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BRIGHTWOLVES

Breaking (Cultural) Borders: How to Lead Cross-Border Mergers & Acquisitions To Success

Whitepaper

CROSS-BORDER M&A

ONE IN THREE M&A TRANSACTIONS ARE CROSS-BORDER

In the globalized world of today, we see companies strategically use cross-border Mergers & Acquisitions (M&A) to expand operations, gain market share, and drive efficiencies across the country's borders. This brings forth unique challenges and opportunities. A substantial share of today's M&A activities involves international borders—specifically, one in three transactions. (1)

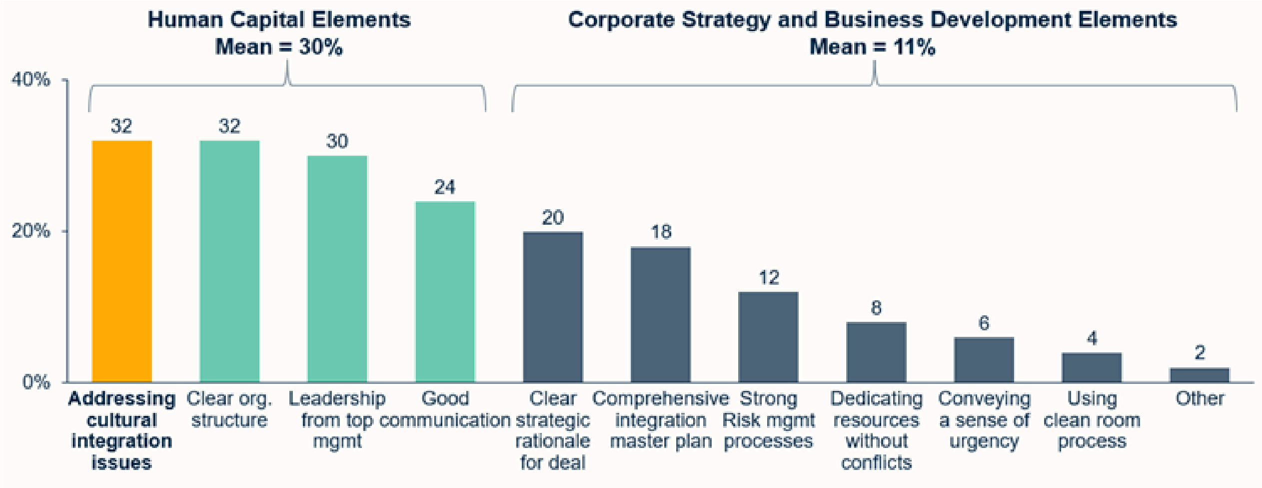
Culture is critical in M&A success

When contemplating cross-border M&A, companies are faced with a labyrinth of factors to consider, from differing legal frameworks to regulatory compliance, financial assessments and logistical challenges – just the tip of the iceberg.
Our focus of today will be on culture. The complexity of blending two distinct corporate cultures can be daunting, and the stakes are high.

Differences in corporate culture stand out as a pivotal aspect of leading a cross-border merger or acquisition to success (see figure on the next page).

TAs reported by Communicaid, the failure rate for Cross Border M&A transactions can reach 70 percent, with only a fraction truly enhancing shareholder value. Research has reinforced the idea that culture is not just a peripheral element but the central pillar in the success of cross-border deals (see next page).

A similar picture is shown in the below graph. The top four integration challenges are all deeply rooted in human factors, with cultural integration being the single most important M&A success driver (2).



Graph 1: Main challenges in cross-border M&A

Recognizing culture management as a distinct and critical competency is therefore vital. The gap often seen between deal-making and operational integration, highlights the need for a concerted effort in cultural alignment throughout the M&A life cycle; from pre-deal planning to post-closing integration.

SPECIFIC CHALLENGES IMPOSED BY CULTURE IN CROSS-BORDER M&A (3)

Aligning strategic goals

Different cultures may have varying priorities and business approaches, resulting in conflicts when crafting a shared vision for the merged company. As an illustration, a company operating in a culture giving precedence to short-term profits may conflict with another company concentrating on long-term growth.

Integrating different approaches to people management

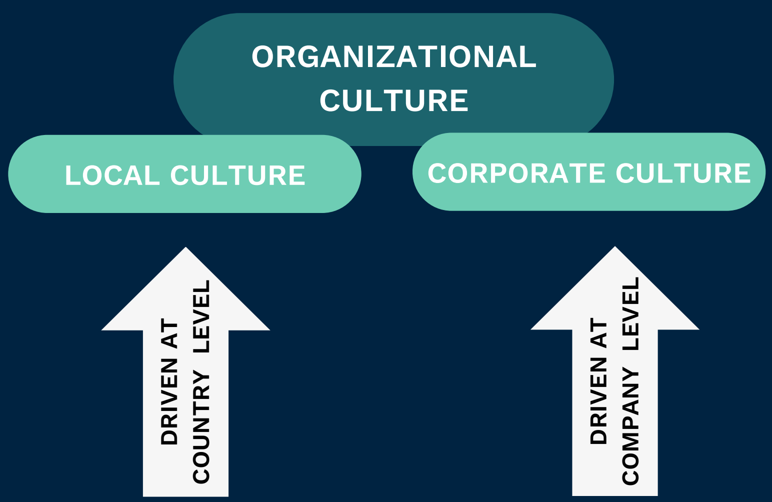
Managing people from different cultural backgrounds involves not only managing employees but also executives and stakeholders. Variations in communication styles and expectations may result in misunderstandings and conflicts. For instance, direct communication may be prevalent in some cultures, while others favor indirect communication.

Addressing general integration challenges

Each culture holds unique values and norms, and reconciling these differences can be challenging. For instance, a company that prioritizes hierarchy and authority may face difficulties when integrating with a company that values a flat organizational model.

FIRST THINGS FIRST: WHAT CONSTITUTES CULTURE?

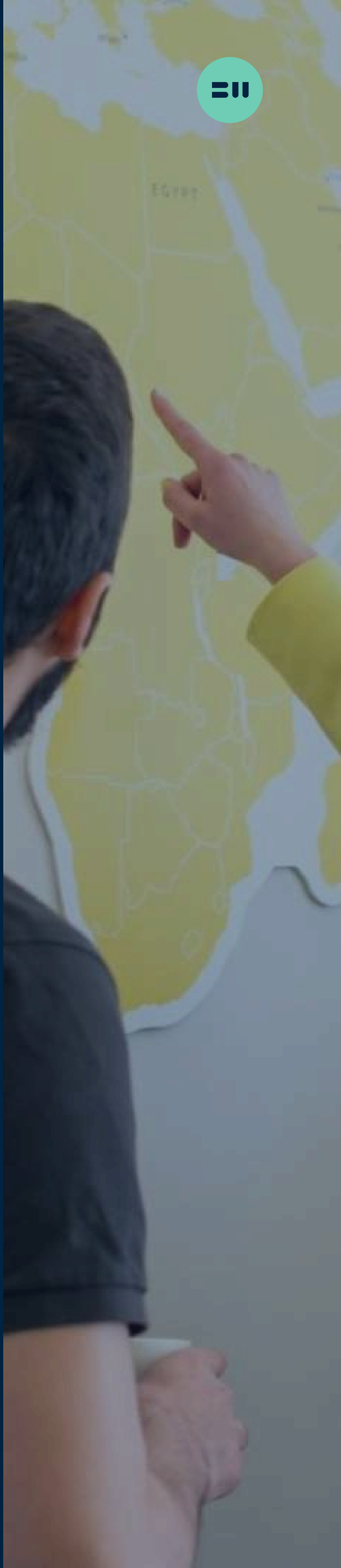
A company's culture is the collective result of its vision or mission, shared values, behaviors and norms. It shapes the organization's identity, guides members' actions, and influences how work is conducted. Effectively integrating diverse cultures is crucial for success, as it influences communication, decision-making, and overall organizational cohesion. Navigating this challenge requires understanding the two components driving a company's culture: local culture at the country level and the corporate culture unique to the company itself.



Graph 2: the two aspects of culture

COMPONENT 1: LOCAL CULTURE

Culture from a country or regional perspective can be compared or assessed based on the Hofstede dimensions. It is important to note that each dimension represents a continuum, and countries are positioned along these continuums based on their cultural tendencies. Analyzing these dimensions can help in understanding cross-cultural dynamics, how different cultures approach authority, relationships, work and uncertainty.



Individualism vs. Collectivism

relates to the integration of individuals into groups. Individualistic cultures emphasize individual achievement and individual rights, focusing on one's personal needs. In contrast, collectivist cultures prioritize the goals and well-being of the group.

Gender Roles

examines the extent to which a society values traditional masculine and feminine roles. Masculinity represents distinct gender roles while femininity is characterized by flexible gender roles and a focus on the quality of life.

Power Distance

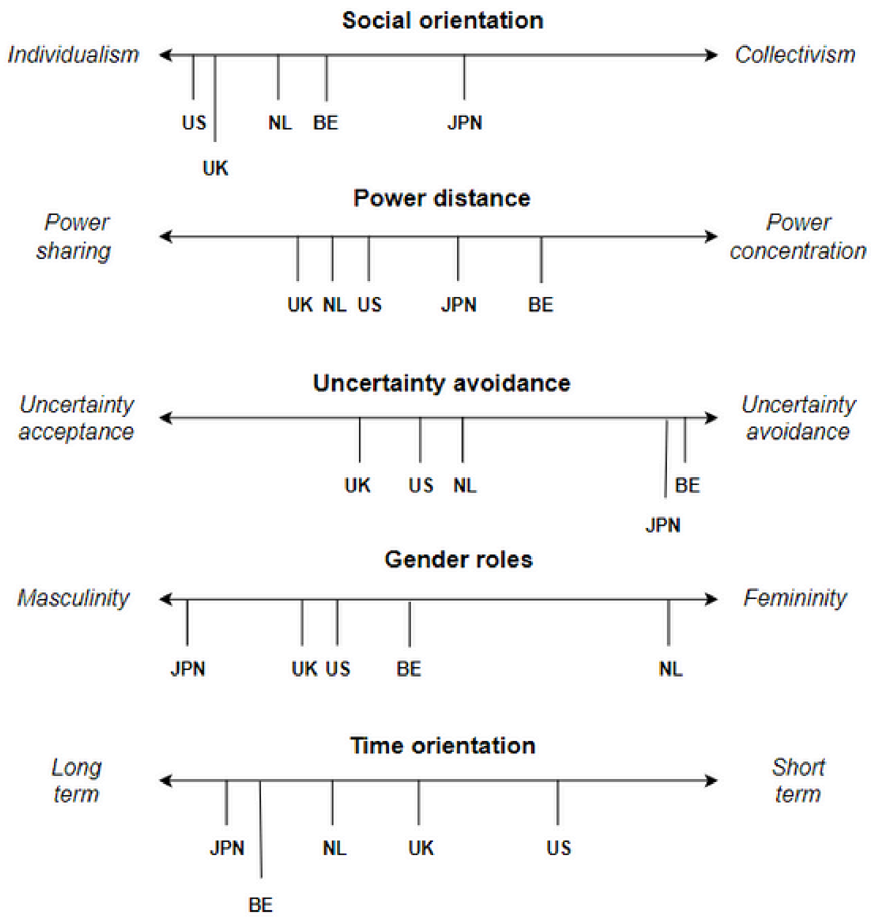
measures a society's acceptance of inequality and concentration of power, with a high index favouring bureaucratic structures and emphasizing respect for rank and authority.

Time Orientation

evaluates a society's view of its time horizon. Cultures with a long-term orientation prioritize future outcomes over immediate success, emphasizing values like persistence, frugality, and adaptability.

Uncertainty Avoidance

indicates a culture’s comfort level with unknown situations, uncertainty, and unexpected events. It dictates the need for structured planning and risk management.



Graph 3: Hofstede's dimensions of local culture (5)

A zoom in on Belgium vs. The Netherlands

When looking at Belgium and The Netherlands specifically, there are similarities but also clear differences the two countries. In terms of similarities. Both Belgium and The Netherlands lean towards an individualistic culture (NL a slight bit more) . They emphasize individual rights and achievements. And both countries are, on average, leaning more towards a longer term time horizon, emphasizing values like persistence and adaptability (BE a slight bit more).

There are clear differences however. Belgians are, on average, more bureaucratic and hierarchical than the Netherlands. Belgians also strongly avoid uncertainty, as they prefer structured planning and risk management. Belgium is also a more masculine society, with more distinct gender roles than in The Netherlands.

COMPONENT 2: CORPORATE CULTURE

There is second component defining your organizational culture. Every company comes with its own (oftentimes unwritten) rules. Company culture is the bedrock upon which all else is built; it shapes decisions, fuels motivation, and is the unseen force that can elevate a team to excellence or lead it to its undoing. Corporate culture influences employee interactions, decision-making processes and rewarded behaviours. In an M&A scenario, understanding the corporate culture of both parties can reveal compatibility and areas requiring adaptation. Corporate culture can be compared based on the following six dimensions (6).

Emotional connection

reflects the degree to which employees feel a sense of ownership, responsibility, and loyalty toward the organization. It shapes their emotional connection to work, influencing retention and dedication.

Commitment for success

gauges employees' commitment to the company's success, stimulated by a culture that encourages curiosity, values opinions, and rewards contributions. In a detrimental culture, employees show indifference, lack concern for success, and hesitate to voice opinions.

Empowerment

measures employees' freedom to shape their roles, use critical thinking, and learn from failures, contributing to organizational agility and adaptability. In a detrimental culture, assignments lack clarity, processes are insufficient, and employees avoid risks, hindering problem-solving.

Open & transparent working environment

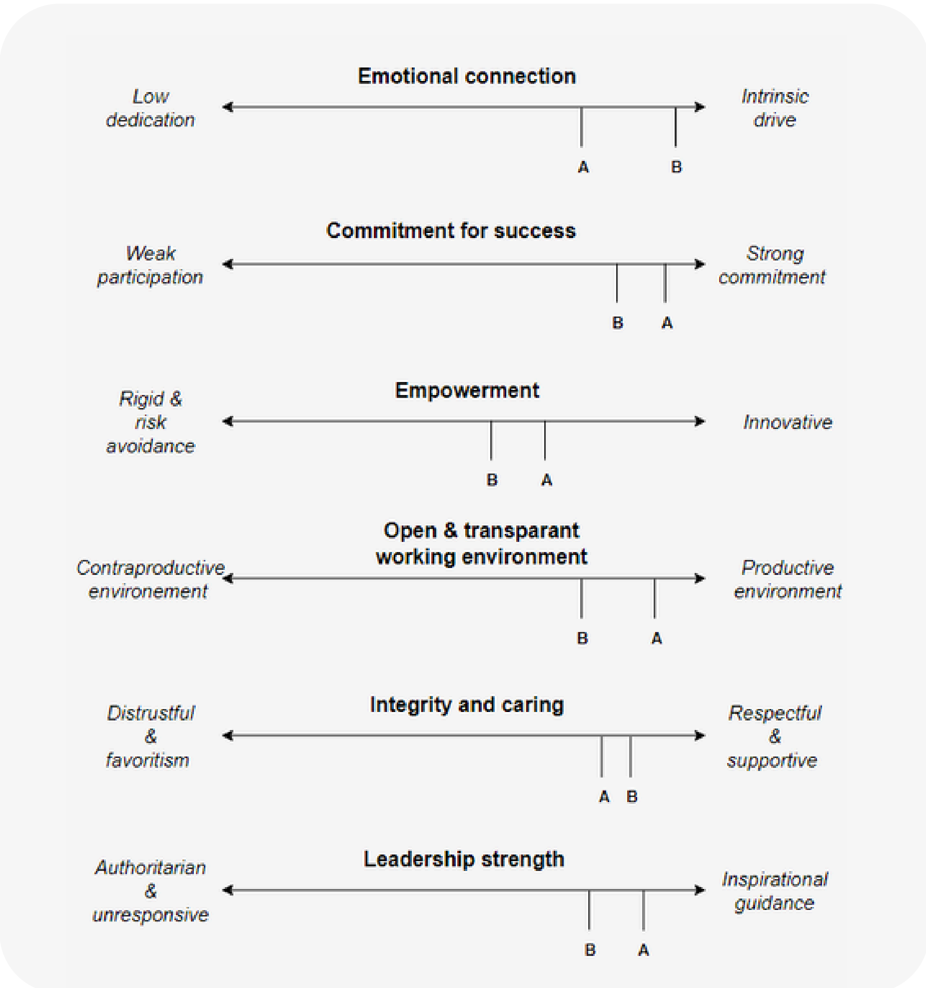
evaluates the culture's focus on impactful work, efficiency, open communication and transparency. Creating a positive work atmosphere and ensuring the consistent delivery of high-quality work. Conversely, in a negative environment, employees prioritize managing perceptions, leading to inefficiencies and compromised quality.

Integrity and caring

reflect the culture's emphasis on respect, fairness, and supportive teamwork. It fosters a trusting environment. Conversely, in a detrimental culture, distrust and favoritism undermine collaboration and hinder quality of work.

Leadership strength

assesses leaders' modeling of expected behaviors, prioritization of humility, facilitation of quality discussions, and encouragement of dissent. It ensures continuous improvement and adherence to quality standards.



Graph 4: six dimensions of corporate culture

A hypothetical example: company A vs company B

Company A is a successful technology startup & in the process of acquiring company B, a well-established manufacturing firm.

Culture highlights of company A:

- Fosters a flat organizational structure.
- Emphasis on innovation, curiosity, and individual contributions.
- Promotes an agile decision-making process.

Culture highlights company B:

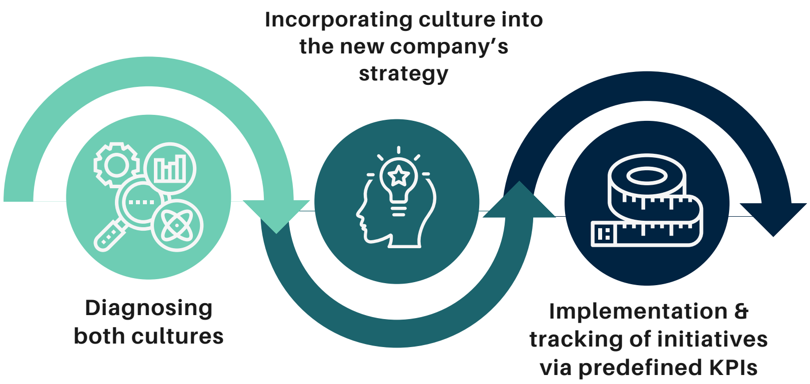
- Embraces a longstanding and family-like atmosphere.
- Values stability, employee opinions, integrity and long-term dedication.
- Empowers employees within defined roles.

Summary

Company A has a dynamic startup culture, focusing on individual contributions and agile decision-making. Company B represents a traditional, stable environment with emphasis on long-term dedication, defined roles, and team support.

NOW WHAT'S NEXT? HOW TO DEAL PROPERLY WITH THESE CULTURAL CHALLENGES?

The following sections explore a three-step methodology designed to effectively address cultural challenges in cross-border M&A operations (7). It is crucial to integrate cultural management from the project's initiation, making it a dedicated track throughout the entire project life cycle, rather than addressing it only post-deal. The three-step methodology will be illustrated with a concrete use case, providing a practical guide for implementation.



Do a cultural diagnosis: position the target's as well as the acquirer's culture

Addressing the cultural challenges in cross-border M&A transactions begins with a crucial first step: a cultural diagnosis. Using management interviews, surveys and focus groups to systematically analyze and understand the true nature of differences in cultural traits of the two parties. Pinpointing the target's intrinsic "gems" and understanding how each side can culturally benefit from the other are central in this phase.

The outcome of this exercise should be a fact base about the two existing cultures, including information about the decision-making processes, how the company motivates/rewards employees, management practices and working norms. When BrightWolves performes cultural diagnosis for its clients, we typically organize them into 3 main categories: similarities, critical differences and non-critical differences.

1

Similarities

Both companies prioritise customer focus

2

Critical differences

Mismatch in organizational structures: the acquirer prefers hierarchy while the target adopts a flat model.

3

Non-critical differences

Providing company cars in Belgium while not offering the same benefit in Japan reflects cultural flexibility.

Graph 5: example of categorization during cultural diagnosing phase

This nuanced understanding serves as input to formulate an effective strategy, facilitating the identification of appropriate actions and measures essential for a successful integration.

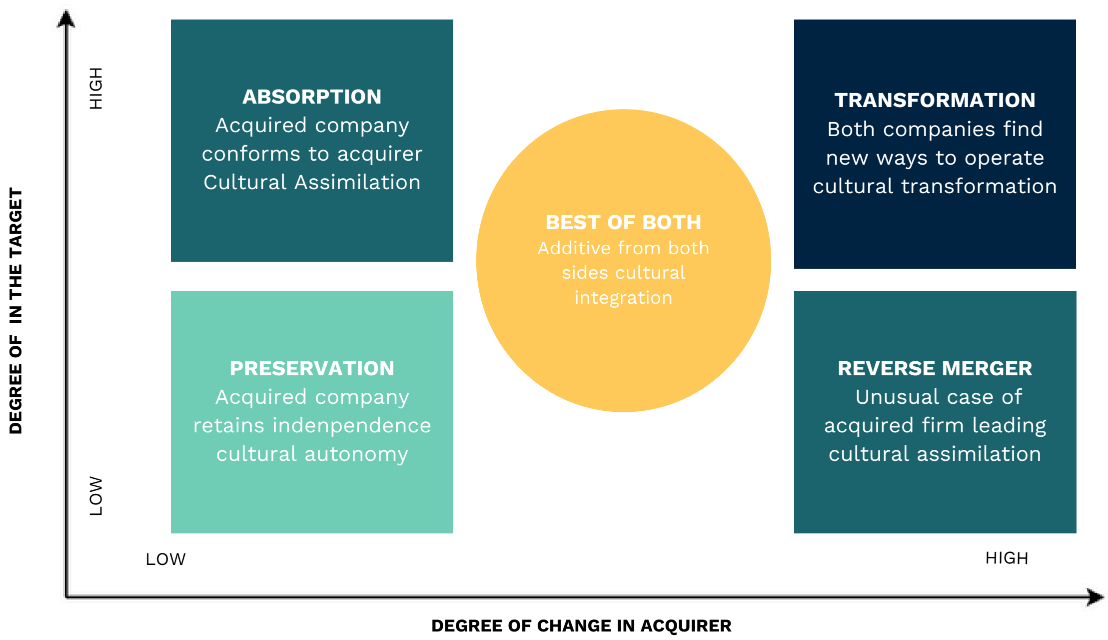
USE CASE

Merger between a Dutch and Belgian software company

In a merger between a Belgian and Dutch software company, a survey filled out by employees from both companies (300+ employees) uncovered a communication gap. The survey, presenting diverse situations and the participants had to indicate how they would react, revealed that Belgians tend to favor nuanced and more indirect communication, while the Dutch value directness. This critical difference requires careful alignment and management to ensure fluent communication and efficient workflows for the new entity.

Incorporate cultural understanding in the new company's strategy

Depending on the strategic rationale of the merger, different cultural strategies can be defined. Mirvis and Marks present a valuable model that takes into account two parameters: the degree of change at both the acquirer's and the target's sides. This model guides the merged entity in envisioning their desired culture: whether it's a fusion of the best elements from both entities or an opportune moment to establish an entirely new culture.



Graph 5: different types of mergers (8)

We know what defines the cultures of the two entities (step 1: cultural diagnosis). We also know the degree of change we envision (from cultural autonomy to assimilation and transformation). The next critical step is translating the above insights into specific actions and behaviors. This involves focusing on areas where culture can enhance the deal's value, as well as addressing significant disparities in work approaches. Subsequently these shifts are expressed as clear "from–to" statements, that are very high-level and easy to communicate.

Following this, the attention turns to formalizing precise behaviors and management practices that cement the identity of the new company.

A few examples:

- Ensure decisions are communicated transparently to all relevant parties.
- Encourage experimentation and learning from both successes and failures.
- Support a culture of celebration for milestones and successes.

After the leadership team achieves consensus on these preferred behaviors, the subsequent step involves adding cultural themes in the change plan. Each theme translates into specific initiatives, shaping the plan, with every initiative monitored via predefined Key Performance Indicators (KPIs). Together, these cultural themes and initiatives not only foster the desired behavior but also drive the merger towards its overarching objectives.

USE CASE

Merger between a Dutch and Belgian software company

The leadership team aims to bridge communication style differences by promoting mutual understanding, developing awareness of each other's styles and cultural nuances.

Explanation of initiatives

- Communication Workshop: A structured workshop bringing teams together to share communication preferences and understand the cultural nuances.
- Cross-Cultural Mentorship Program: Pairing employees from both companies to facilitate one-on-one learning. Mentors provide insights into their respective communication styles.

1. TARGET STATE	2. TRANSLATE INTO CULTURAL THEMES	3. DESIGN INITIATIVES	4. MEASURE PROGRESS
• Comprehensive awareness of each other's communication styles and cultural nuances	• Communication dynamics • Team collaboration	• Communication workshops • Cross-cultural mentorship program	• KPI for Communication effectiveness **(Explained in the next step)**

Implementation

In the final step, the laid-out change plan is translated into action, focused on integration of the planned actions and initiatives into everyday operations. This phase emphasizes the critical importance of monitoring and tracking progress through predefined KPIs, guaranteeing that each initiative reaches its intended goals. Firstly, a manager should track the KPIs of the initiatives he is responsible for and take proper action in case they deviate. Secondly, it's crucial to check how the changes are affecting employees. That is where surveys and focus groups come in handy.

USE CASE

Merger between a Dutch and Belgian software company

Implementation of the change plan consisting of communication workshops, cross-cultural mentorship program and communicating the adjusted communication policies.

Example of a pontential KPI to track the progress of the initiatives described above:

- KPIs for Communication Effectiveness: Implementing KPIs to track communication dynamics, including response times, participation rates in cross-team meetings, communication frequency and feedback scores from team members.

RECOGNIZE THE PIVOTAL ROLE OF CULTURE

Make sure the change team recognizes culture’s pivotal role

It is vital to stress the importance of having the right people on board during the entire process described above. Your dedicated change team should recognize culture's pivotal role, leading the cultural integration with the required experience and skills. But it doesn't end there. The senior management team must also be involved, with specific individuals leading initiatives, tracking progress of these different initiatieves based on KPIs and adjusting as required.

In conclusion: recognize the importance of cultural differences

Thus, in cross-border M&A, recognizing the importance of cultural differences is essential. Differences in both local and corporate culture impose challenges on many fronts. A clear 3-step approach helps to deal properly with them. Diagnosing both cultures, incorporating culture in the new company’s strategy and implementation, and tracking of KPI’s will guide you through the transformation.

Need help setting up your M&A for success?

BrightWolves offers consulting services along the full M&A spectrum: ranging from helping to define your M&A strategy, to target screening & selection, commercial due diligence, deal closing and post-merger integration. Do not hesitate to reach out to our expert, Joris Vanthienen and Miguel Vandamme.

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