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Emerging Market Acquisitions

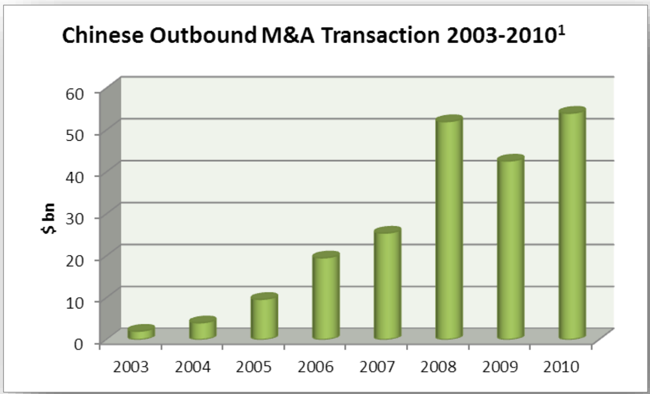
Integration from a different perspective

Emerging market firms are buying more and more businesses in developed markets. 2009 proved to be a watershed year as emerging market firms completed a greater volume of deals acquiring firms in developed economies than the reverse. As this becomes the norm, the rules for integration are likely to change.

How emerging markets firms choose to integrate may demonstrate significant differences to 'Western' best practice.

In 2009 a significant international M&A milestone was reached: emerging markets outbound M&A exceeded non-emerging market outbound M&A for the first time. Put another way: firms from emerging markets spent $133 billion buying firms from developed markets, reverse the direction and the total was only $80 billion.

Acquisitions in infrastructure & natural resources sectors took the headlines (e.g. Arcelor's purchase by Mittal, Tata Steel's acquisition of Corus, and DP World's acquisition of P&O, all in 2006 alone), but deals in IT, high-tech and intellectual capital sectors also made the news (e.g. Lenovo's acquisition of IBM's PC business in 2004, Axon Group's takeover by HCL in 2008). Evidence suggests that, for the foreseeable future, emerging market firms will continue to be aggressive in acquiring Western businesses and assets to further their emergence as global players; globally-depreciating pound may make UK-centred deals even more likely. Considering one market alone, Chinese firms announced $54bn worth of overseas acquisitions in 2010.



In 2008, The Times of India acquired Virgin Radio from stv plc. Stv's CEO, Rob Woodward, says, "The trend of Asian businesses buying established brands in the West is one that is set to gather momentum. The scale, influence and financial power of many Asian businesses is well beyond that of their Western counterparts. Such companies will increasingly look to work with or potentially acquire recognised Western brands to provide a bridgehead into Europe. Cross-border working will become the norm even in domestic centric businesses."

Some things you can't change...

What will this mean for developed-economy businesses and their managers? Much of the experience (good and bad) will be the same as for deals and integrations involving wholly-Western entities, cultures and management teams.

Sarah Lockie, Senior Vice President in charge of Corporate Communications at DP World spoke to us about her experience during their acquisition of P&O in 2006. She told us, "The ports industry is a bit different from others in that it tends to breed a high level of internationalism by its very nature, with people moving around the world as their careers develop, so there was a common, global perspective across both companies that comes with that territory. The difference between DP World and P&O, we found, came not from an emerging *vs* mature market perspective, but from the difference in our respective 'ages' – a difference that can occur in companies within any market. If you think of the two companies as types of people, DP World was a well travelled young graduate in his or her early twenties with lots of drive, energy and ideas, while P&O was a measured middle-age, with a depth of experience and lots of institutional knowledge. Those from P&O have contributed enormously to the maturing of the combined company, with established processes and systems, while DP World has reenergised those from the old P&O."

As emerging market acquirers take increasing prominence, Western executives will notice some key differences to traditional cross-border deals in which they may have previously been involved:

- **Fundamentally different, and often unfamiliar, national cultures will play an even larger role in integration, and have an earlier impact.** For over 30 years, we have all seen politics, popular culture and technology shrink distances and lower communication barriers across, and between, Europe and North America. As a result, most managers within the average US or EU-based organisation now enjoy regular contact with customers, employees and others across what is

[1] Dealogic 2009

Most of us would share the view that acquisition and integration represents one of the steepest learning curves in management.

Despite everyone's best intentions, many who may have more experience in integration are likely to find themselves on the wrong side of the deal.

traditionally known as the Western world. Without necessarily recognising it day-to-day, most organisations have developed over this time a cultural awareness and sensitivity that allows, e.g., split, cross-border business functions to perform effectively; groups of nationally-diverse customers to be served by remote groups; and multi-national teams to be pulled together for *ad-hoc* projects or initiatives. That's not to say that Americans, French, British, Germans and others still regularly find numerous ways to mis-communicate, irritate, and otherwise generate plenty of cultural friction, but in today's business world, cultural blind spots across such groups are rapidly disappearing, and serious cultural roadblocks are less common.

Such presumed familiarity with 'international' business may lead some into believing that future dealings with their new emerging market acquirer may pose no significant problem, or that any differences identified will be easy to recognise and straightforward to address. This is a dangerous assumption, especially when you consider that the more fundamental the differences, the 'deeper' such differences typically lie. Many with experience of East/West acquisitions speak of initially observing what they thought to be a high degree cultural common ground, only to realise later that in fact "even from the very start of the process, we really weren't seeing things the same way at all".

Furthermore, this blind spot may impact integration far earlier than some might expect. There is a widespread view that cultural clashes within integrating businesses typically emerge in anger three, six or even twelve months post-close ('culture as a chronic problem', as observed at Time Warner AOL, DaimlerChrysler and Alcatel-Lucent, all US or US/EU-based deals). In cases where fundamentally different perspectives and approaches to integration meet long-haul travel and limited communications (see below), you can instead be faced with a 'perfect storm' that hits you hard on Day 1, if not before: Executive discussions around the shape of the future business, integration priorities and planning, and what (and how) to communicate to employees and the market can all quickly become mired in culturally-driven misunderstandings, conflicts, and mistrust across the joint executive team – not a good way to start the new relationship.

- **An emerging market acquirer in the driving seat of integration – often an uncomfortable position for both sides.** Whether or not it is in the best long-term interests of the combined entity, it remains a fact of life that those on the acquired side typically have less influence over the process of post-deal integration, and over the ultimate direction in which the business is taken. Furthermore, given the typical experience of rapid *organic* growth by the acquirer as they rode the wave of their domestic market, this acquisition may be one of their first forays onto the global stage, in some cases even their first acquisition of any kind. These two factors mean that many emerging market executives may be inexperienced in acquiring and integrating businesses, yet still expected to shape and drive the process.

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- **Increased physical distance between the host headquarters and the newly-acquired entity having a significant impact on communications, relationship building, and execution.** All too often this aspect is ignored or trivialised, when in fact it can have the most profound impact on integration, especially as most 'emerging markets' are significantly further away from Europe and the US. A majority of EU/US deals enjoy some reasonable overlap of the working day; instant, reliable and secure communications; transportation infrastructure that enables travel between *NewCo* locations within a few hours. In the case of emerging market firms acquiring in the UK or US, none of this

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>
> Clive Oakley, RMC Group

can be taken and a for granted: There may be little or no formal overlap of the working day, communications to remote locations may remain a challenge, and – most importantly – those very business trips that are vital in helping to cement the management team can take days to make instead of hours, especially in manufacturing sector deals where operations can be located far away from major cities. Given time zone differences in excess of eight hours, even the simplest of email conversations can take three to four days instead of three or four minutes to complete. The impact of all this on the success of the first few months of the combined business can be immense.

Clive Oakley was Supply Chain Director at RMC Group during its acquisition by CEMEX, the Mexican global cement producer in 2004. He relates, "CEMEX had a well-practised formulaic process for post-merger integration and, within days of acquiring RMC Group, quickly flooded the UK with experienced operation managers with assessment tools to define gaps and best practice. This quickly moved to realigning the business with the *CEMEX Way* model, which included organisational design, business process and systems. All of this was systematically and robustly implemented and, although much time was spent explaining and communicating, little of it was actually for discussion and change: You either chose to get on the bus and take the ride or got left behind. The biggest immediate challenge was cultural and related to trust: Fundamentally they did not trust anyone in the new organisation, and it took years to earn that trust. You went from being trusted to not being trusted overnight, which was very unnerving and frustrating. The ability to cope with the ambiguity of working on the future with your new lords and masters while not knowing for six months whether you had a future was a skill you had to learn quickly in order to survive. Looking back, it was a well run and successful process and a fantastic learning experience, but more time should have been spent really understanding the culturally-different approaches to issues such as trust and hierarchy."

Same game, different rules

These factors raise an aspect of post-deal integration that is largely overlooked, even in the largest and most sophisticated of deals: We all know how integration programmes can be designed to align the organisational cultures of both businesses, but rarely do we consider *how the constituent cultures themselves shape the view of, and approach to, integration*. Rather than adopting what may be considered as traditional (Western-derived) best practice in integration and business management, emerging market acquirers are almost certain to adopt an integration strategy and approach that is itself culturally-informed by their own outlook, history & experience, and can therefore be significantly different to our Western experience or expectations.

Provided you are prepared for some 'new rules' to the game, it can be an extremely positive experience for both sides. As Richard Shoylekov relates of his time on the executive team of Corus Steel during their merger with Tata Steel in 2007, "It was refreshing to experience a different perspective, one that valued *values* as much as immediate establishment of a structure for the sake of having a structure; and so allowed time for both merging organisations to familiarise themselves with the other's strengths and weaknesses. Through a comprehensive integration exercise based on the informed experience of each other's management styles, we were able to identify the longer-term, higher value opportunities quickly."

Making the most of difference

So, if you are a European or American firm that has been, or is likely to be, acquired by an emerging market business, or perhaps an Asian or Far Eastern company thinking through how best to approach your upcoming European integration, here are some things to consider:

- **Work quickly to understand those aspects of each other's culture that will directly impact on your first steps together:** Regardless of the approach or tools used, some degree of formal but *targeted* cultural assessment across the top team should happen

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early so that it can provide immediate guidance on areas where such an understanding will help you kick-off the integration process. Rather than dive into a broad and possibly lengthy assessment, focus on specific differences that may directly impact your first few steps together, e.g.:

- **Beliefs and practices around strategy & operating model development** Collaborative 'bottom-up' or hierarchical 'top down'? Collective or single point of decision-making? Where is the true source of power and authority within the constituent organisations, and how is it typically exercised?
- **Planning & objectives/target setting** Aspirational or conservative? Preference for a detailed view driven by clear end-goals, or an evolutionary/incremental approach that says, 'we'll know where we want to go once we've arrived'? Short or long-term view? Comfortable with ambiguity? Is it OK for managers to fail to achieve their targets?
- **Teamwork** Majority rules or consensus-based? Ways in which the team is motivated? Individualistic or group-driven? Is debate and conflict within teams open or constrained?

Over and above any formal cultural assessment mechanism used, a keen eye and the right set of questions will allow many of these factors to be teased out early, even from the first few group encounters together; in fact such first meetings can be designed specifically to draw these points out, if only to validate and open up for examination whatever your 'quantitative' cultural assessment might be telling you.

- **Recognise, communicate, and accommodate, any *national* aspects of culture:** Without over-relying on stereotypes, it remains helpful to understand and keep in mind some nationally-defined cultural traits (e.g. Asians tend to take a more long-term view than Western cultures, can adopt a more paternalistic view to employees and the firm's role in the wider community, and often defer more readily to seniority when making decisions). Rather than trying (and failing) to change or align them, nationally-derived cultural differences should be openly recognised and where possible exploited, within the new combined entity. It is usually unhelpful to ignore such national behaviours in some spirit of 'political correctness' as they are likely to have heavily influenced the acquisition rationale itself, and will continue to inform all that happens post-close. If dealt with correctly, the focus of any cultural discussion should in any case move quickly from nationally-recognised characteristics to specific business views and impact. Ensure that a shared understanding is held across all executives involved in making things work beyond the deal: Is this acquisition about short-term synergy gains in a tough environment, the leveraging of joint strategic capabilities in the global marketplace, or the ability to deliver long-term benefits for the communities the combined enterprise supports? What is the view on employee relocations or redundancies? Is it acceptable or necessary to reward people financially to support integration or even just to stay within the business? These can sometimes be awkward questions to address 'up front' when the joint team isn't really a team at all, but given the right environment and structure, a joint understanding of different views, even without successfully bridging any of them, can make all the difference in setting the tone for everything that follows.

- **Look at 'best practice' Integration Principles and Approaches, then look again:** As introduced in our paper '*Cultural Integration: Paper Tiger or Stalking Horse*'[2], the integration best practice that has emerged over the past decade or so was typically developed through Western experience and, while still highly useful – embodies cultural biases resulting from this perspective. For example, most formal integration approaches & methodology 'playbooks' we have encountered tend to encourage short, sharp integration; detailed up-front planning; focus on delivery of quick wins; deep collaborative decision-making; clear, transparent targets; and open, two-way communication. All of this may sound obvious and logical to 'us Westerners', but in some Asian cultures, preferred

[2] Acquisitions Monthly, Beyond the Deal; May 2008

In the 70's and 80's, Japanese firms such as Sony and Toyota not only successfully established operations in Europe and the US that helped transform their industries, but also introduced a generation of managers worldwide to culturally-driven concepts such as Kanban, Kaisen and Theory Z.

In this next wave of 'inbound' investment, will Tata Group become the next global business teacher?

practice can be diametrically opposed to every single one of these principles. It's not about what's good or bad practice, it's all about what works – and what works depends largely on the engagement of those involved or impacted. To avoid this problem, build in sufficient time specifically to define and review the proposed integration strategy and approach, and ensure it has the support of everyone around the executive table before rushing headlong into detailed planning and execution.

In the same vein, take care when using Western-developed cultural assessment tools that attempt to normalise cultural behaviour against some kind of benchmarked standard. Such comparisons are often dangerously misleading when not placed within the context of the current economic conditions, industry sector, & corporate strategy; they are especially unhelpful if the benchmark itself was generated from a predominantly Western group of organisations.

- **Shape the integration programme & team to be able to operate trans-culturally, not just internationally:** Managing a globally-disparate team across multiple time zones is not easy, and requires a different approach to that typically adopted when managing local teams. When multiple groups are embedded within culturally- and geographically-disparate businesses, it becomes even harder, especially in a world where long-distance travel may become more restricted. Rather than try to homogenise them all into a single global integration team adopting a single approach and tightly-managed by a strong centre, set it free: Empowering local integration teams to achieve objectives 'their way' in a more distributed integration model is not only appropriate, it is sometimes the only way to achieve success. Provide clear goals and high-level expectations to all, but also ensure that everyone understands that, even as a 'single' integration team, different parts will need to adopt different cultures and practices to mirror those of the individual business areas they are serving. A strong *facilitative* central Integration Programme Office will help ensure that cross-group risks & interdependencies remain well managed and overall cross-business benefits are delivered.

- **Actively exploit a group's culture and history when shaping your integration communications:** Find, and connect to, some concrete cultural anchors within both businesses to help make it easier for staff & management to understand and engage with the process. Examples include existing internal competitions/ awards schemes, measures & incentives, even (with care!) some business or national historical references. Perhaps an unusual example, but in one four-way merger between Jewish Synagogues and associated community organisations, the integration team made active use of the marriage traditions, structure, and rituals of the Jewish faith itself to 'explain' and communicate the integration process to the combined congregation, all to great effect.

How do both groups like to communicate? Do not follow the example of the Southern Californian firm that rolled out an extravagant, high-octane, road show across the globe, full of passionate, emotional speeches from top executives celebrating the glories of the merger; while highly-successful in the US, the road show fell flat with employee audiences in France and the UK, taking trust and credibility two steps back rather than two steps forward. There's nothing wrong with, and sometimes everything to be gained by, communicating the same **messages** through different, culturally-informed **mechanisms** that are informed by how local stakeholders perceive, and believe in, what they're hearing. While likely to add some complication to your plan, understanding what to do is not difficult provided you incorporate local stakeholder representation into your communications planning process.

Recent advances in global communications technology provide new opportunities to impart the same messages and promote two-way dialogue through highly-customised channels (e.g., *arcelormittal.tv*, a global video blog and open forum created to support the Arcelor Mittal deal in 2007;

Things to consider when preparing for emerging market integrations:

1. Confirm alignment of acquisition & integration objectives, integration strategy and approach before any other step.
2. Conduct early cultural assessment across the executive team, targeting hot-spots that may impact integration & business design.
3. Recognise the importance of national *vs* organisational culture – accommodate the former, align the latter.
4. Prepare for material cultural differences from the first meeting.
5. Review your integration strategy & approach from the ground up – don't assume 'best practice' is always best.
6. Make use of any integration experience that may exist on the acquired side of the business.
7. Build additional time, resources and contingencies into your plans to account for the significance of time zones on communication, travel and teambuilding.
8. Create locally-empowered, culturally-sensitive integration teams guided by a facilitative programme office.

and public-access vehicles such as YouTube, recently used by Sun to communicate with their open source community worldwide following their acquisition of MySQL in 2008).

The experience of being integrated into an emerging market organisation may be new to many within current business circles, but there is likely to be as much 'gain' as 'pain' in the journey, provided people are open to the experience. In the electronics and automotive industries in the 70's and 80's, Japanese firms such as Sony and Toyota not only successfully established operations in Europe and the US that helped transform their industries, but also introduced a generation of managers worldwide to culturally-influenced concepts such as *Kanban, Kaisen* and (with some help from William Ouchi) *Theory Z*. In this next wave of 'inbound' investment, the same is likely to happen from other emerging markets: Given their focus on quality & continuous improvement, and their use of both as a cultural unifier across a diverse business portfolio, will Tata Group become the next global business teacher?

Moreover, Western executives on the receiving end of an emerging market acquisition may find that their past experience of M&A will be of real value to the acquirer, provided they leave their assumptions about the rules of the game at the door. Bringing the best experience from those who have been there, combined with a cultural sensitivity that recognises and makes the most of how both sides perceive the deal and subsequent integration, is the best way to smooth the way for both sides of the new enterprise.

ABOUT THE AUTHOR

Carlos Keener is a specialist in M&A Integration, and the founder of Beyond the Deal, a business that provides integration strategy, planning and execution support to clients worldwide. In addition to leading integration programmes, Carlos advises businesses on corporate and acquisition strategy; enterprise operating model design; integration strategy & planning; and turnaround of poorly performing acquisitions.

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