Insights for Executives

Mergers, Acquisitions and Joint Ventures: Corporate Cultural Differences – What Can Go Wrong and How to Be Successful.

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Corporate cultural differences have become a major competitive issue in today's global business landscape, as companies more and more often create growth strategies that include joint ventures, mergers and acquisitions. These strategies offer tremendous potential advantages, including: Enhancing innovation and flexibility, accessing new suppliers, markets and distribution systems, the ability to surprise and delight existing customers with expanded product offerings, product and technology synergies, acquiring and integrating knowledge, expertise and unique core competencies and providing new sources of revenue and investment capital.

However, the scary reality is that (depending on whose research results you are reading) between **60% - 80% of mergers, acquisitions and joint ventures fail.** ***The number one cause is corporate cultural differences that are not understood and managed.***

What are corporate cultural differences and why ***are*** they a big deal?

Corporate Culture is the shared set of assumptions, beliefs, values, and principles about "the right/only way of doing business" within an organisation. These are usually unconscious, but are embedded in a company's systems, structures, processes, policies, what is considered 'logical', leadership behaviours, and the behaviours of all organisational members. They form the unwritten 'Rules of the Road' about how things are done, and in JVs and partnerships, will transcend common technical ground, such as "we are all designing, engineering and producing cars."

Corporate culture will generally reflect at least some or many elements of **National Culture** -- which is expressed through what is considered "polite, appropriate and civilized behaviour" in that country – the typically unconscious emotional and cognitive models that provide 'scripts' for expected behaviour and practices in virtually all settings. For the purposes of this article, we will focus on corporate cultural differences in M&A's and JV's that involve international partners, but the principles remain the same for those within the same country.

The consequences of un-managed corporate cultural differences can range from the humorous -- (an American manager's effort in a Thai company to "walk around catching people doing the right thing" was thwarted because whenever he entered an office area, all of the employees leaped up and stood at attention by their desks) -- to the complete derailment of a partnership.

When corporate cultures collide……

Case number 1 -- Stalemate at the Proposal Phase

Consider the seemingly simple matter of developing and presenting a proposal for joint management approval: Our client, the dominant company in a new joint venture, assumed its process was (obviously) the right/only way to do it. Their standard approach was to appoint an individual or small group to develop a comprehensive 'straw man' proposal. At a review meeting this was presented to the collective management team for input or approval. In this case, the dominant company was astonished when their partner completely blew it out of the water. The developers dutifully went back and reworked the proposal --incorporating feedback from the meeting – only to have it criticized and rejected again by the partner. The two companies cycled through this dynamic several times with increasing frustration and acrimony on both sides. Key decisions could not be made, important projects were stalled; targets were not met.

What was going on?

Our diagnosis revealed that the partner used a completely different approach to proposal development. Their process was to roughly dimension an idea, involve others who had subject matter expertise and/or would have to implement it, and develop the proposal collaboratively. When it was nearing completion, they would go to each management stakeholder individually to fully explain the proposal, solicit feedback and build support. By the time it was presented at a management meeting, everyone had already agreed; the meeting was just to 'rubber stamp' it.

When confronted with the more dominant company's 'straw man' process, the partner felt excluded and devalued. They believed the dominant company thought their expertise was worthless. They were shocked and insulted that no one had consulted their managers prior to the meeting.

Through our diagnosis, we were able to help the parties understand the cultural differences underlying their respective processes and resolve the issues quickly.

Case number 2 -- communication calamities

Another client, a US/Scandinavian Joint Venture, came perilously close to collapsing in very early phases of their collaboration. Almost before the ink was dry on the memorandum of understanding, relationships between the two partners began deteriorating. By the time KLC Associates were called in, each partner was accusing the other of lack of commitment, incompetence, non-cooperation, failure to perform, and poor leadership. Joint meetings were laden with increasing hostility, suspicion, ill will, blaming and finger-pointing on both sides.

Through our diagnostic process the partners came to understand that many of their conflicts resulted from significant corporate cultural differences around **Communication** and **Hierarchy**. Although they had agreed to communicate and share information and project status, and obviously decisions had to be taken, they had never clarified precisely ***how*** any of this would happen.

The immediate initial problem was that the US partner relied on email as its primary form of day-to-day communication. However, few of the emails were responded to by their

Scandinavian counterparts. This was interpreted by the frustrated US company as signs of disinterest, 'stonewalling' inability or unwillingness to react on a timely basis, failure to take US priorities or concerns seriously and so on. In fact, within the Scandinavian partner's corporate culture, it was considered extremely ill-mannered to send an email before an introductory face-to-face (or at least audio) meeting had taken place. Consequently, they interpreted their partner's behaviour as rude and showing little respect for or valuing of relationships.

In unravelling subsequent events, it became clear that major schisms developed in the areas of information-sharing and decision-making. The US partner had a very formal culture and hierarchical structure. Data on performance metrics and project status updates were reviewed in regularly scheduled meeting forums. Final decisions were taken at a very senior level following a series of escalating approval meetings. The protocol for all of the forums required that 'decks' of the information to be presented were filed in advance of each meeting. The US company was initially perplexed and increasingly angered to find that their Scandinavian partners consistently failed to submit data or participate in meetings.

The Scandinavian partner, on the other hand, had a comparatively informal, consensus and subject-matter-expert based culture. Many decisions were built by consensus at a subject-matter-expert level, without involving management at all. Performance metrics, status updates and other information were generally communicated through phone calls or direct meetings with appropriate/ affected people.

Consequently, rather than filing papers and attending the US forums, Scandinavian employees simply phoned the US person they believed to be accountable and verbally gave them the information.. They were baffled by their US partner's insistence that they were failing to communicate. When they finally understood they were expected to submit data, updates and decisions for review at US meetings, their interpretation was that their partner did not trust or have confidence in them, were treating them punitively for some unknown reason and were not committed to a true partnership.

As both partners came to understand their different philosophies and mechanisms regarding communication and decision-making, they quickly identified other significant Corporate Cultural Differences in Leadership Style, Goal-setting and a number of other dimensions that easily could have derailed the venture altogether. Armed with new understanding of these differences, the two partners were able to agree on mutually acceptable ways of accommodating or managing them. The Joint Venture was salvaged and grew to become very profitable. As one US participant said afterwards, “We didn't think this (the process of diagnosing Corporate Cultural Differences and planning how to manage them) was going to do anything for us. We thought it would be all stereotypes sort of thing. But we found out we were completely unaware of, and completely misinterpreting, what was really causing the problems we had.”

Doing it right -- how can I build a successful partnership?

Are you still wooing a potential business partner, or have you both signed on the dotted line? Building toward a relationship with a new partner calls for very different tactics than, say, integrating a newly acquired subsidiary or establishing a new venture within an established alliance. Let's again assume the most difficult case -- you are interested in a JV, merger or acquisition that crosses national boundaries.

When creating a new relationship, your understanding of the other party's **national culture** must be sufficient to get your foot in the door and not offend anyone until a deal is brokered. At this stage, three dimensions of national culture are extremely important to understand if you are to be successful during this period of relationship building.

***Getting your foot in the door*.** Basically this includes how to gain the proper introduction or introduce yourself and how to manage the first meetings. Protocol, formality, deference, respect all play a part in everything including introductions, the initial exchange of business cards, the location and time of meetings, seating, meals, gift giving, etc. Americans are quite comfortable introducing themselves to more senior executives, while to traditional Japanese it is unthinkable to speak to a more senior executive without being formally introduced by a mutual 'go between'. Also, Japanese executives will seat themselves in hierarchical order, and expect you to do the same so that persons of similar status and position are seated opposite one another. The Chinese, while considerably less formal than the Japanese, are just as hierarchical and status conscious.

***When and how to get down to business*.** Some cultures will expect several meetings, a level of personal disclosure, gifts, dinners, and so on. For example, Swedes tend to invite people into their homes for meals and build personal rapport before moving into any business discussion. Additionally, as the earlier example illustrated, they expect a personal meeting or at least a phone call before they will respond to emails. In some Eastern European countries people are more formal and prefer to communicate in writing, leaving personal meetings until a proposal has been submitted and they think it is likely they will accept.

***How to start framing a business agreement*.** Cultures have very different ways of building confidence in a new partnership. British and Americans tend to want to start by getting agreement at the conceptual level and then work down to the details. The Japanese prefer to create trust and confidence by reaching agreement on concrete details first before building up to the final over-arching concept.

Where a formalized relationship already exists, be it a partnership, JV, acquisition, or among divisions in the same company, an impartial diagnosis, followed by a process of structured dialogue among the parties offers the fastest way to surface, understand, and manage cultural issues. Through facilitated, structured working sessions, the parties themselves develop a shared understanding of the corporate cultural dimensions most significant to the success of their venture.

This process of diagnosis and dialogue is equally useful in repairing problems in an established alliance, and the US/Scandinavian JV described earlier is a good example of the process in action. In the diagnosis phase, we collected data from all key participants and arrayed the results along twelve dimensions of corporate culture. (Because issues arising from differences in national culture are baked into the corporate culture; addressing differences in corporate culture is the most efficient way to get to tangible, practical solutions, and has the added advantage of keeping discussions out of the political sphere.)

Through facilitated discussions, we helped the parties agree on the most important dimensions for their alliance. In addition, each party defined: how their organisation does things; what the other should know about their methods; and what are the best ways to earn favourable consideration from their side. We then led the parties through a process of identifying: areas of common practice, differences that could be leveraged to mutual advantage, and sharp differences in expectations that were causing misunderstandings and problems. The final, and most important, step was to work collaboratively to reach agreement on ways to resolve, reconcile, accommodate or otherwise manage the differences going forward.

KLC Associates have had great success in using our Corporate Cultural Differences diagnostic process, in conjunction with other models for enhancing collaborative work, to enable initiatives involving multiple corporate and national cultures (e.g., US, British German, Swedish, Japanese, Indian, Chinese and Latin American) to deliver global technological synergies and solutions that have dramatically reduced costs and improved capability and competitive positioning.

The bottom line.

Mergers, acquisitions and joint ventures between companies with very disparate corporate cultures offer tremendous potential for growth and innovation. However, realizing these benefits and avoiding the statistical probability of failure requires significant effort – ideally at the outset of an alliance – to fully identify, understand, and negotiate how to manage (and leverage) corporate cultural differences.

One of the traps that many of our clients have fallen victim to, before coming to us, was to mistake the more obvious national differences in language, dress and social customs for the really significant corporate cultural differences. It was easy for them to think they could easily handle these differences with the aid of translators and "India in a Nutshell" cultural briefings. In fact, as we have described, the dilemma of corporate cultural differences is that they are unconscious beliefs and assumptions that form the foundations for an organisation's structure, systems, processes, strategies and behaviours – which are then assumed to be the norm, the way that business is done, for all organisations.