

An Insider's View of Post-Acquisition Management

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PREFACE

It is natural for companies to desire to grow and increase their value, which certainly follows the expectations of shareholders. Merger and Acquisition (M&A) is a means to materialize growth by acquiring existing businesses. While "merger" means to combine, "acquisition" is a change of ownership. These are effective ways to increase market capitalization in a short period of time. Many M&A have been attempted both domestically and internationally. Unfortunately, however, it has been said that many of them have failed to reach the original expectation. In either "merger" or

"acquisition", the integration process is critical for success.

The management is rather inclined to focus on the tangible asset portions for an acquisition and put in efforts to close the deal. Consequently, they become less interested in assigning responsibilities and activities for integration after the transaction is finalized. The executives involved in the transaction think that the careful study and due diligence have been thoroughly completed. However, unexpected complications tend to appear and cause disappointment, in spite of huge investments of valuable resources including money, time and people. Many challenges occur after acquisition, regardless of whether it is a domestic acquisition or an international one. Closing the deal is just the start. Managing and handling the integration process afterwards is one of the most indispensable factors that determine whether a M&A is successful or not. In a cross-border acquisition, the differences in language, culture, business practices, priority setting, performance evaluation system and so on, make the situation more complicated and challenging.

The author joined several companies after acquisition (both non-Japanese and Japanese) and worked as an executive assigned by the acquiring companies. He experienced a lot of challenges and revelations under those situations. In this paper, M&A by financial institutions were excluded since it is out of the author's experience. Accordingly, the topics are mainly focused on insider's view for cross border acquisitions in the general manufacturing industry.

MERGER AND ACQUISITION

Objectives of M&A

Roll-up is a typical pattern of M&A which is implemented in the same industry, with a similar business model. Consequently, there are lots of

commonalities within operations and know-how. The larger an organization becomes, the stronger their market presence will be, which then provides advantages in many areas.

In roll-up, regardless of the size of the company, there are some common characteristics of the acquired companies: having a leading edge technology, a strong presence in a niche market, good brand awareness, well-accepted products but having limited geographical coverage, a financial struggle, having a lack of clear succession plan, or major shareholder who intends to sell a relatively large portion of their stock for whatever reasons. These features are very attractive for any company that has an aggressive growth plan and enough available cash. However, it should be noted that if the acquisition premiums are too high, it will make financial success difficult¹.

Though the objectives of M&A vary from company to company, the common aim is to increase its market capitalization. These objectives may be: to increase market share in certain segments and obtain a leading position in the industry; to expand product and service offerings; to utilize available manufacturing or sales capability which the acquiring company does not have; to expand geographical coverage such as from the domestic to international market. The challenge is to persuade the stakeholders into seeing the benefits of the acquisition by explaining the objectives clearly.

Sometimes acquisition itself seems to be the goal, and the operational objectives are vague or not clearly shown. Under any circumstances, acquisitions always bring uncertainty to the stakeholders. To make it less confusing and stressful, the clear objectives must be listed² and shared among stakeholders. It is the management's responsibility to make sure what the objectives are and what the roles of those involved are. Vague messages lead to a voyage without compass, and causes anxiety and frustrations.

Anxiety

M&A has increased year to year, and it is reported that there were more than 50,000 deals in the U.S. totaling US\$3.7trillion in 2017³ and 3,850 deals in Japan in 2018 with the total amount of JPY29.9trillion⁴. Every year, foreign companies have entered the Japanese market by either an M&A, joint venture or by establishing their own entity. Japan is very attractive because of its large market size, extensive infrastructure and sensitivities to values⁵. Many Japanese join a local company without thinking or expecting that it may one day be foreign-owned. All companies have such potential, regardless of their size or industry. Moreover, it happens all of a sudden and causes anxiety to everyone involved.

Acquisitions are always accompanied by anxiety, which can stem from many areas: language, communication, business practice, unknown people, management changes, quarter to quarter management style, job security, to name a few. Anxiety is mainly a result of a lack of information, which then causes uncertainty.

For the employees, the main concern is "whether they can stay or should leave?" and nothing more. This uncertainty causes various uneasiness in their lives because they are not able to get a full picture of the future. It foils motivation. Anxiety exists not only among the employees of the acquired company, but at the acquiring management as well. Even though the acquiring company controls the business and is more influential than the acquired one, there still is a challenge of operating in a different environment. Differences do not go away overnight, especially in a cross-border acquisition, and everyone has to learn how to deal with them. Continuous communication, both formal and informal, helps to ease anxiety and confusion slowly over time. Having understanding and acceptance of the differences and changes helps to decrease concerns. Dialogues to cover what is expected for each employee⁶, and how it affects them would be highly beneficial. While having these processes will lessen nervousness

on the one hand, being too optimistic and giving unrealistic promises can accelerate concerns on the other.

Silent Resistance

The decision of acquisition is beyond the control of the employees, and they are not able to escape from the situation. The employees are at a loss, because they do not know exactly what would happen to them individually. Even though the rationale and objectives of the acquisition are explained, those are not always directly linked to each individual's work. The employees are likely to hesitate to accept changes since they do not have a clear picture. Accordingly, they would prefer to stay in their comfort zone and maintain a distance from the direct impact of the changes by the acquisition. It seems as though the employees are trying to avoid taking action. This is a typical Japanese behavior, especially, i.e., to be passive and not speak up, which then creates a perception of their being uncooperative or having a silent resistance.

In the many attempts at changes, employees are usually not well informed as to why those changes are necessary and how each individual will be affected. Subsequently, a strong pressure from the management to adhere to the given decisions follows, causing employees to be demotivated and react emotionally due to insufficient justification and reasoning. Things will be much easier to manage if employees are given a clear set of reasons, and how their roles will be impacted. Companies can avoid silent resistance from their employees when the management includes them in setting out new initiatives. Employees, then, are more likely to take ownership of the process when they feel they are a part of it.

Synergy Effects

Synergy effects are usually financially calculated and expected to be delivered within the planned time period. Synergy is not the simple sum

of two companies, but it should be the exceeding portion which is created by defined initiatives. Though expected synergy is sometimes quoted as a justification of acquisition, it is observed to be a weak picture of what, how and by when as well as how much the effects would be.

When both parties, the acquirer and the acquired partner are in the same industry and purchase the same or similar material, it is most probable to consolidate the supply sources. This will result in an increase of purchase volume from one supplier and strengthen the position for price negotiations, though there may be suppliers who lose business. Consolidation may bring other benefits in the form of a reduction of processes such as a reduced workload, logistics cost, bank transactions, personnel, and number of warehouse locations.

Parts or component standardization is an area that can be used as a way to improve cost structure. It makes a direct impact to the Stock-Keeping Unit (SKU), which then has implications for the improvement of inventory quantity and value. However, when certain parts have been used in products for a long time, the manufacturer needs to keep them as service maintenance parts. Sometimes parts are required to be made available for 10 years as a manufacturer's responsibility. Consequently, it may take 10 years to complete the standardization for one part. Even though it takes a long time, component standardization is worth doing.

In some cases, the acquiring company tends to behave with superiority complex and look down on the acquired company. They may despise the other company's product, only pointing out the inferior areas and showing the list of fields that were not considered easily. These actions may very likely discourage the members of the other party to talk⁷ or want to exchange product information. Accordingly, before starting to talk about synergy, both parties need to ensure they have mutual respect. Mutual analysis and consensus of the target area without any preconceptions are the starting blocks for synergy, which is only possible and materialized with

a partnership mentality. It is also necessary to remain flexible as there may be diamonds in the rough⁸, which were not considered previously. Synergy effects are possible both in sales and cost, as well as in intangible elements such as a positive development of business culture which indirectly influences the business process.

ORGANIZATION STRUCTURE

Regional and Local Office

Cross border acquisition is made between an overseas acquiring company and a local one. A regional office⁹ intervenes in between, and it is usually not directly involved in any legal transactions of acquisition. However, the regional office plays a remarkable role over the local operations after acquisition. The local office, for the most part, does not contact the head office directly and is required to communicate with the regional office. Local managers have to report to the regional managers, something which they did not have to do before.

Regional territories vary from company to company. Asia Region, for example, covers from Japan, Korea, China, Hong Kong, Southeast Asian countries, to India, and occasionally even includes Australia and New Zealand. The obvious benefit of establishing a regional office is to cut travel time and expenses, and also it makes timely contact possible due to being in a closer time zone. However, if the objective of a regional office is to capture and control these countries as one group, it might be reckless and the effectiveness could be questionable. Though Asia is one geographic area, large differences exist in language, culture, religion, economic development stage, GDP, political stability between the countries in the Asian continent. Regional offices in many cases exist as a fact though.

A regional office consists of key functional managers such as the

General Manager, Financial Controller, Human Resources and IT. These people generally have international business experience, but are not necessarily aware of each country's uniqueness. In addition, a large corporation typically has a matrix management structure, which is not so popular in a Japanese company, and it makes the reporting lines more complicated. Close communication and building trust with the regional office is critical for local managers, together with working in a matrix management structure.

Management Team

The organization design and structure are more important than who does the job¹⁰. Structure is to be defined first, and then follows the assignment. The organization should not be formed by the limited present available personnel, but with a clear structure of what is needed first.

The appointment of senior managers conveys a strong message and a clear indication about the direction¹¹. The acquiring company which took the ownership should also obviously lead the operation. There are some varieties of the leadership arrangements¹², but the complete replacement of the management level to a new one is not practical. Consequently, the new management team is best made up of a combination of new members and previous ones.

For the peace of mind of the stakeholders, keeping former management members seems to avoid confusion because it sends a message of consistency to some extent. On the other hand, these managers may think that they are no longer responsible for the same operations as before and become passive and wait for instructions. This becomes a disappointment for the acquiring company, and they interpret those behaviors as a lack of leadership, involvement and enthusiasm.

On the other hand, assigning a few top management members from the acquiring company or from the outside sends a strong message that the

company is now under control of the acquiring company. Assignees from the head office are parachuted in and arrived on the field surrounded by strangers. They face challenges on how to build relationships and work with strangers. Aside from the newly hired external personnel, assignees are still the employees of the acquiring company. This means that their future career development depends on the assessment by the head office, and they tend to be obedient. In the case of Japanese companies, a subsidiary is generally looked upon as a secondary¹³, and it can be seen from the managers' behavior, which is more reserved.

The employees who are dispatched from the head office are so-called "expatriates." While they have good knowledge and experience in their specific field, and established communication network with the corporate office, the cost efficiency becomes a question later. When the higher positions are occupied by them, it means that the promotion potential, for those in the local offices, to those positions are not likely to happen in the short term. It should also be noted that having expatriates is a potential risk to catalyze polarization or more confused informal structure in the organization.

When the acquiring company fails to find any suitable candidates internally, then hiring from outside becomes an alternative. In this case, these external hires need to start from scratch, building relationships with both the head office and local employees.

Communication

Acquisition invites lots of uncertainty and anxiety among the stakeholders. In order to lessen these, mutual understanding is vital. Communication is a two-way interaction, not a one-way message from the top down to the rest of the organization. Issuing memos or having occasional speeches are only good for disseminating information. Frequent direct dialogues which include walking around the site can shorten the

distance between top management and the employees. It is quite common that Japanese people do not speak up in a large group, but they do in a small group. So, having a luncheon meeting or a similar arrangement is an effective way to let them express their thoughts. It is said that a "face-to-face discussion between leaders and staff, as well as a webcast, tends to be more effective"¹⁴. Active participation of higher management in department or section meetings demonstrate their concern and commitment. Otherwise the message from management will be diluted¹⁵. The task of each employee needs to be clearly explained repeatedly and cascaded down from the top to the front-line personnel. A casual atmosphere provides a conducive environment which is open to questions and answers. If the message from the management is complicated with many details, it will be counterproductive, and the audience may take it as they are treated like machines¹⁶ which removes active thinking. It is sometimes said "Tell us what you want to accomplish, then we can figure out how to do." The message needs to be always candid and includes what they need to know to achieve their tasks. At the same time, nothing should be unrealistic, which can easily result in misleading impressions¹⁷.

Language is another challenge in cross border acquisition. English is used as an international communication tool, and in many companies, it is used as the intercompany language. The head office considers that local language capability is important, and they tend to focus on language proficiency in screening of the assignees. It is true that language capability helps to bridge the gap between the acquiring and the acquired company, but language fluency sometimes limits the understanding only to the surface level. The importance is sensitivity and respect to cultural differences and local business practice. Language fluency is helpful, but not necessarily a solution.

Communicating in a foreign language is hard for most local employees¹⁸. Speaking in an unfamiliar language may embarrass the

local employees and discourage them from speaking further. When the new management does not communicate well in the local language, then translation would be of help, but translation weakens the contents and passion. Communication at heart conveys excitement¹⁹. A question is how translation is made, not just on the surface level of words to words. The person who plays the translator role needs to be carefully selected. Even if someone has a good command of English, it does not mean that the person is capable enough in any subject. In addition, it is often observed that while the conversation in the local language takes five minutes, the translation is finished in less than one minute. It certainly causes suspicion about the translated contents, and listener becomes concerned about what the missing parts may be.

At any meetings involving non-local managers, everyone is expected to use English or any formerly agreed upon language. Sometimes Japanese use their local language for the convenience on their part, but it makes the non-local members uncomfortable because they do not understand what the conversation is all about. Language fluency is desirable, but not a must. Enthusiasm, passion and active participation convey messages, but it should also be remembered that English is usually the working language in an international business environment.

PEOPLE MANAGEMENT

Employee Turnover

Losing excellent employees is always a well-known risk. Talent retention is a critical challenge particularly after M&A. Uncertainty of the tasks and responsibilities or disappointment in future of the company are more likely to be caused at acquisition than in any other normal conditions. Such situations hasten the employee to consider looking for other

opportunities outside. Moreover, under upcoming uncertainty due to M&A, the employees, especially high performers, are good headhunting targets for competitors and recruiters. Employees always have concerns about what would happen tomorrow.

The employee easily imagines a lay-off potential as a result of M&A. Who should stay or leave is their major concern. If some leave the company carrying negative impressions, it is amplified and widely spread to the other employees, regardless of whether it is true or not. Turnover is risky not only for the loss of valuable experiences and know-how but also for the potential movement of worthy knowledge and information to competitors. Employees stay at a company because they like the place and they have career there²⁰. Failure of keeping good people may cause chaos in the operation.

Some say that compensation adjustment, i.e., pay raise or special bonus arrangement, is an effective way to retain people. It is just a short-term solution even though it works. Many exit-interviews conducted by human resources management prove that the major reason for departure is not the compensation but uncertainty of the company's future and interpersonal relationships in the workplace instead. Even though any compensation information is stated as "personal and confidential", many people will come to know it somehow. Once anyone else realizes the existence of a payment adjustment for the purpose of retention, such a negotiation approach will come up one after another. If such a negotiation is refused, then the employee is likely to think himself/herself as less valued than the other who got an adjustment, which then accelerates their departure potential. Those who stay due to compensation adjustment will leave the company by the same reason sooner or later. Money is a risky solution.

Winner vs. Loser Mentality

An acquisition is a result of the agreement between two players: the acquiring and the target. It can be called as Buyer and Seller. The Buyer

purchases something that it doesn't have or that might leverage its business. The Seller has something attractive and valuable for the Buyer. Accordingly, the Buyer evaluates the Sellers as an entity which contributes to the Buyer's business growth and success. However, since the acquiring company has financial advantage as a purchaser, the acquirer's employees are likely to think themselves superior and the other as inferior. The acquisition is not the same as a conquest like in ancient wars. It is widely observed that the acquiring company members, especially middle managers, think that they are winners, while the acquired company is a loser. "The decision was made", "just follow what you are told", or "it is a done deal" are some typical statements. Some even think that they can do whatever they want since they bought that company and now it becomes one of their possessions. Those statements and behaviors are perceived as hubris and creates the impression that the other party is looked down on, which undermines their pride and weakens enthusiasm and commitment. It also accelerates the "winner and loser" conception, which makes it harder when trying to rebuild a team.

A passive attitude is often observed in the acquired employees including former managers. Such attitude comes from the fact of "being acquired". These former managers who occupy the management positions after the acquisition have to take up the hard task of running operations and giving instructions to employees, and this might be different from what they are used to do. When a question to these former managers is raised, the responses may range from "it is what we were told", "it is the instruction", "I don't know", or even "they decided it disregarding my objection." These are easy responses to evade any further questions, but it also certainly means that the manager has abandoned their responsibilities and has become a follower. Consequently, these poor responses discourage the employees to follow the instructions and respect will be ruined. Whatever the issue, managers are responsible for explaining the reasons in their own words.

Us and Them

Acquisition is typically followed by receiving external people. It is common for most employees to try to keep a cautious distance from them. It is not surprising to see that the employees generally do not adapt to such an environment and stay in the groups which they previously were part of. "We" have worked at the same company and "they" are outsiders whom we do not know. Such grouping leads to the "us and them" polarization. In spite of the management's intention to form one team, this division happens more or less. When there is a remarkable information gap, those with limited information feel isolated and left behind. This negative perception demotivates employees and encourages turnover. To minimize alienation, it is pivotal to involve the acquired employees actively in specific initiatives to let them feel they are part of the whole team. Showing the management's interest and concern for each individual also delivers a strong message that everyone is a vital member of the company.

There are also potential risks with expatriates. They tend to form a group for ease of communication and sometimes together with some local employees who have language advantage. Together, these employees could be perceived as a privileged group and have a closed communication circle. This may create a polarization, which leads to another instance of "us and them".

Pride

Employees take pride in the company they work at. It would surely hurt their pride to be treated as a loser. Pride is not visible, but psychologically influences commitment and performance. After acquisition, some companies change their company name. Sometimes the acquiring company's name is added on their letterhead, or business card. This adaptation contains messages of both continuity and changes²¹. At the beginning of Columbia

Pictures, for instance, a large symbol of "the goddess of knowledge on the pyramid" appears together with "A Sony Company" in small letters. Handling the company name properly helps the employee maintain and even strengthen their pride. The message is that the company is a member of another large corporation, not as an attachment. The word "subsidiary", even though it is structurally true, may cause an inferior image²² among the employees and other stakeholders.

The fact of being "acquired" is also likely to make the employees feel less valued and lead to an inferiority complex. Their situation is quite vulnerable. Such perception, even though untrue, can accelerate the weakening of their pride when paired with provocative and disrespectful attitude by the acquirer. Losing pride drives them to be less enthusiastic and committed. Pride retention is a critical element to keep the confidence of employees and their involvement.

STREAMLINING

Reorganization

Some companies make attempts at organizational changes after acquisition because the new management thinks it necessary to demonstrate their initiatives to the corporate office. However, unless there are clear and justified reasons, these changes usually result in chaos and take time to recover.

Since companies tend to have similar functional groups such as human resources, finance, IT, sales, marketing, manufacturing and R&D, it is natural to consider consolidation for improvements to productivity and efficiency. These functions are essential, but not necessary to maintain as they were. These might be centralized, and the day-to-day operational portions may be remained as sub-units. Organizational design might be an opportunity to

consider outsourcing certain departments within the business like customer services, accounting or human resources.

Reviewing all employees' performances and conducting interviews may provide a good opportunity to assess the employees. It may bring a pleasant surprise to find talented and enthusiastic people who have not been properly evaluated before. Sometimes they are informal leaders who influence others. Utilizing these people to make small changes will send an encouraging message to the rest of the organization. It implies that the new management intends to treat existing employees fairly. The employees are smart enough to assess the management's ability to select the right people, and this should not be underestimated.

Reorganization and potential lay-offs are a headache for management as well as worries for the employees. If a large portion of departures come from the acquired company, it will make an acute problem of "us and them" and accelerate the previously mentioned polarization. It is not necessary to make a perfect balance, but the decision needs to be impartial, objective and swift. Treating people with respect and decency, and without personal attack is absolutely important. A headcount reduction is a result of structural changes and not the main intent.

System Integration

It is often observed that different systems have been installed at each party and the integration of these systems becomes an urgent issue, since data consolidation of two different systems takes time which delays management review and decision. In many cases, the acquiring company's system is applied to the other. However, this would be a good opportunity to evaluate both and decide on one or install a completely new one. Doing this would require time to examine the future of the business model. Selection is the first step, and the next is how to integrate them. Some prefer to change to a new system quicker. It is risky to switch to a new one

and kill the old one(s) all at once. While thorough preparations may be put in place, the retiring system(s) needs to be kept running in parallel until the new one works perfectly. There may be some critical issues coming up which could be very destructive in business. Some may urge that running dual or triple systems is a waste and that it is important for users to become familiar with a new system and that keeping old ones running delays the transfer completion. Even though it looks like replicated work and is costly, parallel running makes lots of sense. Without it, performance recovery may take longer than anticipated²³ and failure brings serious negative results to the business. When the time allowed for transition is limited, especially in manufacturing, having a sufficient inventory of finished goods, material and parts has to be loaded to protect the business.

Products Cannibalization

Some products duplication or partial overlap in the target market may be found after M&A. It results in harsh competition among the products in the same market segment. In that environment, the positioning of these products is to be reviewed, and the decisions have to be made on what to do: whether to redefine the target market, or to surrender either one. If no action is taken, cannibalization causes confusion in the market and severe price war within the company. Redefining in market position may or may not work. While withdrawal of a product moves the cannibalization away, it will cause revenue decline and influence the customers who used to purchase them. Accordingly, the decision has to be made carefully, considering the potential impact not only from the supplier's point but the customer's view as well. Some distributors or end-users who depend heavily on the eliminated products may decide to change the supply source completely.

Customer Loyalty

The management tends to believe or wants to believe that customers would continue purchasing their products even after acquisition, given that there is no change in service or product. They think that change is only at the ownership and nothing more. But this is the viewpoint from a supplier, not from a customer. Unless the products are extremely unique and no replaceable product exists, the customer may think to alter the supply sources. When a manufacturing site is changed, even when the exact same brand name and quality is assured, the customer may not appreciate such arguments and discontinue their purchase. In addition, it should be noted that in any changes of manufacturing site or materials, the approval by the end-users is generally required in advance. When the sales personnel in charge is transferred or leaves the company, the customer may also change the supplier. The acquisition itself may not be the reason, but can be a trigger. Management thinks that customers buy their products, because of their product quality, brand name, service capability and price, but there are other elements at play for the customers to continue their patronage. Distributors are free agents²⁴ and suppliers need to recognize that the distributor and customers do not belong to them, while an M&A transaction can be completed between any two parties.

Conflict of Interest

After M&A, prioritization becomes an issue. The previously set initiatives with the different priorities of each party now have to be consolidated and reconciled. Changing priorities may cause conflicts of interest. For example, both parties have manufacturing capabilities of similar products, but do not fully utilize their capacities. Consequently, considering a production shift from one plant to the other and the possible elimination of the production line is to be examined. As a result, the product line of a company might be shut down. Such divestiture is justifiable from

an efficiency-led point of view.

Once a production line or a plant closure is announced, or even whispered about, both productivity and product quality become drastically lower. The employees are demotivated to serve at the same level as before. It causes product shortage and a growing number of return goods because of the poor quality and increasing mistakes, which the customers do not appreciate at all. To minimize such potential damages, the finished goods inventory needs to be built up in order to maintain the business or minimize the potential damage for a certain period.

When a local company is acquired by a global company, the priority list at the acquired company is generally moved to a much lower status or eliminated. Unanticipated initiatives may be placed as one of the top priorities at the domestic company. For instance, a product which has high sales volume in the local market but with low margins might be replaced with a similar global product. While it may make a positive contribution to the global products sales, it produces a negative financial impact to the local performance. Despite having a replaceable product, the customer may not purchase the same volume or change the supply source of other products. The corporate office focuses on global results instead of local ones, due to potential volume and productivity increases as a total operation. In addition, in spite of such changes, local business performance tends to be measured based on the previous performance level, assuming to have alternative products to sell. It invites tough discussions with the regional office.

Sales Channel

Sales usually has two channels: direct and distributors. Before integration, each company has their own distribution channel. There is a question of whether they should keep the previous distribution channels or rationalize them. In the case of keeping the channels as they were as well as handling the same products, this results in having duplicated channels.

The end users may be confused because the two sales routes remain even after the consolidation of the two companies. Unless the sales personnel and products are streamlined, there is unnecessary competition including pricing within the same organization. Customers typically request for one sales personnel to represent the two similar product lines, as that makes things a lot simpler for them. It takes time for sales personnel to learn and be familiar with the new products. Then the sales force is likely to put more weight on the products that he/she has handled before instead of taking the risk to spend time on studying the new products. Then the combined product sales will be less than expected, and the total planned revenue may not be reached.

A result of acquisition provides the distributors with more product offerings which seems to be favorable, but a burden in reality. Having more available products means that they have to train their sales force for these products and to increase the inventory which requires extra cost and space. Moreover, in the case of global products, sales and technical manuals of the new products written in other languages are a barrier to overcome.

BUSINESS PRACTICES

Culture and Behavior

In acquisition, cultural differences obviously bring many challenges to practice and process. Tight and loose culture mergers such as Amazon's acquisition of Whole Foods in 2017 and Disney's Pixar acquisition in 2006 proved to be large challenges²⁵. Culture in Silicon Valley, California, is different from a traditional Japanese company's one. It is risky to pretend to understand the differences and/or make judgement based on superficial capture of phenomena²⁶.

Many practices are derived from culture. People in high context

countries like Japan, Korea, China, and Thailand do not necessarily explain details. They can grasp the meaning of messages even if it is not clearly worded. People are expected to understand each other based on commonly shared knowledge and values together in a closed cultural environment²⁷. It is common in Japan to expect people to read between the lines or be intuitive (read the air)²⁸. When Japanese communicate to those from low context cultures like the U.S., Canada, Australia and some European countries, it is not practical to expect the same reaction or understanding as in a high context culture. The message sender in the high context needs to avoid nebulous expressions and not expect the receiver to read between the lines, but use clear and explicit words and to confirm their understanding of what was meant. It should be also noted that there are remarkable differences even within high context countries. For example, Korea, China and Japan are categorized as high context countries. While Korea and Chinese people appreciate top-down order, Japanese do not²⁹. Accordingly, it is not appropriate to make any judgement by a certain category or classification.

Avoidance of confrontation is a fundamental characteristic of Japanese. In its circumstances, conflict easily becomes emotional and can evolve into personal attacks or criticisms, which linger long after that moment. "Nemawashi" is a well-known process in Japan, and it can be understood as an application of avoidance of conflict. It is a process to have an informal discussion and consensus in advance to avoid confrontation in public, and it is understood as a buying-in process. "Ringi" is a similar practice. Instead of having a formal meeting, "Ringi" is a proposal which is passed to the members or managers for review and approval. It takes time to go through, and it is called "Hierarchical but Ultra-Consensual"³⁰.

Local Practices

It is widely observed that many employees claim certain things as their

corporate culture. The expression "culture" is often used as excuses for the status quo. Culture is a core value of a nation or a company that has been built up over a long history. On the other hand, practice is a certain process or activities which have been done in day-to-day operations. There may or may not be justifiable reasons to keep particular practices. Business practices are required to change or modify and improve in different circumstances. After acquisition, in many cases, the acquiring company's practices supersede the acquired company's one, but socially approved practice may have to be treated with respect.

There are a few examples. Cash gifts are a normal practice in Japan for special occasions such as marriage and death of employees and their immediate family members, as well as for business partners. Asking to issue a receipt on such occasions is completely rude and unacceptable. Giving cash without obtaining receipts is easily perceived as an inappropriate transaction such as fraud in a different environment. But, it is an established custom in Japan. Promissory note, a typical Japanese payment practice, is another example. It is similar to a cheque, but usually not changed into cash until the maturity date. It is true that a promissory note is just a piece of paper, and the issuer might be bankrupt before the maturity date. Issuing a promissory note is a common practice in Japan and a failure of payment means to lose face in the business world. But such a practice is assessed as risky in other cultural views.

These examples are not about which is right or wrong, but rather stating these facts as differences. After M&A, the management faces situations like these which are not common in their home country. They are likely to regard them as unfavorable and cease those practices. However, it is quite important to be aware that there are local practices which are completely common in that society. Through careful listening, it is possible to reach an acceptable modification which both parties can live with.

Speed

One of the large differences between foreign and Japanese companies is the attitude towards "speed." Japanese are less speedy in execution compared to Americans, for instance. Some say that Japan is a society with consensus and harmony. Consensus is nothing bad, but one problem is that it takes a long time to reach a conclusion. It then may be unclear as to who holds the final responsibility, as the decision-making process occurred over a long period of time. Opportunities are lost when it is necessary to wait until everyone agrees. Speedy action, together with careful consideration, offers extra time available to review the results at an early stage, which makes it possible to modify and even to make corrections if necessary. It is a cultural challenge for Japanese to move to take actions if people are 60% comfortable, for example. People fear to make mistakes, because they worry about causing damage to the company, and moreover, there is the added pressure of feeling ashamed and losing their faces should things go wrong³¹. To accelerate speedy actions, the management needs to be tolerant to accepting mistakes³², which is lacking in the Japanese business environment. Management does not appreciate a big surprise, but small mistakes, which can be found at an early stage, should be made acceptable to prevent a big surprise. Making small mistakes are part of the learning process and investment. Managing with tolerance and patience certainly encourages the people to move fast and take risks.

Media Relations

It is hard for anyone to foresee when a critical situation may occur, such as a fatal accident or disaster, and people think such situations to be rare and hope for it not to occur at least during their period of service. But a crisis happens without any prior indications. During such unexpected situations, TV crews and news reporters rush to the company and try to get detailed information and comments. Media relations, i.e., how to deal with

them, is critical because a failure of proper handling would undermine the reputation of the company. Accordingly, many companies prohibit their employees to contact with mass media. Only a few authorized personnel at the head office who have been trained on what to say and what not to say are allowed. Though it is recognized that training for media contact is important for local management, such an investment does not always take higher priority.

When a crisis occurs, local management is guided to contact the corporate officer immediately and follow the given instructions. It sounds logical and makes sense to publish a united message to the society. However, the local management faces societal pressure and requirements to respond immediately. The local operation may miss the right timing to send the message if they wait for instructions from the corporate office. Such local attitude, even though it is in line with the corporate policy, is neither appreciated nor accepted in the society. It seems that the local management has neither the power nor ability to handle issues that happen locally. Accidents are not predictable. In the case of foreign capital companies, there is a time difference between the corporate and local office. Missing the right timing makes the situation worse and hurts the company image and future businesses. Though accident may rarely happen, the local management needs to be well prepared in the event of an unexpected situation. This is a critically important risk management.

CONCLUSION

The objectives of M&A are to make the company grow and increase their market value. In the process of integration management, we are likely to encounter many issues and confusion. The management is required to tackle these issues and solve them.

The most important challenge is to ensure that the all stakeholders understand the objectives of M&A clearly and take actions. Without their full involvement, the integration will not be successfully implemented. Communication across the operation is pivotal. Even though it may be time consuming, frequent and continuous communication between management and stakeholders is a vital part of the process to make the road straight and paved. External stakeholders should not be forgotten. Customers are not acquired by M&A exercise, and business relations need to be maintained or made even stronger. Even though a company believes nothing is changed by the M&A, the customer may see the phenomena differently and act based on their own assessment.

Power politics exists everywhere, and the game between the corporate or regional offices and local management is severe. Priorities in the corporate office are not the same as local ones, and local operations are expected to follow the corporate decisions. There are many challenges to overcome, some of which stem from the differences in culture. So, the issue is how the local management can be involved in decision making and for that to lead to effective solutions. In order to make the business successful both locally and globally, the management needs to be prepared to have tough discussions and negotiations. Otherwise, the local operation will lose its seat in that society as well as among group companies. Keeping a balance between the parent company and the local operation is one of their important roles.

Integration is not simply the work of mathematics. It also involves the psychology of people like pride, confidence and satisfaction. Lots of issues come up after M&A, and many of them are unforeseeable and not easy to solve. Sharing clear objectives, careful actions considering stakeholders' interest, and management tolerance will bring about a smooth and successful journey of integration.

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