that basis, despite very favorable financials, GE Capital walked away from the transaction.[2]

3. The importance of a top-down commitment to integration

Top-down commitment to integrating each company's cultures, backed by a well-conceived communication plan, is critical. If the leaders of the company do not convey their commitment to the integration of the new company, the employees will not treat it as important. When a clear commitment from the top is evident and acted upon, the results can be tremendous. For example:

> When Cargill Crop Nutrition acquired IMC Global to form the Mosaic Company, a global leader in the fertilizer business, the new CEO, who came from Cargill, knew from the outset that retaining IMC employees and creating one culture would be important to the success of the fledgling company. One-on-one meetings with the top 20 executives and surveys of the top teams from both companies revealed differences between Cargill's consensus-driven decision-making process—which would be the culture of the new

[1] Timothy J. Galpin and Mark Herndon, "The Complete Guide to Mergers & Acquisitions, Process Tools to Support M&A Integration at Every Level," 2nd ed., (San Francisco: John Wiley & Sons, 2007).

[2] Ronald N. Ashkenas, Lawrence J. DeMonaco, Suzanne C. Francis, "Making the Deal Real: How GE Capital Integrates Acquisitions," Harvard Business Review, http://hbr.org/1998/01/making-the-deal-real-how-ge-capital-integrates-acquisitions/ar/pr

Clear, consistent and ongoing top-down communication is also vital to success. "[E]very employee has just three questions: 1) Do I have a job? 2) Who do I report to? and 3) How will I get paid? Until they get answers, nothing else matters."

company—and IMC's more streamlined approach, which emphasized speed. Armed with an early understanding of the differences in approach, the CEO was able to select leaders who reinforced the new culture.

Cargill managers also made time to explain the benefits of their decision-making system to their new colleagues, rather than simply mandating it.

Result: The synergies estimated (and owned) by jointly staffed integration teams turned out to be double what due diligence had estimated. [3]

The importance of a top-down communications

Clear, consistent and ongoing top-down communication is also vital to success. One best practice is to develop the communication strategy well in advance so that it is ready to be launched on the day the deal is announced. Both parties to the transaction should be involved in the creation and delivery of the communication plan. The intent is to prepare in advance to explain what the newly "merged" culture will mean to all the stakeholders, including employees, customers, shareholders, suppliers and business partners.

With respect to employees, consider the words of Betty Jane Hess, the former head of Arrow Electronics' acquisition integration team: "When we make an acquisition," she says, "every employee has just three questions: 1) Do I have a job? 2) Who do I report to? and 3) How will I get paid? Until they get answers, nothing else matters."

Employee communications should be multi-faceted to address the concerns of existing employees, new additions and those who may be leaving the newly merged company. As one expert put it, "In my experience, transactions can come unstuck for a variety of reasons, which can be categorized as: neglecting the departing or arriving employees, neglecting your own employees, and failing to anticipate cultural diversity."

For the Jordan Company, retaining key employees is a critical factor in enabling its portfolio companies to continue to achieve performance objectives even while change is taking place within the acquired company's culture.

"In places like China and other areas of the world, relationships are extremely important," says Andrew Rice. "The firm you're acquiring may have a manager, president or a vice president that really doesn't understand the business that well, but they've been in their position for years. They often know all the key customers and suppliers, and go out drinking with them at that time of year when new orders are

[3] Ted Rouse and Tory Frame, "The Top 10 Steps to Successful M&A Integration," Bain & Company, November 2009.

[4] Whitney Johnson, 'Three Answers Every Employee Needs," Harvard Business Review, HBR Blog Network, January 31, 2011. http://blogs.hbr.org/johnson/2011/01/three-answers-every-employee-n.html. Last accessed 8/23/11.

A common mistake foreign investors make is to terminate employees too quickly or without a transition.

placed. That's very important. A common mistake foreign investors make is to terminate those employees too quickly or without a transition. They'll say, 'Look, this fellow doesn't really understand the business. We'll hire people to come in that are better at all the technical aspects.' But then, poof, all the relationships are gone, and all of a sudden, those customers start buying from others."

To avoid this, the Jordan Company strives to retain as many of the acquired firm's managers as possible. "We want to show the existing management team that they're a valuable part of the team," Rice says. "Yes, we'll be making changes, but they're usually going to be part of it. It works pretty well."

According to Rice, most of the time, the managers welcome the training. However, "sometimes they don't get with the program and we have to terminate them, but it's like that even in the U.S."

Applying cultural sensitivity to human integration issues

Nowhere is sensitivity more crucial than when dealing with issues related to human capital. A well-thought-out integration plan is vital, but it is just as important to follow through on the key decisions made in the plan. If senior management changes its commitment or makes an "about face" on a key aspect of the integration strategy once the deal is signed, the impact can be far-reaching and hard to remedy. Consider the results when a company fails to heed the cultural integration expertise of its advisors.

Is it the company or the country's culture that is at issue?

Sometimes, the hurdles involved in merging two companies may be more about the companies' cultures than their country's cultures, a distinction that can get overlooked in a cross-border deal. It's a distinction that, if left unaddressed, can result in the loss of key personnel.

> For example, John Piret of Newbury, Piret & Company, recounted the cultural challenges facing a large European electronics company with a charter to buy small U.S. high tech companies. The company was succeeding in making the acquisitions, but failing to retain key talent after the deal was done.
>
> "The client said, 'When we buy one of these companies, everyone leaves. What do we do, how do we deal with this?'" says Piret. "In this case, part of their problem was not a European-American issue, but a big company/small

Waiting for the perfect moment and message can result in a black hole that leads to a loss of key personnel and lower productivity.

company issue. When the European company's HR department began laying out its large company culture, you have these 25-year-old engineers who just got out of MIT, saying, 'All of sudden, I'm working for IBM or GM. I didn't sign up for that—I'm out of here.'"

According to Piret, "This is one of the most common errors that companies make: They fail to spell out, very early on, what the strategic plan is for the acquired company, what it means for the employees, how people are going to fit in, what their future can be and why they should want to be part of it."

Silence is deadly

While there is no perfect way to address every employee's every question, experts do agree on one thing: **Silence is deadly.**

Waiting for the perfect moment and message can result in a black hole that leads to a loss of key personnel, lower productivity, manufacturing defects, lost revenues and more. Instead, make sure communications are frequent and ongoing, even if they consist of short updates on integration progress. Communicate clearly on what has been defined; be straightforward about what is not yet defined.

Jack Welch, former CEO of GE, viewed communication as a means to effect change. "How do you bring people into the change process? Start with reality. Get all the facts out. Give people the rationale for change, laying it out in the clearest, most dramatic terms. When everybody gets the same facts, they'll generally come to the same conclusion. Only when everyone agrees on the reality and resistance is lowered, can you begin to get buy-in to the needed changes."[6]

The communication plan should also specify when/how to communicate with customers, suppliers and other stakeholders about the strategic objectives behind the merger or acquisition. This is crucial to keeping the operations running as smoothly as possible. It can also help minimize the "poaching" of customers by competitors seeking to capitalize on the new company's transition period.

[6] Sherman, S. "A Master Class in Radical Change," Fortune, Dec. 13, 1993. pp 82-90.

Successful acquirers assign dedicated resources, including the project leader and certain members of the project team, to handle the day-to-day aspects of integrating the companies' cultures.

4. A dedicated, experienced integration team

Successful acquirers also invest in building a dedicated integration team to support the transaction before, during and after the deal is closed. They strive to learn from each acquisition, develop repeatable integration models, and continually refine them over time. Many agree on one important rule: part-time project management does not work. When the all-too-common practice of expecting employees to perform well on their "day job" and deliver results on the integration project proved to be unworkable, these companies revised their strategy and put dedicated integration teams in place. The way in which the integration team works within each company varies, but these attributes are critical:

Dedicated resources
Successful acquirers assign dedicated resources, including the project leader and certain members of the project team, to handle the day-to-day aspects of integrating the companies' cultures. This single decision can go a long way to ensuring that the integration project remains a priority. One of the team's primary goals is to ensure that deadlines are not missed. The team is given leeway to make things happen and keep decisions moving; they are also held accountable for the integration's progress.

The right integration project manager
Serial acquirers have also found that success often rides on appointing an experienced integration leader with intimate knowledge of the process. Additionally, this person should be a senior professional, particularly when managing the integration of large, complex M&A transactions.

As a recent Harvard Business Review article noted, "Guiding this kind of expedition takes a new type of leader, someone who can jump into complex situations quickly, relate to many levels of authority smoothly and bridge gaps in culture and perception. But this leader also needs world-class project management skills…"

An experienced, cross-functional team
Serial acquirers have also learned that they achieve the best results when they put the process into the hands of experienced team members who've worked on other integration projects. Junior members may be added, but the seasoned team members take the lead.

Another best practice is to plan for a cross-functional team and be prepared to add members from various areas of operations as their area is affected by the integration. Project team members will vary depending on the objective of the acquisition and the level of integration required.

Successful dealmakers foster two-way communication between the integration team and the due diligence team, beginning in the pre-diligence phase.

How much integration is necessary?

Successful companies establish, at the outset, how much integration will be required, based on the objective behind the acquisition. The first step in architecting a successful integration plan is to clearly define the objective behind the merger or acquisition. The buyer's objective may be driven by a combination of factors such as increasing profits, gaining market share, new geographic territories, access to new products or technologies, access to capital or some combination of the above.

Certainly, there is no "one size fits all" approach to cultural integration. In some cases, such as a "scale" acquisition in which the buyer is acquiring a direct competitor to consolidate its market share, it may decide to completely integrate all aspects of the companies' cultures and operations.

In other situations, such as a "scope" situation in which a buyer is acquiring a company to gain access to a new product or market, it may make sense to integrate some, but not all of the areas of the target's operations. In a case where the buyer is acquiring a business for purely financial reasons, no integration may be necessary. Successful companies take the time to specifically define and articulate these goals sufficiently, so that they serve as the foundation from which the integration plan can be formulated.

The importance of communication between the integration and deal teams

Very often in M&A deals, the due diligence team and the integration team will work completely separate from each other. Once the transaction is complete, the deal team is removed from the process, often without having the opportunity to share the valuable cultural intelligence it has gained during the deal with the integration team. Successful dealmakers foster two-way communication between the integration team and the due diligence team, beginning in the pre-diligence phase.

The integration team is then able to provide feedback about certain aspects of human or cultural integration back to the diligence team that can be used to structure the deal more effectively.

For example, the integration team may uncover significant differences in employee compensation, bonuses or profit-sharing programs–all of which can have profound impacts on the cultural integration of the two companies if they are not aligned ahead of time. Or the integration team may discover additional costs related to normalizing employee benefit programs between the two cultures. Intelligence like this can have a significant impact on the final construction of the deal.

> **"[Y]ou have 30 to 60 days to make sure the acquisition becomes part of the company. Otherwise you lose the momentum."**

The best results are achieved in an environment where new intelligence is welcomed, even if it runs contrary to previous conceptions regarding the deal. This ongoing information exchange can be instrumental in preventing a number of cultural and operational integration problems.

5. The commitment to act quickly to complete the integration process

If there is one common theme that successful acquirers emphasize, it is the importance of keeping the integration plan on track and avoiding delays. The missing of deadlines is frequently cited as one of the biggest reasons for loss of synergy and value.

"The transaction is completed, and then the acquirer takes too long to take control of the acquired company. The acquisition doesn't yield the expected results because people were exhausted by the process and didn't implement their plan quickly enough," says Azria of Tegris Advisors. "It's a fairly common issue. I always tell people, 'The closing is just the beginning. Then you have to rush – you have 30 to 60 days to make sure the acquisition becomes part of the company. Otherwise you lose the momentum.'"

Following are a number of suggestions to avoid delay:

- Make cultural integration a key objective of your acquisition plans.
- Choose the culture that you want the new entity to have and commit to it.
- Develop an integration plan that identifies value, retains the right people and keeps the focus on the critical decisions.
- Create an integration team, lead by an experienced integration manager to manage the plan. If you don't have experience on staff, don't go it alone. Seek outside expertise from a reputable source that has M&A integration experience in deals similar to your own.
- Have the integration plan ready to launch when the deal is announced.
- Communicate clearly and frequently about integration plans and updates. Top management should continue to participate in this process. Don't let communication fall off after the initial launch is over.
- Make it a priority to meet deadlines on deliverables. Avoid missed milestones; resolve them quickly.

"You have to be able literally to see the world the way the person on the other side sees it, both in general terms and specific terms, and constantly keep in mind that they see it very differently than you do."

- Avoid the temptation to delay decisions in pursuit of the "perfect" solution. It won't exist. Instead, make the best-informed decision possible and move on.
- Monitor progress through measurable goals. This can be accomplished through people-related measures such as customer retention, addition of new customers, customer satisfaction levels, changes in employee satisfaction and retention, reduction in lost work time, productivity increases and lower cost of goods produced. Other measurables such as increase in sales, reduction in costs, etc., can also be useful.

Summary: How does it all add up?

Much of what has been written about the failure of M&A transactions to realize their financial and strategic objectives would lead you to believe that it's almost impossible to successfully integrate two companies with varying cultures. But success can be had.

A number of companies have discovered a way to grow their business through mergers and acquisitions. By making a top-down commitment to successful cultural integration, and dealing with the "people" issues head-on, they've proven that integration can deliver solid results.

Certainly, the integration of two companies is not easy nor without risk. There also isn't a formula that can be applied to every situation. Integration requires an upfront sensitivity to cultural issues in order to create a transaction that is positioned for a successful integration. It requires the buyer to make a considerable investment in resources to keep existing operations flowing smoothly, while it brings the new company into the fold. It's an art and a science.

"You have to be able literally to see the world the way the person on the other side sees it, both in general terms and specific terms, and constantly keep in mind that they see it very differently than you do," says Edmund Glass, senior advisor for Tegris Advisors. "Of course that's easy to say and almost obvious, but hard to do. And if you can do that, you're way ahead in getting the deal done, and making sure it is a successful transaction that gets done and stays done."

Cultural Case Study

The Right Cultural Integration Strategy Drives Successful Results

René-Pierre Azria, founder of advisory firm Tegris Advisors, knew at the outset that cultural integration would be the top issue he had to resolve if he was going to facilitate the successful merger between Italian sunglass company Luxottica, the No. 1 sunglass company in the world, with Oakley, a California-based sports sunglass company.

"We're talking about two fierce competitors who had gone so far as to sue each other over the years. The two companies had distinctively different personalities. When I approached the founder and CEO of Oakley on behalf of our client, Luxottica, it was clear that I couldn't talk about an acquisition. So I spoke about what Oakley was doing extraordinarily well and what Luxottica admired. I talked about what Luxottica was doing extremely well and what Oakley admired. I said, 'Wouldn't it be great if the two of you could speak about enhancing each other rather than beating up on each other?'

"Oakley wanted to be more international. They wanted their great brand and their sport optics to be more helpful to athletes and more sports enthusiasts around the world, but they didn't have the wherewithal to enter the international market the way Luxottica had done it. Luxottica wanted to be more involved in the world of performance and sports enthusiasts. So that is what I emphasized.

"I spoke with these firms for months. At some point they agreed to meet for a day of conversations on issues such as international markets, brand, optics, performance, how to do better in China. Oakley had one or two stores in China; Luxottica had 200 stores in China. The coming of the Olympic Games in Beijing in two years or so also represented a big opportunity.

"So for a whole year, people went back and forth at the top level; they got to know each other—two very different companies with different roots, different traditions and different age pyramids. One was a California culture of rebels and surfers and the other a culture of button-down fashion designers and precision manufacturers in Milan.

"It took all this time to get to the point where we could say, 'If we could put these two companies together, how could we do it without breaking either culture?' Because if we break the culture we would lose the spirit that makes Oakley what it is and makes people believe in Oakley, and the mystique around brands created by Luxottica.

"If we hadn't taken this approach, the deal couldn't have happened."

"Only after the founders and CEOs were convinced that it could be done did we start talking about how to do this in financial and legal terms. What was decided was that Oakley, with its very strong culture, would remain an independent California company with its own president and minimal intervention from Italy, yet with the full support of Luxottica to benefit from its experience overseas. Oakley was a huge winner in the Olympic Games in China, which created enormous pride in their California headquarters. Everything decided upon at the outset was followed. The acquisition has been a huge success.

"If we hadn't taken this approach, the deal couldn't have happened."

Organizational Culture: The values and behaviors that contribute to the unique social and psychological environment of an organization.

Organizational culture is the sum total of an organization's past and current assumptions, experiences, philosophy and the values that hold it together, and is expressed in its self-image, inner workings, interactions with the outside world and future expectations. It is based on shared attitudes, beliefs, customs, express or implied contracts, and written and unwritten rules that the organization develops over time and that have worked well enough to be considered valid. Also called corporate culture, it manifests in (1) the ways the organization conducts its business, treats its employees, customers and the wider community, (2) the extent to which autonomy and freedom are allowed in decision-making, developing new ideas, and personal expression, (3) how power and information flow through its hierarchy and (4) the strength of employee commitment towards collective objectives. It is termed strong or weak to the extent it is diffused through the organization. It affects the organization's productivity and performance, and provides guidelines on customer care and service; product quality and safety; attendance and punctuality, and concern for the environment. It extends also to production-methods, marketing and advertising practices, and to new product creation.

While there are many common elements in the large organizations of any country, organizational culture is unique for every organization and one of the hardest things to change. [7]

[7] Businessdictionary.com

Dynamics of Culture Contributor Bios

Ms. Barbara B. Atkeson, MBA, is a consultant with Bennett Partners. Her professional track record includes previous positions as a CFO, associate at a private merchant bank, as well as a financial analyst with Morgan Stanley. She has experience fund-raising, evaluating investment opportunities, performing due diligence, negotiating transactions, monitoring portfolio company performance, and assisting with strategy and financings. Barbara leverages her coaching expertise to help senior management teams and individual executives improve operational results. Barbaraearned a degree in English from Yale University and an MBA from Stanford University. She also maintains active involvement as a trustee with charitable organizations such as Summer Scholars a non-profit offering year round literacy to 900 elementary school students in the Denver Public School system.

Mr. René-Pierre Azria founded Tegris LLC in September 2007. Prior to founding Tegris, Mr. Azria was a Global Partner with Rothschild worldwide and headed the Telecom practice of Rothschild in the United States. Prior to joining Rothschild in 1996, Mr. Azria was Managing Director of Blackstone Indosuez and President of Financière Indosuez Inc. in New York. During 28 years in Corporate Finance in North America, Asia, and Europe, Mr. Azria has enjoyed extensive advisory experience, generally in transactions of large size and a high degree of complexity. Mr. Azria is a generalist banker. Recent experience includes advising, among others, Liberty Acquisition, Luxottica, Hain Celestial, Cenveo, Emergent Telecom Ventures, Qwest Communications, British Telecom, The Federal Communications Commission, France Telecom, Microcell and ITT Industries. Assignments cover M&A, restructurings, defense, IPOs, fairness opinions, privatizations and renegotiations of complex liabilities. He is a member of the AJC's Executive Committee, of the AJC's Board of Trustees, and of its Africa Institute. Mr. Azria received the AJC's Herbert H. Lehman Human Relations Award in June 2010. Mr. Azria holds an M.B.A. degree (magna cum laude) from Ecole des Hautes Etudes Commerciales (France), a Bachelor of Mathematics from University of Paris-Jussieu and an International Management Degree from London Business School and the Stern Graduate School of New York University.

Mr. Marcello Hallake is a partner with the law firm of Thompson & Knight, based in New York. Marcello focuses his practice on the representation of U.S. and European companies, financial institutions, and investment funds in cross-border mergers and acquisitions, joint ventures, privatizations, private equity, and other financing transactions in Latin America and around the globe. In addition, he represents Brazilian and other Latin American companies and financial institutions in U.S. financing and cross-border transactions. Marcello is the past Chair of the Committee on Inter-American Affairs of the Association of the Bar of the City of New York and is currently a member of the Board of Directors of various not-for profit organizations, including Brazil Foundation, CDI International and the Inter-American Culture and Development Foundation. Marcello was born in Rio de Janeiro, Brazil, and graduated in law and in international and public affairs from Louvain University in Belgium, and received his LL.M. from Georgetown University.

Mr. James Hill is the Executive Chairman of Benesch and Chair of the firm's Private Equity Group. He also serves as an active and practicing member of its Corporate and Securities Practice Group. Mr. Hill also served as Benesch's Managing Partner from 1999-2007 and is a member of the firm's Executive Committee. He focuses his active practice on publicly and privately held growth companies, in addition to representing mezzanine finance providers and equity participants. He primarily handles mergers and acquisitions, public and private offerings of equity, and public and private offerings of debt. Mr. Hill has published numerous articles and has been a keynote speaker on the subjects of mergers and acquisitions and dealing with the formation and ongoing operations of private equity funds and their subsequent acquisitions and dispositions of portfolio companies. Mr. Hill is also very active with enterprises that do not have a financial sponsor. He has a strong working knowledge of the transactional arena in transportation and logistics.

Mr. Kenneth A. Gerasimovich is a Shareholder with Greenberg Traurig. Ken has extensive experience representing domestic and multinational corporations and private equity funds in mergers, acquisitions and sales of public and private companies, divisions and assets. His practice includes a broad range of related corporate matters including tender and exchange offers, proxy contests, stock and asset acquisitions and divestitures, joint ventures, special committee representations, Private Investment in Public Equity (PIPEs) and other corporate transactions, as well as general corporate advisory work.

Dr. John Piret leads Newbury Piret's international M&A activities, with an emphasis on assisting European buyers who seek expansion opportunities in the US market. As an investment banker and CEO, Dr. Piret has negotiated private equity investment, licensing and joint venture/strategic alliances agreements. His specialties include strategic and financial advisory services with an international focus; in-depth acquisition search for the US and abroad; managing cross cultural relations and problem-solving; and performing sale, licensing, and valuation advisory of US assets. He is expert at valuing and evaluating technologies, intangibles, and companies, and is an Accredited Valuations Analyst. Dr. Piret has extensive experience in the formation and development of technological and engineering companies. Previously, he was President and founder of Corion Technologies, Inc., a maker of static electricity elimination instruments for process industries, focusing on in sales, manufacturing, engineering and product development. In addition, Dr. Piret is a Director of Nascent Technology Corporation, an avionics technology company from MIT; a member of the President's Council of the Olin College of Engineering; a mentor at MIT's Venture Mentoring Service; and previously served on the Advisory Committee for Shareholder Responsibility for Harvard University's Endowment Fund.

Mr. Selig Sacks is the Senior Partner in Pryor Cashman's Corporate Group and Co-Chair of the firm's China Practice. Mr. Sacks represents U.S. and China-based companies in their accessing the U.S. capital markets and ongoing SEC compliance obligations. His clients are engaged in the pharmaceutical, consumer products, green technology, new media, and infrastructure industries, as well as others. Mr. Sacks has also been actively involved in defending U.S. publicly traded China-based companies in class-action lawsuits, SEC investigations and in crisis management involving, for example, the defense of companies in the face of short selling activity and negative publicity. Mr. Sacks is a frequent speaker in China on the public offering and private placement legal process in the United States. He was a member of the Rockefeller Mission to China (March 2010) and the Nasdaq Delegation to Inner Mongolia (May 2010), as well as a speaker at the 12th Annual Private Equity and Venture Capital Forum held in Shenzhen (June 2010). He is also Co-Chair of the International Section of The 9th Annual M&A Advisor Awards and Summit 2010. Mr. Sacks is a Graduate of Stanford Law School, where he was Executive Editor of the Stanford Journal of International Studies. He serves on the Board of Visitors of Stanford Law School, Regional Chair. He served for 6 years on Pryor Cashman's Executive Committee and as Co-Chair of its Lateral Recruitment Committee.

Mr. Andrew Rice is Senior Vice President of International Business at The Jordan Company ("TJC"). Mr. Rice travels extensively assisting Jordan companies with their expansion overseas. Since 1990, he has helped coordinate over 45 acquisitions, JVs and wholly-owned start-up operations for TJC in China, Russia, India, Malaysia, Europe, Mexico, Brazil and other countries. Mr. Rice is currently focused on China. Mr. Rice earned a B.S. in Industrial Engineering and an M.S. in Engineering Administration, both from New Mexico State University. He also completed one year of graduate studies in international economics at the University of Melbourne, Australia, where he studied as a Rotary Foundation Graduate Fellow. Mr. Rice currently serves as Global Vice Chairman of the Association for Corporate Growth and is a member of the Board of Directors of the US-China Chamber of Commerce. Formerly, he was on the Board of the Illinois Finance Authority and the Washington, D.C. based Small Business Exporters Association.

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