

Beyond the Deal Newsletter

*Mergers and Acquisitions that
Achieve Breakthrough Gains*

www.beyondthedeal.net

November 2009

Dear Jay,

Quote of the Month:

"Ideas won't keep; something must be done about them."

Alfred North Whitehead

In this Newsletter

The theme of this Newsletter is culture issues involved in acquisitions and integrations. Culture issues are not readily obvious to us since often we have come to believe that our cultural values are the norm - but the reality is that our values and the cultures that arise from them are a choice. They may be positive ground for the newly combined organization or may undermine efforts as the new combined company begins its integration processes. It is easy to be blindsided by culture issues, especially if the acquirer is not actively looking at what they might be nor appraising their potential impact. If these issues are not acknowledged and resolved no amount of technical expertise or strategic finesse will be sufficient to make the acquisition the success it could be.

The first article contains highlights of a presentation dealing with the culture challenges Chinese companies have to resolve when they engage in cross border acquisitions. Jay Chatzkel of Progressive Practices and Dr. Artie Ng of the Hong Kong Polytechnic University gave this presentation at the Knowledge Cities Summit in Shenzhen, China on November 6, 2009.

The second articles is a conversation with Maarten Nijhoff Asser of THT Consulting, a premiere international consulting firm that focuses on corporate culture issues. THT has worked with Fortune 500 companies and other entities around the world in this area. THT bases its efforts on its

extensive and long term research into how to work through the seven key cultural dilemmas that every company must resolve.

Coming in December:

The December Newsletter will return to the topic of social media with a conversation dealing with what is necessary to incorporate an effective social media dimension in acquisitions and integrations. Our session is with Euan Semple, one of the foremost independent advisors on the application of social computing in business situations.

In This Issue:

- **Why "Traditional Wisdom" Matters in Chinese Multinational Acquisitions and Integrations**
- **A Conversation with Maarten Nijhoff Asser, of THT Consulting: Dealing with Culture Issues During an Acquisition/Integration**

Why "Traditional Wisdom" Matters in Chinese Multinational Acquisition Integrations

Cultural Issues Lead to Underperformance in Chinese Cross Border Acquisitions

In recent years, Chinese enterprises from the Chinese mainland have emerged in the global business arena following the earlier rapid growth and development initiatives of Hong Kong and Taiwan-based firms. Unlike their predecessors, firms from the Chinese mainland are gaining more attention in international business for their increasingly active use of mergers and acquisitions (M&A's) as a means for their strategic growth and expansion into the cross-border markets. Critics have noted the limitations on the success of the cross border acquisitions by firms from emerging economies, due to the issues relating to culture.

As Charles Hampden-Turner and Frans Trumpenaars put it: "culture is the way in which a group of people solves problems and reconciles dilemmas" and "culture is like gravity: you do not experience it until you jump six feet into the air." Culture, as an intangible, has significant but often unrecognized effects on how an organization operates and its effectiveness in all areas, including its level of performance in acquisitions

and their integrations.

Growing numbers of cross-border M&A's originated from contemporary Chinese enterprises where a significant component for the acquisition is to acquire technologies and know-how from their foreign counterparts. Both cultural harmony and intellectual capital integration in post-mergers are critical issues to deal with in these acquisitions and their integrations and to gain capabilities as a result of these acquisitions. Recent studies of cross-border M&A's with Chinese multinational firms (CMN's) explored the objectives of acquiring strategic assets to enhance their critical competencies rather than to organically developing their existing assets, through upgrading new technology and transferring intangible assets at existing operations in China. What was found was unsatisfactory post-performance among these merged CMN's and specific challenges involved in effectively carrying out these M&A integrations.

Chinese "Ancient Wisdom" as a Factor in Chinese Management

CMN's have adopted elements of Chinese traditional Wisdom as key building blocks in their management philosophy. Principles of Confucianism, but also of Taoism, Legalism and other ancient philosophies have been incorporated into their operating worldview. One Confucian input is that people are expected to "revere the rulers with right attitudes so as to maintain harmony". This can mean that tolerance is valued above conflict (regardless of the need to have the conflict out), and that science-based innovation can be seen as secondary to achieving harmony. Other traditional wisdom places country, society and family above self, a focus on balance and mean, inward expansion rather than outward, and emphasis on the past more than the present. These values can be positive for a CMN in that they provide continuity during rapidly changing conditions, but they can also clash with potential Western acquisition targets that value individualism, a priority in science over harmony, an emphasis on outward expansion and a pragmatic stress on the present as opposed to the past. While legal, political and economic considerations may get the lion's share of attention when a CMN moves to acquire a significant US, Asian/Australian or European entity, cultural considerations may ultimately determine whether the acquisition will succeed or fail.

Particularly, under an environment involving technological uncertainty, culture has tended to revert as the default in dealing with integration issues. Additionally, cultural clashes can occur when confronting implementation of new technology. Further, disparity in culture can create constraints to successful post-merger integration.

Such cultural disharmony would mean ineffective deployment of technology and know-how which is expected to be acquired for value creation in a merged firm. As a consequence of a more rigid, hierarchical culture and centralized decision-making embedded in a Chinese organizations, if that CMN acquires a firm driven by technological innovation, there could be a

refocus on the domestic market, which is perceived as more familiar culturally and therefore have less risk and uncertainty. There could also be excessive concerns over short-term financial results rather than allocating resources for innovation and R&D activities for future returns as practiced in technology-based firms of the West. Inflexibility on the part of the Chinese acquiring firm, due to cultural rigidity, can result in an inability to understand, capture and leverage these capabilities across the new organization as well. This in turn, can lead to underutilization of the intellectual assets and capabilities of the acquired firm.

The Challenge of Shifting to a Heterogeneous, Globally Effective Cultural

One of the underlying challenges involved in post-merger integration is that management would not be aware of its bounded routines of hierarchical orders that may adversely interfere with appropriate actions for effective integration. Though Chinese wisdom may be advantaged through embracing a broader set of principles and perspectives from a variety of schools of thoughts for acting, a stiff mode of wisdom could be a disadvantage and a drag by imposing arbitrary restraints on strategic thinking and action. Such complexity would need to be reconfigured by the CMN's in their course attempting to integrate with overseas components of heterogeneous culture.

Secondly, in dealing with the challenges in post-merger integration, development of new corporate culture is necessary no matter whether it is a merger of organizations of two different country cultures or not. In order to facilitate successful post-merger integration, a merged organization needs to develop springboards for quantum leap framework in a timely manner or else it may fail. Without formation of a renewed corporate culture and leadership principles, subsequent operations could hardly take advantage of the intangibles and synergy expected to be created after a merger. Therefore, effectiveness of post-merger integration could affect the development of intellectual capital inside an organization and that, in turn, can influence its capability to compete in the future based on innovation capability.

A Conversation with Maarten Nijhoff Asser, of THT Consulting: Dealing with Culture Issues During an Acquisition/Integration

[THT Consulting](#) is a global firm that helps business leaders, managers and their organizations deal with cross-cultural challenges and dilemmas by actively supporting them in managing the business value of cultural diversity. THT Consulting serves a diverse range of clients, from the top Fortune 500 global companies and familiar household names, through to more local or specialist companies. Its methodologies and processes also apply equally well to the public sector and other non-profit organizations it

also assists.

Dilemma Management: A Framework for Dealing with Culture and Values Issues

JC: *What is your general framework for viewing culture and values issues in an organization?*

MA: The most important thing we learned from facilitating integrations of any kind is to focus first on the 'value orientation' level of the people vested in the merger/acquisition. We all try to make sense of our experiences and form value orientations. Along the way we are influenced by our upbringing, our family, our education, organizations of people that we associate with (including work), what we read and want to believe as well as many other seemingly unconnected individuals and events. This 'value orientation' process, in which we 'secure' our values, beliefs, and principles over time, culminates in our way of thinking and our way of approaching problems. However open we believe we are, we generally settle on one side of what could be perceived as a value spectrum that runs from one side of a dimension to another. Going forwards, we tend to favor one side of such value spectrum over the other side and find confirmation in our beliefs in the people we surround ourselves with. This is the side of the value orientation spectrum that we generally use to 'enter into a dilemma'.

Dilemma Theory is based on the premise that there are always at least two equally valuable sides to values, beliefs, stories and events that appear to be opposing one another. When we can analyze each side with logic and linear analyses and we could very well find both sides to be true in their own context. The basic premise here is that rather than think in singularities and "my way", "your way" and "either/or", which leads to confrontation, it may prove more useful to think in terms of equally valuable dual sides of the value spectrum. Duality or Dilemma Theory shifts the focus from singular value orientations to dualities and integration.

The heart of our thinking is that everything we value in business life comes to us in the form of a dilemma or a trade-off. This is particularly true in integrations/mergers, reorganizations, and other reshuffling or responsibilities and accountabilities. In mergers and acquisitions we find that the best way to capture the actual business challenges is in the format of dualities, which we define as dilemmas. We turn these dualities into two desirable, positive and beneficial, yet seemingly opposing value orientations. For example, on one hand we like standardization and consistency and rules. On the other hand we appreciate and need exceptions and flexibility. The latter allows us to argue that "It really depends. It's situational." Both sides are positive here: for example, consistency and flexibility. We try to measure consistency in the context of flexibility and measure flexibility in the context on consistency. We aim to eventually reconcile all dilemmas.

The word dilemma comes from the Greek language: two propositions or, two possibilities. We have developed an approach for just about any dilemma

that people deal with. Most of these dilemmas stem from a framework of dilemmas that we have been using in consulting and research for the last twenty-five years. This framework finds its roots in cultural value dimensions and differences.

A Pathway for Reconciling Dilemmas in an Integration

JC: *What is the pathway for reconciling dilemmas in companies involved in an acquisition and integration?*

AM: All people and all cultures face similar dilemmas. Cultures approach dilemmas from different angles, but they survive because they reconcile their dilemmas. Companies that merge or acquire another culture would do well to have a reconciliation process that creates a new mix of dualities. From these dualities we create value and wealth.

Our first step or approach to integration always goes to redefining the joined vision and mission and the values that support these. The process is generally a wholesome, reflective exercise wherein the integration team starts to think and feel what the mission of the joint company really needs to be, given the opportunities that the combined entity has and the dilemmas it might face.

Our systematic approach indicates that mergers across cultures elicit at least seven different value orientations. We have found integration teams that address the integration mission, vision, tasks and key purposes early on, learn to appreciate the fact that team members have different views, values and behaviors based upon which they address the integration dilemmas. Serious misunderstandings happen when these underlying values are not made explicit. The 'cultural' differences are generally hidden from view, behind the spoken word and official documents and often underneath rather than on the table. Our process is geared towards making tough and non-transparent issues transparent and explicit.

The Multiplier Benefits of Using Dilemma Reconciliation

JC: *What do you provide organizational leaders through your work in dilemma reconciliation?*

MA: We provide leaders a multiplier, a lever to become great leaders by teaching the true art of integration in highly complex contexts. We have measured leaders' effectiveness in integrating seemingly opposing values and correlated this with highly successful leaders of organizations. We find the high degree of correlation very encouraging. We are on our way to establishing a global leadership competence.

Over the years, we have made our tool more practical, yet it remains non-

linear and therefore can alarm various MBA trained leaders. We understand that sometimes life seems a lot scarier if you become aware of all the dualities/dilemmas we live through personally and professionally. Yet, if we start with differences, rather than sameness, we have a good sense of how to create value through integration rather than trying to overpower and smother one side, or destroy a lot of value afterwards by not addressing underlying dilemmas to a merger.

Why Understanding the Role of Values is So Significant

JC: *Why are values so significant in accomplishing an effective acquisitions, integrations, synergies, and ultimately organizational renewal?*

AM: If we look at what really moves and impacts people, it is not the new strategy; it is not a new leader who has a new slogan. It is the underlying values and the translation of these values into behavior. Based upon behavior we act. The action is a consequence of a behavior. If we do not focus on values and cultural obstacles for example, we can have the best strategy but people are going to withhold information, commitment, and involvement. When strategy and culture clash, culture always wins. The strategy of culture change can only happen when there is a commitment for the culture to change.

People have to get motivated to see that there is something to gain from a new iteration of the organization. This is of course true for societies, organizations, and individuals/leaders.

Our methodology focuses on four steps:

1. Recognition of our own value orientations
2. Respecting others' value orientations
3. Reconciling the dilemmas, and
4. Realizing the benefits thereof

Values are significant because beliefs are based on them. Many beliefs are a reason for us to behave in a certain way. These value driven behaviors turn into action. A very critical part of our process is a step called "values to behavior". It starts by identifying what the values of the integration team are. Let's take 'transparency' as an example. We ask the team to say, "If you take transparency as a value, what are the desirable and undesirable behaviors that you have noticed around you that support or not support this value." It is a very simple thing. We use a flip chart with stickies and list desirable and undesirable behavior associated with the value transparency. We learn that an undesirable behavior is having a hidden agenda in the team. Undesirable behavior is taking charge of a meeting with your personal issue and disregarding other people's insights. People don't say this because they read it in a book. People say it because it has happened, and they don't want it to happen again. We make it explicit for all to see, such that it is easy to keep each other accountable to the values of the

team. (For the full conversation click:
www.beyondthedeal.net/NewsletterNovember09.pdf.)

Maarten Nijhoff Asser

[Maarten Nijhoff Asser](#) manages the THT office in Cambridge, Massachusetts. His international client list includes General Motors, Rockwell Automation, Dow Corning, Telenor, Goldman Sachs, Dow Chemical Company, Cable & Wireless, etc., with whom he develops executive learning programs and engages in consulting projects around THT's Culture for Business concept, which includes Integration, Globalization, Vision and Values and Corporate Identity projects. He has been responsible for the continuous development of the company's interactive, multi media and publishing activities, such as "The Culture Compass".

Maarten's new book on Strategic Sustainable Integration Across Cultures with Fons Trompenaars will be out in Spring 2010. He is also a co-author of the book "21 Leaders for the 21st Century", by Fons Trompenaars & Charles Hampden-Turner. Maarten has taught at various international business schools, most recently at IPADE, Mexico, D.F., Harvard Business School, and Columbia University's Graduate School of Business.

Maarten's areas of expertise include the facilitation of change management processes at the senior management level, and the development of scenario planning workshops. His special interests are strategic dilemma reconciliation, organizational learning, information and technology transfer, and intellectual property.

In addition to having the Newsletter sent to you directly, you can access the Newsletter and article library at:
<http://www.beyondthedeal.net/Newsletter.html>

Please send in your comments, contributions and suggestions to [Jay Chatzkel](#), editor. They are important to making the newsletter as relevant to you as possible.

You are welcome to forward this newsletter on to a colleague or friend.

All the best,

Jay Chatzkel
Progressive Practices

Jay L. Chatzkel is coauthor of the *Beyond the Deal*, and editor of the Newsletter. He is Principal of [Progressive Practices](#) where he assists organizations in transforming themselves into knowledge-based, intelligent

enterprises. This includes working with organizations to develop skills and practices in the areas of merger and acquisition integration, intellectual capital, knowledge management, leadership and collaboration, business process management and performance measurement.

He is also author of *Knowledge Capital: How Knowledge-Based Enterprises Really Get Built* (Oxford University Press, 2003) and *Intellectual Capital* (John Wiley & Sons, 2002).
