

A Study on Workforce Integration in an International Acquisition

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ABSTRACT

International acquisitions are extremely difficult to maneuver and success is far from guaranteed. Navigating through financial statements is one thing, but trying to link together two or more geographically and culturally diverse workforces is an entirely another thing. This study analyzes fourteen employee interviews from four different companies involved in international acquisitions within the last ten years. It develops a comprehensive comparison of companies looking to partially integrate through hands-off management or fully integrate through synergistic collaboration of workforces. The analysis looks at the actions companies take once the decision is made to grow internationally through mergers and acquisitions in order to form strategic roadmaps at the corporate level and integration roadmaps at the deal-specific level based on whether the companies intend to integrate partially or fully. Of course, different approaches to those actions yield different cultural and operational outcomes, but both convey strong messages that managers should understand when considering an international acquisition.

CHAPTER 1: INTRODUCTION

Mergers and acquisitions are complicated. They are even more complicated when the companies involved are thousands of miles apart and maintain entirely different corporate and national cultures. International deals are further complicated by mountains of federal and state regulatory issues. Large deals face antitrust scrutiny and could possibly require a divestiture of some portion of the business before regulators allow the deal to close. Even after the deal is completed and the companies have jumped through all necessary hoops, there remains the biggest challenge of all: cultural fit in the workforce. Daimler and Chrysler, for instance, had vastly different corporate cultures and hailed from starkly different national cultures with nearly opposing business models. It was culture clash and managerial hubris on the part of Jurgen Schrempp that ultimately brought that deal down and brought Chrysler to its knees. How do companies approach that challenge? Which sorts of actions do companies take to integrate two disparate workforces? What are the major barriers to successful integration? Are there any differences between companies that want to partially integrate or fully integrate with the company they have acquired? The purpose of this project is to generate a better understanding of the process by which workforces are integrated across borders as a result of international acquisitions. This paper will cover new topics like differences between integration approaches concerning partial versus full integration. Also, the narrow scope of international acquisitions occurring in the last decade assures accurate and detailed information gained from a variety of in-depth interviews.

Since the difference between partial and full integrations is integral to the understanding of this project, we will define the difference up front. A full integration is the fusion of workforces and operating structures, the elimination of redundancies, and the implementation of corporate vision. It requires both companies to make certain sacrifices in regard to corporate culture in the workforce. In order for two companies to integrate fully and operate as one entity, both must let go of at least part of the former cultures and accept something entirely new, something resulting from the mixture of both. In any case, full integrations involve the intermingling of the companies to the extent that the two formerly separate entities are hardly separable any longer, if at all. Partial integrations are integrations to a much lesser extent. They involve a mere transfer of several policies and procedures rather than the

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international mobility of employees and daily cross-border interactions to complete short-term tasks and strive for long-term success. The only department infused with employees from the parent company may be the Finance department and that person or those people may act as liaisons back to the acquiring firm. In contrast, full integrations involve intense networks of communication at every level of the company internationally. Those are the main differences to be referenced throughout the research.

Obviously, full integrations will require a greater amount of preparation and supervision than a partial integration. Current literature does not cover the differences in approach between international deals in pursuit of partial and full integration strategies. As the reader will soon discover, there are aspects of international acquisitions that affect companies equally whether they intend to integrate partially or fully. There are also aspects of international acquisitions that affect companies pursuing partial integrations more than companies pursuing full integrations as well as aspects affecting fully integrating companies that do not equally affect partially integrating companies. The differences are inherent in the various actions that companies take to prepare for the acquisition, carry out the acquisition, and perform the international integration at the desired level, either partial or full. These actions pertain to either the corporate-level strategic roadmap designed by top management, the investor pool, and the Board of Directors, or the acquisition-level integration roadmap also designed by top management but ideally top management from both sides of the deal as well as third party consulting firms. Altogether, the approach to the various actions that make up the strategic and integration roadmaps differ according to whether the acquiring company is pursuing a partial or full integration with the target company. The detailed analysis of those actions and the influence on those actions from the desired level of integration are the main contributions of this research project to literature.

In doing this research, we interviewed fourteen individuals from four different companies in four industries. As luck would have it, we discovered late into the interview process that two of the deals being researched involved relatively partial integrations while the other two involved relatively full integrations. As the reader will discover, the companies interviewed have integrated to varying degrees over varying spreads of time. One of the deals is very

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recent while another occurred nearly a decade ago. The acquiring companies originate in the countries of Israel, France, Japan, and England. The sum of the experiences of employees from both sides of the deal in each of the transactions is detailed in the following project report.

CHAPTER 2: LITERATURE REVIEW

2.1 Overview

After Thomas Friedman wrote *The World is Flat*, people understood the need for going global, though many still do not understand how difficult and intricate a process it is. There is not enough research published on how companies can grow internationally while maintaining a cohesive corporate culture. When domestic companies participate in a merger or acquisition, it is difficult to retain top talent, to create an improved corporate environment satisfactory to both pre-existing employees and new employees at the same time, and to effectively motivate the entire team, convincing them that the deal was in their best interest as well as that of the company as a whole. Adding an international component to the deal increases the challenges associated with those areas immeasurably and makes the integration process more difficult, but it also presents great potential for intercontinental employee and organizational development. The following literature review depicts the various topics covered in fairly great detail by numerous sources. Ultimately, however, through careful analysis of the literature covered, the reader will realize that there does not seem to be a consensus on the various actions that companies and their managers should take in regard to fulfilling a vision or strategy, if there is one, or integrating two or more companies after a deal. It also does not appear to dictate the various approaches companies can take to complete those actions or how those approaches affect the overall outcomes. Neither does it explain why communication is so important or how impactful simple acts of cultural awareness promotion can be despite the size or focus of the companies involved. Those are some of the issues for which we will be making assumptions and posing questions in this project.

2.2 The International Economy

After the explosions of World War II came to an end, a different kind of explosion occurred in the form of globalization. The modern form of globalization is said to be a post-WWII

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phenomenon that has skyrocketed in progression particularly over the past few decades. One author describes the modern form of globalization as an “accelerated and intense mixing and re-mixing, flux and transformation, and flows and movements of cultural practices, customs, traditions and beliefs across many parts of the world” (Prasad & Prasad, 2007). Globalization involves a dramatic increase in communication with major advancements in technologies that facilitate the ways in which people connect worldwide. With such a high degree of interconnectivity, one can scarcely avoid frequent contact with or influence from foreign cultures.

Obviously, this has to do with much more than awareness of other cultures and ways of living. It has to do with the general operation of the global economy in the way that businesses, and thus the employees of those businesses, communicate and interact on a frequent basis to perform normal operating tasks in a more global scheme (Ayoun and Moreo, 2008). Companies now reach beyond simple communication to full-blown recruitment and employment of foreign talent. This process of international business brings about many new opportunities for growth and profitability, though it also presents many new and difficult challenges that often act as barriers to growth, and sometimes even as catalysts for failure. This project focuses on what companies can do to avoid such devastating pitfalls in international deal-making. Specifically, this project focuses on the successful integration of multiple organizational cultures as it applies to international mergers and acquisitions.

In Europe, the creation and expansion of the European Union has facilitated an increase in international mergers and acquisitions. The economic goal of the EU is to compete on the same level as the U.S., but it requires a major combination of resources and effort on a near continental level. In the European banking industry, many previously domestic players have, through mergers and acquisitions, become international competitors. Unfortunately, though inevitably, the increase in merger and acquisition activity has revealed a plethora of cultural integration issues among the twenty-seven member states that vary in terms of language, history, and general values (Carbonara & Caiazza, 2008).

European merger and acquisition activity has picked up in the 21st century as a result of the creation of the Eurozone and the two expansionary waves of the European Union in 2004 and

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2007, respectively. Interest in Central and Eastern European countries has sparked a particular interest from more developed and industrialized countries with greater levels of market saturation in many industries. Strict acceptance guidelines for entrance into the prosperous European Union have caused all of the recent and potential entrants to deregulate and privatize many economic sectors to allow for greater competition and a freer flow of people and resources. Given the various economic and political situations of the many entrants, the speeds at which privatization has taken place are varied. One of the first industries to enter the Central and Eastern European countries accepted into the EU was commercial banking. Foreign commercial banks from countries like Italy and Germany saw opportunities for win-win scenarios in acquiring Central and Eastern European bank assets through acquisitions, transforming those institutions, and lending to aid in those countries' improvement and expansion efforts (Carbonara & Caiazza, 2008).

2.3 What is an international acquisition?

An international acquisition is the result of a company from one country purchasing a majority of a company based in another, including the tangible assets of real estate, equipment, and so on as well as the more intangible assets as intellectual property and, most importantly, human capital. An international merger, on the other hand, is the combination of two companies from different countries into an entirely new entity. Both international acquisitions and international mergers incur similar difficulties during the integration of their diverse workforces with the exception that in an acquisition, the acquirer normally has complete control over the operation of the other firm's resources. One study explains, "Cross-border M&As are generally more difficult and riskier as generic problems of acquisition are compounded by differences in national cultures, language differences, political differences and regulatory hurdles" (Carbonara & Caiazza, 2008). Also important to note is that not all acquisitions involve the integration of workforces. Holding companies, for instance, will mostly purchase a company and leave it to be operated as autonomously as before.

The rapid increase in the spread of globalization has created not just a global economy but a global workforce. When companies merge across borders they not only face two different corporate cultures but also two different national or even local cultures (Schnurr, 2008). In

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spite of the challenges associated with such a combination of different resources, hundreds of companies participate in international mergers and acquisitions each year with deals measured in billions of dollars totaling \$96.0 billion in 2006, not including deals measured in millions or thousands of dollars (Hopkins, 2008). Meanwhile, total national and international mergers and acquisitions worldwide have decreased since the most recent downturn in the economy with 2008 numbers from January through November around \$600 billion less than the comparable period in 2007 (Sharp, 2009).

The current economic recession has had a huge influence on merger and acquisition activity, including a decrease in deal volume of forty-four percent in the first half of 2009, as one article mentions. One British lawyer specializing in mergers and acquisitions at London-based Allen & Overy LLP states, “The world has been more focused on finding money than spending it,” and comments on the slowdown in deal closings this year as a shift from what would normally be closed deals to what are now, more commonly, just closer looks at available targets. David Katz, a partner at merger and acquisition law firm Wachtell, Lipton, Rosen & Katz, believes that there is a higher likelihood for hostile takeovers due to the fact that, as Katz says, “Companies are concerned that their stock values are too low, that the market doesn’t value them properly and that could make them a target.” Along with the dangers associated with hostile takeovers comes the increased risk of unsuccessful post-acquisition integration (Fortado, 2009).

Merger and acquisition activity overall in 2009 was down 22 percent as companies have begun stockpiling cash once again from their recessionary cutbacks. As the economy picks up again, companies will be looking to invest that cash into valuable, synergy-creating mergers and acquisitions. That is why some analysts project that banks may not play as big a role in deal financing in 2010 activity (Aquila & Profusek, 2010). Even companies from emerging markets are taking an aggressive role in the international deal-making arena. With the recent success of Chinese corporations resulting from deregulation and massive influxes of foreign direct investment, many Chinese corporations are now expanding into foreign markets through their own series of international mergers and acquisitions. In the first quarter of 2008,

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Chinese acquisitions of foreign corporations grew by more than 1,200 percent to \$21.1 billion, up from \$1.6 billion in the first quarter of 2007 (Thorneman, Han, & Palmer, 2008).

2.4 Reasons for International Mergers and Acquisitions

Companies merge or make acquisitions to increase the scope of operations, increase shareholder value, increase market share, and increase long-term profitability (Schnurr, 2008). More specifically, international mergers and acquisitions can be “viable strategic options to achieve the objectives of growth, diversification, economies of scale, synergy, or global presence” (Badrtalei & Bates, 2007). Entering new markets through international acquisitions can help a company overcome regulatory and political barriers to entry, alleviate the cost of new product development, gain not only economies of scale but also economies of scope, and amplify the rate of international expansion. This is why many managers have begun to broaden their long-term strategies to include the feasibility of international growth (Hitt, Harrison, & Ireland, 2001). In fact, companies following a multi-domestic strategy often find it beneficial to enter a new market through an international acquisition rather than a greenfield approach due to pre-existing cultural fit and understanding as well as market share and product variety, etc. (Hopkins, 2008). However, this presents the great challenge of cultural integration both nationally and organizationally.

A textbook source states that international acquisitions have three main strengths. The first is that they are quick to execute, meaning that a company can achieve instantaneous market share growth in a foreign market through an acquisition. The second is that acquisitions can help companies to preempt competitors in certain markets. Companies have to act much faster today to gain customer loyalty and market share as a result of globalization. Changes in the regulatory environment can cause a “feeding frenzy” in a case like “early bird gets the worm” whereby the first to enter foreign markets will gain a first mover advantage. Many acquisitions take place in industry waves where regulations change in multiple locations and make way for one industry or another to globalize, and then more regulatory changes and another wave by another industry. The third main strength is that acquisitions are generally less risky than greenfielding as acquiring companies obtain known revenue and profit streams,

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tangible and intangible assets, and management and employee knowledge of the market as well as cultural aspects of business in that region (Hill, 2009).

The current economy presents many opportunities for a relatively inexpensive acquisition growth strategy. The fact that many businesses are now selling at major discounts makes the idea more appealing to savvy managers. Globally-minded managers are more and more often utilizing international financing as a way to fund their international growth strategy, particularly for international mergers and acquisitions. Why is that? Well, in the worst case scenario the bid from an international bank is just another competitive bid among many domestic bids. On the other hand, in the best case scenario, the borrower achieves better terms due to more satisfactory regulatory standards and is able to obtain cheaper financing via exchange rate fluctuations and interest rate differentials, also known as arbitrage. As one author says, “Now is the time to be careful and calculated as great opportunities appear on the horizon.” (Sharp, 2009). With such drastic reductions in barriers to trade as the world has witnessed since the late 1980s, it is no wonder why companies in industries such as hotel services and grocery retailing are fueling their growth through international mergers and acquisitions at a rate that, despite overall activity decline in the current economy, is estimated to accelerate in the future (Ayoun and Moreo, 2008).

Target firm management must ask what the buyer’s investment strategy is, whether it is interested more in acquiring the tangible aspects of the company or perhaps the more intangible aspects like human capital or managerial capabilities. In the case that a company is looking to acquire managerial talent and human capital, the acquiring firm has to ensure that proper efforts are made to retain the most important talent and not to simply purge the management from the target firm (Sharp, 2009). In acquiring a company for the human component, an acquiring firm stands to gain domain expertise, industry knowledge, organizational knowledge, constituent knowledge, access to information, external experience, and unconventional problem solving skills (Tichy & Bennis, 2007). In the case of Daimler-Chrysler, Bob Eaton was looking for a partner to survive the elimination of rivals that he forecasted in the then near future while Jurgen Schrempp was looking to partner with a company specializing in mass production to help it enter emerging markets. As a result of the

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Daimler-Chrysler merger, and particularly because of Schrempp's managerial hubris, careers "were derailed, promotions were denied, reputations sullied, and there was hometown humiliation and public derision" (Badrtalei & Bates, 2007).

Acquiring firms must evaluate the worth of management at the target firm as a portion of the worth of the target as a whole, especially if the current management were also the founders (Sharp, 2009). A great modern example of a company whose value is commonly defined in terms of the talents and capabilities of its founding CEO as well as the culture that they have created is Apple Computer, Inc. under the leadership of Steve Jobs. In the case of Daimler-Chrysler, neither Eaton nor the other management were founding fathers of the auto giant, but even still Schrempp underestimated their value and expertise when he pushed out all of the top American executives in less than two years after completion of the merger. In the absence of the American executives, employee morale dropped significantly, which, in turn, led to anxiety and reductions in productivity. The joke of the time was, "How do you pronounce *Daimler-Chrysler*? Daimler – the Chrysler is silent!" All of Schrempps scheming ultimately lost him the expertise in mass production that the American executives possessed and that drove his mission to acquire Chrysler in the first place (Badrtalei & Bates, 2007).

2.5 Typical Stages of a Merger or Acquisition*

One study outlines its interpretation of the five stages of a typical M&A deal. The findings of that study are detailed below in table format. Other studies comment on various methods involved in many of these stages using various tools like Gap Analysis, culture audits, etc. Another study identifies four level of integration, at least pertaining to Italian banks, which involve the maintenance or repudiation of pre-existing cultures.

Table 2.1: Typical Stages of M&A

Stage	Description
<i>Stage One: Prospect search and identification</i>	This stage occurs when a company recognizes that it has room to grow and is seriously considering a merger or acquisition growth strategy. It will do an industry analysis and create a list of good, feasible potential partners or targets
<i>Stage Two: Due diligence</i>	During this stage, the firm will do extensive research on the background and projected profitability of the companies on the list or, if the list has been narrowed to one, the specific target

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	firm involving every aspect of business from financials to culture
<i>Stage Three: Negotiations</i>	This stage involves constant dialogue between the acquiring company and the target company in attempt to strike a friendly win-win agreement
<i>Stage Four: Transition and blending</i>	This stage occurs after a deal has been struck and the financial transaction has already occurred. This stage is perhaps the most important to the project as it involves the actual integration of the two diverse workforces, involving all aspects of human capital
<i>Stage Five: Operation as an integrated unit</i>	Clearly this occurs when the financials are complete and integration is considered complete. Since many mergers and acquisitions fail in their attempts to integrate the two different workforce cultures, this final stage is not met by those failed transactions

* (Badrtalei & Bates, 2007)

The search for and identification of target firms is carried out by top management or outside advisory firms, or both. Either way, management must consider the target's market position, especially in terms of geographic reach and the success of individual business units, and evaluate that position in terms of revenue streams, potential or expected growth, and approach to competition. During the pre-integration stage, management can utilize Gap Analysis as a tool to measure the disparity between the organizational cultures and operational capabilities in order to identify the appropriate means of handling the disparity. Once the differences in culture and capabilities are recognized, the combined company must create an "integration roadmap" that clearly points to the successful restructuring and integration of the new entity (Carbonara & Caiazza, 2008).

Executives are able to analyze data gleaned from a pre-integration audit and decide which management and communication tools are needed to provide for long-term success. Types of information attained through an audit include major differences in "vision, values, structure, management practices and behaviors." By creating a new team of management for the new entity consisting of members from both original parties, the combined company is better able to achieve a competitive advantage from cultural diversity and minimize cost and resistance to change as employees from the acquired firm will appreciate the recognition as able leaders (Carbonara & Caiazza, 2008).

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One research study identified four degrees of integration. It states that “integration” occurs when the acquired company wishes to maintain some sort of cultural identity of its own while also adopting much of the culture of the acquiring firm. Some form of personal culture maintenance is virtually inevitable in any combination of two firms as prior experience in one or more cultures shapes us into the individuals we are and thus we cannot be completely stripped of these markings. “Assimilation”, on the other hand, is a near abandonment of the acquired firm’s previous culture for the full adoption of the culture of the acquiring firm. “Separation” is the antonym to “Assimilation” in the sense of integration as it involves the acquired firm’s complete preservation of its former culture and an intense reluctance to adopt any aspect of the acquiring firm’s culture (Carbonara & Caiazza, 2008). This is assumed to be the case in many hostile takeover examples as such deals can spawn severe resistance by target firm employees. Lastly, “Deculturation” signifies the loss of not only the culture of the acquired firm, but also that of the acquiring firm, for the creation of an entirely new culture altogether to be shared by both previously separate firms (Carbonara & Caiazza, 2008). This is assumed to be more common in the “merger of equals” scenario where nearly any other option seems improbable, unlikely, or even impossible.

2.6 Success Rate of International Mergers and Acquisitions

In reality, mergers and acquisitions are not as successful as people would like to think. To make matters worse, studies show that international mergers and acquisitions are even less successful than domestic deals. Research shows that 50-65 percent of all mergers fail, whereas 60-80 percent of international mergers fail, many of which due to cultural differences and failure to integrate successfully (Schnurr, 2008). Critics point out that such unsuccessful deals result from a lack of importance placed on talent management, especially when compared to the emphasis commonly placed on financial due diligence. Others claim that these deals fail because of the lack of communication and reassurance from management as well as the human resources department. Still, other experts state that a lack of proper training, differences in corporate and national cultures, improper or unsuccessful action planning, and rushed implementation can all have adverse effects on post-merger or post-acquisition integration (Schnurr, 2008). One of the most famous integration failures due to

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major culture clash is that of the Daimler-Chrysler merger in 1998, which is described more in detail later in this paper.

Some generally accepted reasons for why acquisitions fail are the following. Firstly, companies tend to pay too much for a target firm, especially in scenarios with multiple bidders in a bidding war. Management in those cases can also be overly optimistic about the future success and is willing to pay too much over the market capitalization, which is usually an example of managerial hubris. Secondly, culture clash can lead to high management turnover and thus a loss of managerial talent as well as market and industry expertise, which can be difficult and expensive to replace. Thirdly, synergy creation frequently hits roadblocks and takes longer than expected. Some common examples of roadblocks are differences in management philosophies or visions for the combined company and too much time spent discussing the bureaucracy of the deal. Lastly, inadequate due diligence causes insufficient screenings as companies rush to preempt their competitors or expand to suit investors' growth interests and neglect the underlying business model or cultural aspects in the process. Some ways to reduce the risk of failure, says one source, are to avoid overconfidence that can lead to exorbitant premiums, to make sure to uncover all bad surprises ahead of time, to seek companies that do not have opposing cultures, to set target management's concerns at ease about their roles, and to act fast to create an integration plan that deals with expected obstacles and strategies to deal with them (Hill, 2009).

Cultural challenges to international acquisitions coupled with financial issues are almost certainly a recipe for disaster. A survey found that one-third of acquisitions fail due to integration problems and another survey found that post-merger performance can be improved with true cultural fit and a healthy portion of diversity. According to Michael Porter, the famous strategy professor, an international acquisition without a focus on a set of specialty skills will probably not lead to a competitive advantage for the acquiring company. In his view, profitable acquisitions that improve the quality of the acquiring company are a result of acquiring foreign companies with special, hard to imitate skills and capabilities, the lack of which will most likely result in failure (Hopkins, 2008). Research shows that culture-clash leads to less commitment and cooperation from employees, higher turnover, deterioration in

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operating performance, and reduction in shareholder value (Badrtalei & Bates, 2007). Aside from cultural difficulties are financial issues. New, more complicated deal structures have appeared that delay the time in which deals are completed. Financing is difficult to obtain, even internationally, as banks identify mergers and acquisitions as risky ventures, and rightly so. Banks have either stopped financing such deals or drastically tightened the terms of the lending agreements to the point that borrowers may become too frustrated with the paperwork to pursue the deal. New controversies have arisen regarding the valuation of assets, a critical piece of information in the due diligence process (Sharp, 2009).

Even the successful completion of the financial aspect of a transaction does not lead to overall long-lasting success for the deal. Many of the 60-80 percent of international mergers and acquisitions that fail were the products of initially successful financial transactions (Sharp, 2009). For instance, when Daimler was merging with Chrysler, the due diligence report showed a strong emphasis on Chrysler's "capital employed, return on capital, operating profits, products, breakdown of sales geographically, physical assets and legal issues" (Badrtalei & Bates, 2007). Clearly, Daimler, a Germany entity, virtually disregarded Chrysler's corporate culture as an important aspect of the deal. Additionally, Daimler cleverly left out its intentions to dominate the culture during the negotiation process, scheming to be the dominant player in the transaction as a whole. In instances where one organization tries to dominate the other without much consideration or forewarning, cultural resistance is likely. Employees forced without compromise to adhere to new cultural practices and behaviors may rebel by maintaining a dual loyalty or dual identity through the purchase and use of local products as well as the use of native language in break-room chatter, etc. Such behavior sometimes leads to a healthy diversity in the workforce, but more often than not, it is used as resistance to change and can disprove even the best financial transactions (Prasad & Prasad, 2007).

There are several demographic factors that may affect the success of an international merger or acquisition. Mergers and acquisitions between older, established companies are much more difficult to complete successfully than those between newer, more flexible and change-oriented firms (Sharp, 2009). GE's autonomous decision-making strategy coupled with heavy

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and frequent communication with corporate executives may play a key role in the success of the global conglomerate's successful acquisition strategy (Tichy & Bennis, 2007). Studies show that organizations that have experienced financial and cultural successes in the past are bound to have stronger cultures than those that have experienced repeated failures (Hitt, Harrison, & Ireland, 2001). Failing can negatively affect the entire culture that may have taken decades to build, so it is extremely important to strive for success with an awareness of the implications of manager's actions. Post-merger failure in the Daimler-Chrysler merger is said to have been the result of both external and internal challenges. Externally, the new entity was facing competitive model releases from its intense and numerous competitors as well as a generally tough economy. Internally, the new entity experienced major differences and cultural barriers in a wide variety of areas including managerial styles and decision-making processes (Badrtalei & Bates, 2007).

2.7 Culture and Its Effects on Organizations

As the term "culture" has been used several times, it may be useful to identify its meaning and usage in terms of this project. Culture is the essence of why and how people live, behave, and react the way that they do. Some would divide culture into two separate categories, namely, visible and invisible, that together make the cultural whole. The visible aspect of culture includes artifacts, rituals, and practices while the invisible aspect includes the values, beliefs, and ideologies of the society (Prasad & Prasad, 2007). Culture influences the way people think, feel, and act (Ayoun and Moreo, 2008). In fact, all organizations have their own personal culture that is the compilation of historical behaviors, founding ideologies, etc. They each have an "interrelated set of beliefs, shared by most of the members of the organization about how people should behave at work and what tasks and goals are important" (Badrtalei & Bates, 2007). Culture is one of the most crucial aspects of a deal that can lead to a successful organizational fit, along with management styles, communication channels, and various systems and processes for operation (Hitt, Harrison, & Ireland, 2001). When relaying messages across cultures, despite the literal message, the actions and symbols used can be interpreted quite differently, even when the cultures are presumed to be similar or are geographically close (INTERNATIONAL: Culture impacts M&A outcomes, 2008).

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Dutch professor and culture connoisseur Geert Hofstede categorizes culture into five dimensions: power distance, individualism, masculinity, uncertainty avoidance, and long-term orientation. Power distance is “the extent to which the less powerful members of organizations and institutions accept and expect that power is distributed unequally.” Individualism refers to the extent to which individuals look out for themselves and immediate families in comparison to low individualism that signals a more collectivist society where people tend to form and rely on cohesive groups. Masculinity refers to the dominance of typical male characteristics of assertiveness and competitiveness in a society in comparison to the dominance of typical female characteristics of modesty and sense of caring. Uncertainty avoidance refers to the extent to which risk is tolerated in a society and the comfort level of members of that society in certain unfamiliar or ambiguous situations. Finally, long-term orientation refers to a typical society member’s values of prudence and perseverance versus a more short-term orientation involving typical values of respect for tradition and simply fulfilling social obligations in attempt to maintain one’s reputation (Hofstede, 2009). These dimensions can be used to identify major cultural differences between nations and, more broadly, between geographic regions, but it should be noted that Hofstede’s Dimensions are not exact depictions of a country’s culture and that there will always be exceptions to his generalizations.

The way in which people communicate is also heavily influenced by their cultural backgrounds in the sense that members of some cultures rely more on an interpretation of the context for the delivery of a message as opposed to the literal message itself. An example of a high context culture is China where body language and assumed knowledge are key aspects for the interpretation of a message. In a high context culture like China, awareness of one’s method of delivery is crucial to successful communication of important information. An example of a low context culture is Germany where messages are conveyed almost entirely by literal wording where nothing is assumed and every aspect of the message is clearly communicated without much regard to body language. Some would say that the best way to begin communication with any organization or member of a different culture is to first research inappropriate gestures and then assume a presence on the low end of the high-low

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context continuum in the conveying of the message to dually avoid offense and convey a clear, accurate message (Schnurr, 2008).

It is important for companies to consider the costs of neglecting the cultural aspect of business negotiations and operations. Here are some examples. In 2008 an executive from a Pennsylvania consulting firm flew to Moscow to develop a partnership with a Russian firm. When the American CEO met the Russian CEO, he shook the Russian's hand and told a friendly joke to lighten the mood, which was not met with a smile or laughter in return. Later he found out that Russian businessmen prefer to leave jokes to personal meetings and gatherings while they appreciate seriousness in business settings. Also in 2008, an American restaurateur was about to send a license request letter to the Senegalese government asking to open a restaurant in Senegal using his normal direct and aggressive tone but directly translated into French. After a Senegalese friend looked over the letter, he told the restaurateur that the letter was inappropriately direct and could easily be rejected because of that. Instead, the restaurateur had to rephrase what he was saying and requesting. An American recycling firm executive began a program in England offering incentives for individuals to recycle. The American was offended when English press called the program a "scheme", which he later learned does not carry the same negative connotation in England as it does in the U.S. An American electronic driving instruction company began exporting its instruction software globally in the mid-2000s under the assumption that most safe driving practices were universal other than the British-influenced lane switch. Soon, however, they found that such assumptions are dangerous and costly. The program instructed soon-to-be drivers that the middle lane of the highway is the safest, but in Dubai the middle lane is considered the fast lane. After several such discrepancies were discovered, the electronic firm had to invest over \$1 million to fix its program (Maltby, 2010).

Some gestures offensive to some may be normal practice in other cultures, and in a work setting this may spark a culture clash. For instance, the reader can imagine that a Spanish company acquires a Germany company and is in the midst of negotiations. During an important, private meeting of management from both companies, the Spanish CEO's cell phone rings loudly and, to the bewilderment of the German CEO, he answers. The key

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difference here is that the Spanish tend to be more polychronic, meaning that they have no problem multi-tasking by nature, while the Germans are more monochronic, meaning that they like to focus on one task at a time until said task is completed (Schnurr, 2008).

Obviously, this instance would annoy the German CEO and could be perceived as an insult to the importance of the meeting, which could throw the entire deal off. Yet misinterpretations such as this occur frequently. Some do indeed lead to the end of negotiations while others are overlooked and considered honest mistakes.

In July of 2008, U.S.-based Anheuser-Busch was acquired by Belgium's InBev in a hostile takeover bid of \$52 billion. Carlos Brito, InBev's CEO, sought to acquire the legendary American company to gain new and expansive distribution channels for the company's European and Brazilian brands as well as to help increase worldwide market share of the American company's Budweiser brand as more people come to "crave a taste of America". Since \$45 billion of the purchase money was borrowed, Brito had a lot riding on the successful integration of the two companies. In 1999, KPMG did a study that essentially revealed that companies who dealt with differences in organizational and national cultures early in the integration process were 26% more likely to succeed than those who waited to approach the issue or never dealt with it at all (Foust, Ewing, & Smith, 2008).

InBev had a culture of frugality. Executives flew coach on a majority of flights. InBev is less than generous with company cars and free beer. Anheuser-Busch, on the other hand, had a culture of big spending. Marketing expenses were said to be around \$1.3 billion and the CEOs had traditionally made the short commute to work by helicopter. Employees received multiple free cases of beer every month as well as free admission tickets to the company's theme parks. To top the dissimilar cultures, Brito's previous attempt to create a global brand with InBev's Brahma, one of their Brazilian brands, was quite unsuccessful. A Dutch analyst for ING stated of InBev's management team, "They are not world champions in global branding." In addition, Brito could not cut costs much seeing as Anheuser-Busch's factories were the beer industry's most efficient and there was not much room for improvement for logistics either. InBev could cut Anheuser-Busch's marketing expenses, but doing so would open up advertising slots and potentially increased market share for competitors such as

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SABMiller who, at the time, had just announced its intentions to merge with Molson Coors Brewing (Foust, Ewing, & Smith, 2008).

Ideas about various cultures have become mainstream through television news and other forms of entertainment, the spread of popular music and movies, the creation of several global consumer products and brands, tourism, and the increasing coverage of religious resurgence. Many TV networks are available worldwide like MTV, CNN, and BBC. Spread of brands like Coca-Cola, Sony, Toyota and McDonald's are viewed by some as evidence of the spread of globalized consumerism and cultural globalization. Global tourism has not only increased, it has created different types of tourism like adventure tourism in Kenya and ecological tourism in Costa Rica, such that it has shaped travelers' perceptions and reinforced several stereotypes of various locations and cultures (Prasad & Prasad).

Many people from around the world watch the same TV programs, listen to the same music, eat the same foods, work in buildings that look alike and wear the same clothes. Altogether, that may demonstrate a "global culture". Such a culture is debated by others that claim other measures have been taken to reinstate sentiments of nationalism and community. Others point out that events like eating at McDonald's are experienced differently where some cultures interpret the experience as a nice and inexpensive dinner out as an appreciation for modernization while others may view it as a cheap and quick snack to be consumed "on-the-go". Still others with nationalist sentiments consider the presence of McDonald's to be a degradation of national identity. In many instances, global products and trends successfully co-exist with those that represent national culture and sense of community, defying the full-scale "cultural homogenization" that many believe has occurred or is occurring. In many cases there may even be cultural resistance to globalization or, particularly, Westernization. Global standardization of practices like several recruitment or performance evaluation tools can yield ineffective results when implemented across cultures, causing selection of unfit candidates and either higher or lower than realistic performance results (Badrtalei & Bates, 2007). Clearly, even though globalization has led to many great achievements in scale economies, some things simply should not be globalized.

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Lenovo acquired the personal computer business line of IBM in 2005 for \$1.75 billion and after a couple years of uncertainty the new entity began to show great results, even above expectations. It was difficult for Lenovo to initiate the deal because at the time of the announcement, the horrendous result of Hewlett-Packard's acquisition of Compaq was still fresh in both Lenovo and IBM's memories. For example, once HP bought Compaq, both brands began to lose market share as a result of cross-cannibalization and internal power struggles. Now Lenovo, a Chinese company based thousands of miles away from IBM PC's North Carolina headquarters, was facing what could be similar challenges, not to mention the fact that hardly any of IBM PC's employees spoke Chinese. However, the difference between the two deals, meaning HP-Compaq and Lenovo-IBM, is complementary goods. Lenovo enjoyed a thirty-five percent market share in China while IBM PC's Think brand had conquered the global, high-margin corporate PC market. In addition, and quite importantly, IBM PC, as a division, was constrained by the corporate parent and limited in its battles with competitors. The employees in the IBM PC business line were anxious to be a part of a culture that would encourage the competitiveness that they needed to make strategic moves in the industry that they could not do under IBM. Roger Kay, a consultant at Endpoint Technologies, commented on the IBM PC employees' "glee" at being released from the grip of the IBM corporate parent into the arms of the promising Lenovo (Newman, 2007).

As this was discovered, however, so were other things, including major disparities between the Chinese and American cultures as well as between the Lenovo and IBM PC cultures. For example, a post-acquisition cultural audit of the new entity revealed American workers' feelings of slight distrust of the Chinese parent and Chinese workers' opinions that their American colleagues were undisciplined. Head of Human Resources at the time, Ken DiPietro explained that the problem lied in communication differences between the two regional cultures when he said, "Westerners tend to speak first, then listen, and easterners tend to listen, then speak." His solution was to encourage the employees from both cultures to meet in the middle such that the western employees begin to listen more and speak slower while the eastern employees voice their opinions clearly and more frequently (Newman, 2007).

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2.8 Due Diligence and Vision

Generally, companies that achieve a deeper understanding of the position of the firm they wish to acquire via an intensive due diligence process are more likely to make an informed decision that could ultimately lead to the success of the acquisition or the complete avoidance of the deal. One author describes due diligence as a protective layer of “armor”, essentially saying that the more information a company collects during due diligence, the better protected they will be from failure (Sharp, 2009). A satisfactory due diligence report will include in-depth coverage of the areas of equity and debt analysis, assets owned and sold, number of shares owned and their distribution, environmental impact of the organization, historical and projected financial performance, relative tax issues, human resources, and other prevalent business aspects. International mergers and acquisitions also involve important differences in the regulatory environment as well as in the laws and standards of taxes, accounting and financial reporting, the environment, etc. The most important thing here, however, is that due diligence go beyond financials. To be truly effective, due diligence must analyze the culture of the target firm as a component of human resources despite the complexities of such qualitative analysis. Such research in the target firm can include management capabilities, historical and projected investment in training, compensation structure, and any human resource data on employees’ leadership abilities, motivation, and loyalty to the organization (Hitt, Harrison, & Ireland, 2001).

The importance of management’s preparation for such a deal cannot be overlooked either. Leaders have to be the most prepared of anyone for the combination of the two firms’ workforces. Effective leaders are able to prepare for crisis situations before they occur; therefore they are able to avoid failure in most instances and are able to achieve great track records. If the management of each organization has a clear understanding of the implications of the deal and a plausible mental map of how the agreements should be drawn ahead of time as well as a vision of how the organization should look afterward, they will be better prepared for the negotiation process and thus integration afterward. General Wayne Downing, former head of the U.S. Special Operations Forces, once said that it is important for managers to “zone out a bit” in order to gain a better understanding of the whole picture. That way, he explained, managers are better prepared with an understanding of the whole operation when

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chaos occurs and they are then able to take advantage of the opportunities that perhaps are not available in normal operating times (Tichy & Bennis, 2007). In essence, he describes how management should prepare for the worst case scenario even in good times to prevent future failure from taking unnecessary risk.

Due diligence, as a critical aspect of deal making, has become broader out of necessity. Companies must now not only discern the risks involved in acquiring a target firm but also the feasibility of leveraging the talent and resources of that target in order to achieve the goals of the acquirer. The due diligence process should include these various aspects, among others, of a target firm: competitive position, customer relations, patents, production capabilities, technology advancement and IT infrastructure, processes and systems, employee compensation and relations, training programs, organizational structure, management style, power distribution, performance measurement tools, cost structures, complexity of operations, and compatibility with the acquiring firm. During the due diligence process, acquirers should also consider regulatory and political restrictions and costs associated with legally handling those deal barriers. For instance, antitrust issues are frequently cited in international mergers and acquisitions and can be costly, especially if a company has to divest a previously successful business to push the deal through, which could involve more of an opportunity cost than literal dollar cost. Delays in negotiations and deal implementation, or delays in business or cultural integration after the completion of the deal, can be costly as well (Carbonara & Rosa, 2009).

Toward the end of the first quarter of 2007, U.S.-based wireless phone distributor Brightpoint paid \$62.4 million to acquire the U.S. and Latin American operations of its U.S.-based competitor CellStar Corp. In the middle of the third quarter of the same year, Brightpoint closed another acquisition of Dangaard Telecom, a Denmark-based and major European competitor, for \$385 million in stock in addition to the absorption of \$350 of debt from Dangaard's operations. Taken together, Brightpoint and Dangaard handled ten percent of the world's wireless devices in 2006. This second deal created a company with 3,700 employees catering to customers in twenty-five countries. Looking for more than market share, Brightpoint acquired Dangaard partly for the high-level human capital. How did Brightpoint

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ensure that talent was retained at the highest levels? Firstly, it made Dangaard's CEO the new President of Brightpoint Europe and Dangaard's COO both a Co-COO and President of Brightpoint's International Division. Secondly, Brightpoint immediately made three positions available on the Board of Directors for former Dangaard Board members (Schnitzler, 2007). Both series of movements showed a dedication to Dangaard's employees and an appreciation for Dangaard's human capital.

Brightpoint's CEO, Bob Laikin, explained that he and his management team spent a lot of time in "pre-integration work" before closing the deal which, he explained, is a process mandated as a result of his own experience at Brightpoint when prior European market entry attempts focused solely on financials proved unsuccessful. Now he is also focused on the feasibility of integrating the different cultures in an acquisition. "This time," he said, "we focused on getting to know the people." One of the major issues the finance and accounting departments of the former Dangaard may face is the transformation to U.S. reporting standards for a public company from those for a privately-owned European firm, which includes a much more short-term focus and making financial information widely available. Such a change can shake up an entire company, especially in the sense of setting goals and performance targets. Joe Broecker, an investment banker from Periculum Capital Corp., once pointed out a major difference between the U.S. and European markets in terms of regulatory restrictions when mentioning how corporate restructuring in Europe cannot take place through massive layoffs. He also mentioned that two companies, though they may be in the same product market, may discover divergent ideologies (Schnitzler, 2007).

2.9 Measuring the Success of an International Deal

HeidelbergCement's acquisition of Hanson in 2007 is a great example of how an international acquisition can be successful if the proper precautions and steps are taken. Heidelberg, a German company, acquired Hanson, a British company, and thus increased its position in the aggregates business, thereby focusing the acquisition on increasing scope and market share. Management desired to research beyond strategic fit by studying the cultural fit, especially in the U.S., Europe, and Canada. After Heidelberg discovered where issues needed to be addressed, they employed Communicaid, a culture and communication skills consulting firm.

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Communicaid developed a program of site visits for Heidelberg teams to visit many Hanson sites and to develop an awareness and understanding of the cultural and work style differences between the two corporations. Management of both companies helped to frequently communicate openly and honestly with the employees of both firms to alleviate uncertainty. They explained the purpose of the acquisition and the potential results that could be achieved. Since redundancy in some positions is virtually inevitable in any acquisition, the elimination of specific positions and information about new reporting structure was conveyed as soon as the decisions were made, which kept employees up to date and increased their trust and confidence in management as well as increased their dedication to the operation of the new entity (Schnurr, 2008).

Further, proactive research on the “regional, generational, gender, locality, and business culture aspects of each site” helped Heidelberg to enact strategies that would reduce cultural misunderstandings, which would assist employees from both cultures in contentedly performing their jobs efficiently and in developing successful working relationships. An important Communicaid representative was sent to important Heidelberg sites to assess how the acquisition of a new culture would impact key business issues for Heidelberg in the different geographic regions in which it operated. Through communication studies, Heidelberg discovered that different approaches in regard to style could be more effectively used, such as a direct and authoritative approach in Germany versus countries like the UK where such an approach would be taken as overly aggressive and rude. It is important to note the differences between hierarchical perceptions as well (Schnurr, 2008).

Research into the cultures of the other companies helped reveal the abilities and skill sets of many employees from the other cultures and to create new ideas and plans for cross-cultural team creation. It also showed that early cooperation and employee buy-in helped to create beneficial new and cross-cultural relationships. To make sure that employee satisfaction was kept at or above par, Heidelberg created Pulse Check, an online anonymous feedback vehicle that was used to monitor employee satisfaction, and such a vehicle can help the organization with a reality check but also gain more employee buy-in as a result of the ability to add valuable input and reflect on the integration process. Successful acquisitions require

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commitment and dedication to successful integration at every level of both organizations. Management has to understand that it takes time for employees to comprehend even a clear message and they need to dedicate such time and resources to that purpose (Schnurr, 2008).

FirstGroup, a major UK public transportation company, successfully acquired and integrated Ryder Transportation, a U.S. transportation company, into its operations in 1999. How? Research shows that the success of this transaction and integration was the result of FirstGroup's experience in complex acquisitions, a strategic fit between the two businesses (both were transportation companies), a cultural fit between the British and American companies, a successful and practical post-acquisition integration, as well as a continuous focus on the core business throughout the negotiation and integration processes (Hopkins, 2008).

Former CEO of Tyco International Dennis Kozlowski once explained his theory behind the success of Tyco's acquisitions. That is, of course, before 2005 when he was convicted of corporate corruption and hauled off to prison. However, his comments still hold validity despite his personal thievery. He compared an acquisition to landing a plane in the sense that there should be no room for error, including in the cooperation among the many tiers of the organization from ground level employees to upper management similar to the ground crew helping and directing the pilot in landing the plane. He personally helped Tyco accomplish over one hundred acquisitions during his tenure that helped Tyco's market capitalization grow from less than \$2 billion in 1992 to nearly \$50 billion toward the end of 1998. How was he so successful? (Note: Not referring to his criminal activity!) He never made hostile bids, meaning, he never tried to bypass the target firm's Board of Directors and always made target firm management aware of his imminent bid to begin negotiations fairly. In making friendly bids, Kozlowski, and therefore Tyco, was able to obtain much private data that would not have been supplied otherwise. Tyco also considered the true impact of layoffs after a merger or acquisition. For instance, when Tyco acquired Professional Medical Products in 1996, Tyco closed one of the target's factories. However, Tyco gave the employees a year's advance notice, provided retention incentive bonuses for them to stay on in a different area of the company, conducted job fairs for those who wished to move on in their careers, and

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provided substantial severance packages (Hitt, Harrison, & Ireland, 2001). Doing so helps to maintain employee trust and confidence in the acquiring company, which leads to greater loyalty and dedication.

A fairly well-known example of a failed international deal is that of the Daimler-Benz and Chrysler merger in 1998. What was learned from the failure? To begin with, Chrysler learned the hard way that there is really no such thing as a merger of equals as one party will always be stronger than the other in terms of financials or market position. The market in general learned that arrogance can have a detrimental impact on a deal and needs to be avoided by both parties, meaning that each firm has to understand and expect the fact that the other perceives things on the table differently. The deal reminded one of Heraclitus's famous quote, "Change is the only constant," since no companies are exactly alike and the combination of two will inevitably bring changes to both. The conveyance of such changes, however, is the variable and must be taken care of by relaying change and the landscape after change to employees early and forthright. "Early, often, and honest" communication between the executives and employees at every level will alleviate confusion and low productivity. That means that management has to dedicate time and resources to establishing and frequently conveying a consistent message. As change is inevitable and affects both organizations involved, the two cultures must be brought together in a blending process as opposed to the mere subjugation of one culture to another. Financial gurus should also glean that employees are assets, not liabilities, and even though initially many acquiring firms will look to perform mass layoffs of redundant positions, replacing those employees later could be more costly than advantages gained and can hugely impact morale, absenteeism, turnover, and productivity. Getting employees involved early and throughout increases their dedication to successful integration and operation of the new entity. Finally, the acquiring firm needs to overestimate the time and resources needed for the acquisition, since too often these aspects are greatly underestimated, so as to provide shareholders with a pleasant surprise when the deal is completed early and under budget (Badrtalei & Bates, 2007).

The final lesson learned from the failure of the Daimler-Chrysler merger, namely, that managers need to dedicate time and resources to the message and implementation of

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integration strategy is backed up by further research. Studies show that post-acquisition costs associated with legal fees, plant closings, relocations, mass layoffs, and information or operating systems integration all factor into ultimate total deal costs. For example, when toy company Mattel acquired the Tyco toy company, Mattel had to pay about \$175 million in financing and integration fees, an additional 23 percent added on to the original cost of Tyco (Hitt, Harrison, & Ireland, 2001). As the reader can see, integration costs can rapidly increase the total cost of a deal and add on significant time to the payback period of a transaction.

2.10 Strategic Fit

Estimates for the number of decisions that are made surrounding a successful merger or acquisition are about ten thousand. Most of these decisions revolve around the topic and aspiration of strategic fit. Managers believe they can achieve a strategic fit through the launching of new products, the design of systems to suit the new entity, the sharing of R&D resources and capabilities, as well as the use of the target's sales force (Hitt, Harrison, & Ireland, 2001). Strategic fit does not have to mean one specific thing or another. It has to do more with an alignment with the direction in which management is looking to transition or expand the company. There is an ongoing debate with one side claiming that the most successful mergers and acquisitions are achieved by companies that acquire competitors in the same industry and the other side claiming that diversification is the best way to achieve a competitive advantage and growth. All the reader has to understand is that without a focused strategy, virtually any merger or acquisition will fail.

Some studies show that diversity in business operations can lead to institutional learning for an organization. They depict that diversity leads to the discovery of creative new skills and abilities for both the acquired firm and acquiring firm. Many times this type of deal is considered as a means to gain complementary products and services. In any case, the combination of resources can commonly create a sustainable competitive advantage that competitors can hardly imitate (Hitt, Harrison, & Ireland, 2001). Carefully consider Jeffrey Immelt of GE's quote below as it pertains to why GE has been so successful in its acquisition strategy:

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There are many companies that have been created through acquisitions that are frequently compared to GE, called conglomerates. However, our business model is designed to achieve superior performance through the synergies of a large, multi-business company structure. The following strategic imperatives provide the foundation for creating shareholder value: 1. Sustain a strong portfolio of leadership business that fit together to grow consistently through the cycles. 2. Drive common initiatives across the company that accelerate growth, satisfy customers and expand margins, and 3. Develop people to grow a common culture that is adaptive, ethical, and drives execution.

(Tichy & Bennis, 2007)

Chrysler admits that from Daimler it has gained advantages in operating and production systems, communization of air bags, heating, ventilation, and air conditioning systems. Unfortunately, Daimler, particularly its Mercedes-Benz brand, claims that it has not gained anything from Chrysler and instead has suffered from financial and executive strain as a result of the merger (Badrtalei & Bates, 2007). Immelt claims that every deal that GE makes is a careful, calculated move in the storyline of GE's future (Tichy & Bennis, 2007). If Schrempp had thought along similar lines he may have approached the transaction differently, which may have yielded a different, more positive result.

Welch Allyn is a global manufacturer of medical products and solutions that announced in February 2009 its intention to acquire MD International, a Florida-based distributor of medical products with an extensive reach in Latin America. The relationship began more than twenty years ago when Al Merritt, President of MD International, was encouraged by his former employer, which happened to be Welch Allyn, to create a better distribution company for medical products. After doing so, Merritt took on Welch Allyn as his company's first client. Hence, MD International was inherently linked to Welch Allyn from the start, and relations only grew as time went on as the companies shared similar vision and corporate cultures. Julie Shimer, CEO of Welch Allyn, pointed out the friendliness of the deal and strategic impact when she stated, "This decision, made with the full support of MDI leadership, is consistent with the overall strategic direction of our company, specifically our intention to expand our global research... This acquisition allows our company the

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opportunity to put Welch Allyn products into the hands of every frontline caregiver and those of our represented manufacturers in this part of the world” (Welch Allyn Acquires MD International to Boost Presence in Latin America and Expand Strategic Global Reach, 2009).

There are many gains to be made from international mergers and acquisitions, including that of human capital. For global companies like GE, a quarter or more of the employees in certain departments are from developing countries as GE has acquired many international companies and recruits heavily from foreign universities as well. Recruiting and maintaining foreign talent helps not only with new idea generation and growth, but also with present understanding of different national cultures as those employees have native knowledge of the shopping habits of consumers, a better feel for the legal and regulatory environments, potentially useful connections to other companies, and more. (Tichy & Bennis, 2007). Their presence helps the organization as a whole to fit better into that area and into the interconnected world economy.

Sometimes a full-fledged integration of workforces is not the aim of an acquiring firm. Holding companies, for instance, normally manage their company holdings passively, allowing the company management to make virtually all of the operational decisions. Sometimes, companies acquire firms simply because that firm represents a promising cash flow, even if the companies are drastically different or have no intentions of integrating. Given that many of these types of acquisitions are said to be those cited as unsuccessful, some do work (Carbonara & Rosa, Factors Affecting M&A Success: A Starting Point for the Topic Renaissance, 2009). For instance, Aldi, the successful German-based discount grocer with thousands of locations on three continents, acquired the U.S.-based and boat-themed grocer Trader Joe’s and practically left the latter untouched by Aldi hands. Aldi recognized Trader Joe’s as wildly successful and chose not to interrupt its growth, realizing that both companies were growing on their own despite incredibly different business models. In determining the desired degree of integration, companies should consider beginning with Gap Analysis. “Gap Analysis aims to identify all the differences concerning the competitive and macro environment, the reason of the deal for each part of the organizations, the role of leadership and the leadership styles, and the nature of pre-existing organizational and national cultures.”

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After doing a Gap Analysis, the acquiring firm will be better able to craft an integration plan for the operational and human components of the acquired firm. However, there are tradeoffs associated with varying levels of integration. The more synergies an acquirer seeks in acquiring another firm, the higher the level of integration required, which, in turn, involves the greater challenge of cultural integration that can become costly to implement and ultimately deter some financial gains from synergy creation (Carbonara & Rosa, Factors Affecting M&A Success: A Starting Point for the Topic Renaissance, 2009).

2.11 Seeking Synergies and Identifying Challenges

Synergy creation is one of the ultimate goals of an international merger or acquisition. To discover the need for specific types of synergies, managers must ask themselves where the company is, where it is going, and how it is going to get there (Tichy & Bennis, 2007). That way, managers can map out the direction in which they can take the company toward a growth strategy in line with the goals of the organization. The important thing to consider first is whether or not there is the potential for synergies. In some instances, there are simply too many cultural differences and variations in core businesses to achieve any synergies worth having, which is okay as long as companies identify the non-feasibility of achieving worthy synergies ahead of time (Hitt, Harrison, & Ireland, 2001).

Identifying challenges and cultural misfits may sometimes overpower the importance of the identification for potential synergies. That is simply because regardless of the existence of potential synergies, an unlikely cultural integration will eliminate the possibilities for a successful international merger or acquisition. Managers and deal-makers have to work diligently to decipher any differences between what they have been told and what they can learn through meetings with employees from each company. Managers must ask questions that lead to firm philosophy and key cultural characteristics like access to management, communication style, training culture, or performance management. Difficult to spot issues like corporate corruption must also be examined. Risk of fraud can be assessed by careful, detailed analysis of the control environment and any internal controls that are in place to prevent or reprimand such unethical behavior (Sharp, 2009).

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In the case of Daimler-Chrysler, the reader will notice immense differences in culture that, to a manager with much less hubris, would have signaled potential integration failure. The major differences start right at the top with incredible variations in executive compensation. For instance, Eaton's total compensation in 1997 before the deal was nearly \$10 million in stark contrast to Schrempp's total compensation during the same period of less than \$2 million. The luxury image and culture surrounding Daimler-Benz allowed for all business travelers to fly first class while at Chrysler only top executives were allowed to fly first class on the corporate budget. Daimler-Benz's typical style involved formal suit and tie attire, hierarchical employee tiers, structured decision channel, respect for names and titles, and habits of smoking and drinking wine during lunch. Chrysler's typical style involved business casual attire, cross-functional teams, free-form discussions, and rules banning smoking and alcohol on the premises. Decisions at Daimler-Benz had to be passed up all of the proper hierarchical channels before approval while decisions at Chrysler were made more autonomously even by mid-level management. Daimler reported its financials on a yearly basis where they could ramp up numbers in the fourth quarter whereas Chrysler operated on a quarterly basis with much less flexibility. In total, the drastic differences caused the continuation of three separate lines (Mercedes-Benz, Chrysler, and commercial trucks) and an obvious lack of expected synergies (Badrtalei & Bates, 2007).

2.12 Management Buy-In and Hubris

A major transition has occurred from the days of the Industrial Revolution to now. That is to say, the global marketplace has become even more demanding of its employees in terms of task diversity and responsibility for innovation. Under increased pressures to perform, employees now look to their managers to fully lead as opposed to simply direct. One article explains several main differences between a manager and a leader. For one, a leader develops while a manager maintains. The next states that a manager "focuses on systems and structure" whereas a leader "focuses on people". Another stipulates that a manager is one who relies on maintaining control while a leader is one who inspires trust without force. Yet another difference is that a manager focuses on the bottom line whereas a leader looks to the future. Lastly, the article states that "a manager imitates" while a leader "originates". Later, the author articulates that top management must not only structure his employees to achieve

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maximum efficiency, but also for their best interests, including career and skill development as well as overall motivation to achieve on both a personal and company level (Murray, 2009).

Before the merger of three major hospitals, the first step taken was to gain management buy-in among the various management teams of the different hospitals. Once buy-in was achieved in the upper echelons, the deals could be taken to the next level (How to Do a Culture Audit After a Merger, 2007). Given the risks associated with the sharing of certain valuable and private information during a merger or acquisition, and especially in an international deal involving cross-border transfer of valuable financial and regulatory information, it is imperative that managers be fully on par with the seriousness of the deal (Hitt, Harrison, & Ireland, 2001). Jeffrey Immelt, the CEO of GE, once explained to a group of University of Michigan MBA students that the job of leaders is to “drive change” because in most organizations, especially long-established companies, institutional momentum on its own will hold a status quo whereas leaders can innovate and drive change to bring further growth and profit for the organization (Tichy & Bennis, 2007). One great way for management to realize those goals is through a growth-by-acquisition strategy, and international growth by international acquisitions.

Managerial hubris is when executives feel that they can be successful where others have failed, or a sense of overconfidence. In essence it is a level of management buy-in far beyond a healthy level of involvement. Jurgen Schrempp of Daimler-Benz was a great example of such a manager full of hubris when acquiring Chrysler despite visibly mounting cultural barriers to integration success (Hopkins, 2008). Daimler merged with Chrysler due to Schrempp’s fear of growth limitations for Mercedes-Benz but refused to allow Daimler-Benz to become a subsidiary of a U.S. firm and would not settle for less than the dominant position. Originally, Schrempp told Bob Eaton, the then CEO of Chrysler, that the deal would be a “merger of equals” but his, Schrempp’s, commanding actions almost forcefully instituted Daimler-Benz as the more powerful player, especially when it came time for negotiations about new management make-up and a headquarters location for the new entity. When thinking of the new entity’s headquarters, Chrysler was thinking of what would be best financially while

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Daimler was thinking it was definitively going to be a German company and nothing else. That meant that they would compromise on the management structure and price that they would pay to Chrysler but not where the headquarters would be located or where the new company would be registered. The name even came about as an issue, but Schrempp demanded that “Daimler” be first in the name because of the Germans’ recognition of the name and cultural sensitivity to brand names. Schrempp became Chairman of Daimler-Chrysler once the transaction was complete, and he used his power to eliminate potential competition whom he considered to be the charismatic, high performing American Chrysler executives, including Tom Stallkamp who was highly respected and who played a crucial role working toward the integration of thousands of employees in the new entity (Badrtalei & Bates, 2007).

Managerial hubris can ultimately cause a deal to be unsuccessful, but research shows that it plays a role at the beginning of the deal process as well. A Columbia University study showed that managerial hubris can lead to higher premiums paid in acquisitions. Hubris in these instances was shown to relate to recent successes experienced or caused by the CEO in areas of financial performance, media accreditation, or heightened sentiments of self-importance. Even more, premiums were highest when there were more insiders on the Board of Directors and when the CEO also acted as the Chairman of the Board, thereby virtually eliminating the chance of powerful opposition (Hitt, Harrison, & Ireland, 2001). As part of the management hubris issue, top management envisions the quest for targets as an experience akin to hunting and therefore has a heightened focus on closing the deal in spite of any negative circumstances. However, if top management spent more time and effort on average considering all circumstances, performing greater due diligence, and cautiously moving closer to the target, they may find the experience more akin to trophy hunting instead (INTERNATIONAL: Culture impacts M&A outcomes, 2008).

One study defines a strategy for success based on managerial behavior. It shows that acquisition success can be achieved through the following actions and behaviors. Managers have to dedicate their time and resources to helping others create synergies across the newly formed organization. They must form a leadership team to help link agendas and tasks

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associated with creating those synergies. They should develop and spread a sense of direction for every employee to understand how each acquisition can lead to the creation of more synergies that will benefit the company in a specific way. Finally, they should act as role models for the rest of the organization in how each employee should act or behave as a member of the new, larger entity (Hitt, Harrison, & Ireland, 2001).

Managers with great character tend to be concerned with self-respect as opposed to public esteem. By constantly referring back to their core set of values and standards, they make decisions, the results for which they hold themselves accountable. Therefore, in order for them to be in line with the direction of the deal, it has to be in their best moral interest as well as that of the company. To exemplify the ideal behaviors described above, managers can hold meetings involving management from the target firm in which the two groups discuss synergy creation at the financial and operating levels down to the cultural fit of the two organizations. Managers could and should include customer feedback and opinions on transactions as well since the deal is ultimately measured by its success in the market as a result of consumer reactions to the new entity. In order to ensure valid customer opinions, management should clearly communicate the potential opportunities for value creation and financial and cultural challenges involved in the deal (Hitt, Harrison, & Ireland, 2001). Holding meetings with both management teams seems to be a prevalent suggestion. Customer involvement, on the other hand, has not been a recurring suggestion in many of the readings. Nonetheless it appears to be an important aspect of a deal and should be explored further.

2.13 Employee Buy-In

During the formation of Excelsa Health, members on the integration team of the three hospitals would post reminders of upcoming meetings in attempt to increase employee participation in the integration process and to rally the employees around the benefits to be achieved via synergy creation (How to Do a Culture Audit After a Merger, 2007). Jeffrey Immelt of GE once said, “Teamwork and focus make all the difference between survival and disaster” (Tichy & Bennis, 2007). If the reader takes that to heart, then it means that without employee buy-in, even the best strategic fit and a perfectly transparent financial transaction will not lead to a successful post-acquisition integration or increase in profitability. People are assets and

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need to be considered when a deal is struck. Managers often underestimate the importance of strength in numbers and the contingencies on which even the lowest tier of employees maintains power.

There are many ways to encourage employee buy-in, such as financial incentives, retention incentives, empowerment incentives, and so on. One of the more innovative and modern ways to encourage employee buy-in is in conveying the positive environmental and social impacts that the deal will have with their support. For instance, Immelt strictly requires that GE managers all over the world adhere to compliance regulations and contribute and invest in the development and advancement of the communities surrounding their operations. Oftentimes positions are filled with local talent. Cooperation with government agencies aids in the progress of the GE projects along with that of the community as a whole. Immelt has challenged GE to be “a company that gives back globally to the communities in which the company operates” in order to advance its projects, improve local communities, and gain employee buy-in for the great things that can be achieved as long as GE members are on board (Tichy & Bennis, 2007).

Richard Coughlin, a specialist in complex transformations and post merger integrations at PA Consulting Group, identifies four actions that help to alleviate anxieties caused by promises of synergy creation. The first is to rally everyone on both sides around a common goal, such as beating competition, to get everyone on the same page and fill in time voids that could otherwise be spent “squabbling”. The second is to get rid of managers that are not going to be part of the new entity as early as possible because they can be the source of turmoil and insecurity for many other subordinate employees. The third is to provide continuous communication, regardless of the substance of the message, so as to disallow rumors to spread in a lack of direct communication. Lastly, the various teams in the organization must be formulated early, even during the negotiation and signing periods, with a significant portion of employees from the target firm. He points out that the teams should also be incented with rewards for integrating successfully. In addition to his four actions, he mentions the importance of a unified cultural definition for the new organization versus the potentially

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disastrous presence of “unmanaged parallel cultures” (Is tribal conflict inevitable in mergers and takeovers?, 2008).

Scott Moeller, a professor at Cass Business School and co-author of *Intelligent M&A*, takes a contrary view to a focus on common culture creation. He states that companies should instead focus on “Winning business. Quickly.” To support his view, Moeller claims that culture creation is “over-engineered” and that companies should focus on the facets of business that attracted them to each other in the first place. His belief is that leaders should make the deals, and everyone else will follow. Opposing Moeller, Neil Hedges, Chairman of Fishburn Hedges, claims that what creates long-term value for corporations in mergers and acquisitions is cultural fit. He states, “Too many organizations celebrate the potential power of an enlarged organization but neglect the people whose effort and commitment are needed to deliver it in practice.” He signals that top management has to have a clear understanding of the strategy for the new entity to achieve the original vision for value creation and that the strategy must involve a detailed integration plan to be communicated clearly and consistently across the organization and outside parties like shareholders, paying attention to different audiences but relaying a consistent message (Is tribal conflict inevitable in mergers and takeovers?, 2008).

Another article details four big steps that the authors found to lead to successful mergers and acquisitions. The first is to create and maintain a clear strategy that outlines how the target firm will fit into the overall global expansion approach and how it will boost the business. For instance, the Industrial and Commercial Bank of China sees international mergers and acquisitions as a means to hedge risks associated with cyclical downturns. They also state that success acquisitions are a result of deals that focus on improving the acquiring company’s core strengths as opposed to those that focus on expanding the scope of operations. The second is to begin a company’s acquisition career with small deals and build up to larger ones to avoid risky mistakes and big losses due to inexperience. Thirdly, they suggest that acquiring companies determine what they do not know and seek answers via business and cultural due diligence. Those answers will give a preview of whether the integration is feasible. Finally, acquiring companies also need to discern any potential roadblocks in the

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political or regulatory arena by sending in a team of their employees, lawyers, or consultants in advance of the deal (Thorneman, Han, & Palmer, 2008).

Some merger and acquisition activity creates sentiments of reputation or status contamination. For instance, if the acquiring company does not bring with it a top notch reputation equal to that of the acquired firm, it may cause a lot of talented individuals from the acquired firm to flee as staying with the new entity would lessen their professional reputation. One article gives an example from 2000 when CapGemini acquired Ernst & Young, which resulted in a major loss of human capital as the Ernst & Young professionals interpreted the deal as an insult to their résumés (INTERNATIONAL: Culture impacts M&A outcomes, 2008).

Firms that look to acquire other firms specifically for talented R&D departments can experience difficulties during the integration process as most R&D cultures consist of an entrepreneurial spirit that can easily be tainted by forceful subjugation. Hostile takeovers enhance the possibility for “us versus them” attitudes as many employees of the acquired firm approach integration reluctantly and sometimes even defiantly. On the other hand, a “white knight” acquiring firm that pays a fair price and is interested in the value of the acquired firm’s human capital is seen by the acquired firm’s employees as granting the opportunity for career growth and professional reputation improvement. In other words, a “white knight” may be the outlet that a business unit or department needed to be freed from the constraints of the acquired firm’s former owners (INTERNATIONAL: Culture impacts M&A outcomes, 2008).

Globalization has brought with it increased flexibility for employee mobility to a company’s overseas operations. The presence of a consistent benefits package for a multinational company’s employees worldwide can facilitate employee mobility and satisfaction. A lead consultant at Mercer, Peter Blake, states, “When you start moving people from country to country, you need to start reviewing how you will treat those people. Unless you set up something for globally-mobile employees, they are not going to be covered [by the same package].” But it is important to consider the tax and legislative ramifications of the benefits packages for each country since the typical package of one area may look very different than that of another until the reasoning for the difference is deciphered. Chris Bruce, an executive at reward and benefits consulting firm Thomsons Online Benefits, claims that companies

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should begin by outlining a basic benefits model and then take measures on a country level basis to fit specific benefits packages to that model as closely as possible (Lovewell, 2008).

2.14 Integration Teams and Action Plans

Between 2001 and 2004 three different hospitals merged to create what is now known as Excelsa Health. The original hospitals were Westmoreland Regional Hospital and Latrobe Area Hospital that merged with Frick Hospital in 2001 and 2004, respectively. The successful integration of the three hospitals was due to the formation of a steering committee that was known throughout the companies as the “integration committee”. The objectives of the team were to create a timeline for the integration process, to devise a decision tree and meeting schedule, and to conduct an employee survey. Weekly reminders of upcoming meetings were posted on bulletin boards to encourage employee buy-in. The survey was conducted to reveal any differences between what they employees perceived the new organization to be and how they wanted it to be. After the anonymous survey results were collected, management meetings and retreats were held with all upper management present in which they discussed the major gaps: Trust in leadership, Shared decision making, and Integration in regard to representation in the new firm and the balance of powers. This is why preparation for bad news is critical for future success because once the gaps were discovered action plans were easily put in place to eliminate them. Once the action plans were rolled out, integration started to occur almost naturally. Later on, an identical survey was distributed to collect data on post-merger integration success as measured by the decrease in observed gaps according to employee perceptions (How to Do a Culture Audit After a Merger, 2007).

The formation of the integration team allowed the three hospitals to recognize available tools and resources for the successful integration of the different organizations. The team helped devise a feasible action plan to implement over a projected timeline that involved specific decisions that had to be made by certain people by a certain date, all in an effort to achieve synergies between the hospitals and to decrease the gaps discovered in the employee surveys. The team was also able to collect valid anonymous survey data from the employees to form a view of how the deal was envisioned by people at every level of the three organizations. A team like this can prove invaluable during integration. These hospitals utilized a third party,

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or in this case a fourth party, consultant firm called EMERGE International to help collect survey data and define an action plan for the companies involved in the transaction (How to Do a Culture Audit After a Merger, 2007). This strategy was also used in the HeidelbergCement acquisition of Hanson with the enlistment of Communicaid as the third party advisory firm (Schnurr, 2008). An alternate party helps to get a nonbiased outsider point of view and out-of-the-box suggestions that management from either company might not have considered. Although, the lack of specific knowledge of the individual companies involved may prevent the alternate party from creating fully informed suggestions. Either way, it is a viable and many times useful strategy to consider.

It is important to note, though, that the formation of an integration team does not automatically lead to a successful integration. For example, in the Daimler-Chrysler merger, a merger team was formed to conduct an agreement between the two companies about the sensitive issues of the deal. For many of those issues, agreement was not reached yet the deal was still made and integration attempted anyway (Badrtalei & Bates, 2007). The results speak for themselves. Despite the failure of this merger, general research shows that the formation of an integration team does improve the chances for success in a merger or acquisition, especially in an international deal.

2.15 Early, Open, and Frequent Communication

Virtually all sources for this project have demonstrated the need for open and honest communication, beginning with senior management at the start of negotiations. One author states, “Senior management teams should communicate accurate and relevant information freely, explicitly, and in a timely manner” (Schnurr, 2008). This is something that Daimler-Chrysler Chairman Schrempp did not do. Instead, he closed six U.S. plants and laid off twenty-six thousand U.S. workers in the process, all without proper prior notification and without any special compensation to make up for the terrible inconvenience. In addition, the information that he did promote, namely, that the deal would be a “merger of equals”, was entirely false as his agenda would not provide for such equality (Badrtalei & Bates, 2007). In contrast, Tyco did provide early notification and generous compensation to employees of Professional Medical Products after their deal was completed and a plant closing was

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projected in the action plan (Hitt, Harrison, & Ireland, 2001). HeidelbergCement also gave early notification of unfortunate redundant position eliminations, which increased employees' trust and confidence in the new entity (Schnurr, 2008).

Rebecca Ranninger, the Chief Human Resource Officer at Symantec, indicates that since every company has its own culture, some degree of culture clash is inevitable, especially in regard to internal politics. She states that companies need to understand completely what they are buying and why they are buying it. For example, companies can buy other companies for specific technologies or IT infrastructure, a wider array or different category of products, the promise of a well-known brand, or even the human capital of specific groups of employees such as R&D. After the purpose of the acquisition and the specific target has been clearly identified, management must sincerely and consistently communicate an honest message to both organizations' employees as soon as possible. She also states that since employees can sense insincerity on the part of management, only managers dedicated to the success of the new venture should relay the message (Is tribal conflict inevitable in mergers and takeovers?, 2008).

Managers have to dedicate time and resources to ensure employee understanding of the deal. Managers must comprehend the simple fact that employees need time to fully and clearly understand the implications and purpose for such a major deal as an international acquisition. To create a common culture among the two companies involved takes time and effort. When managers do not communicate early and honestly, rumors spread to fill the void. Also, and importantly, communication styles must be examined during due diligence in order to effectively and efficiently communicate with both parties (Schnurr, 2008). Managers should work to provide merger previews to the employees of both firms because previews reassure employees of the potential for synergies and organizational success. Research shows that realistic previews lead to greater trust and care for the organization and allow for less employee stress, less uncertainty, and much higher job satisfaction, a great level of commitment, and a higher level of performance (Hitt, Harrison, & Ireland, 2001). Giving direction and allowing sufficient time for integration to occur has a higher likelihood for leading to success than forced integration under unrealistic time allotments. Additionally, the

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earlier the integration process is started, the earlier cultural variations are discovered and can be addressed. Early introduction of opposing or even slightly different cultures, prior to full-fledged integration strategy implementation, can greatly enhance the likelihood for a successful integration process as it gives employees from both firms knowledge of the other culture and time to realize and appreciate the differences in a positive rather than negative light. In other words, it decreases the chances for the creation of “us versus them” attitudes on either side (INTERNATIONAL: Culture impacts M&A outcomes, 2008).

To improve understanding between American and Asian employees and clients at Teknovus, CEO Greg Caltabiano, who spent years working in Asia, initiated intensified communication links. Caltabiano began to send many of the American employees to its Asian locations and the Asian employees to American headquarters to gain a hands-on experience in an alternate cultural environment. His views are supported by Insead’s Professor Mary Yoko Brannen who explains that international companies typically experience some degree of mistrust on one or both sides and that, to alleviate mistrust, companies have to allow and encourage employees to learn about the existence and reasoning behind the alternate culture. The first-hand communication does not end once the employees return home, either, because Caltabiano also encourages frequent peer-to-peer communication via telephone as opposed to strictly email. He states that companies with newly global workforces need to be “intensely international” and that they have to constantly “chip away ‘we versus they’” mentalities. As a result of Caltabiano’s efforts, Teknovus has witnessed improved relationships with its Asian counterparts and global customer base as well as a double in sales since the extra effort was first undertaken. Increased employee understanding has led to success for Teknovus. One example demonstrates an initially frustrated American software developer who, after a visit to China, changed his outlook and better understood his Chinese customer’s need for software changes and technical tests, which greatly improved his attitude and contributed to better customer relations (Dvorak, 2009).

Globalized companies frequently incur communication challenges, even when the message is supposed to be the same. Franz-Josef Ebel, Deutsche Post DHL’s internal media Editor-in-Chief, was tasked by top management to develop a new internal publication to symbolize the

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creation of a unified culture after the Germany-based Deutsche Post acquired California-based DHL in 2003. The combined firm has more than half a million employees throughout 220 countries, and Ebel is responsible for creating internal communications that reach all of them. His portfolio of outlets includes print, radio, and intranet sources. This meant that DHL had to quickly learn about the German language, life, and business culture. Their lessons were facilitated by the creation of *Network*, Ebel's new symbolic bi-monthly internal publication that is printed in both German and English. Sheila Parry, founder of theblueballroom consulting firm and co-producer of *Network*, believes, "Continuing globalization will call for increasing diversity in corporate communications and that employees will always respond positively to messages delivered in their local language. The duty of corporate communicators is to prepare themselves for this challenge through listening, learning and adapting" (Parry, 2009).

Despite the need for global communication, a message cannot be delivered the same way every unique audience unless the terms used are so basic that they do not provide entertaining insight or deep clarification of an issue. The real challenge, according to Parry, is to make the communications "work on a deeper, emotional level" and for the creators to be fully comprehensive of the various audiences to whom they are relaying the message. Parry notes, "Graphic imagery, idiomatic language and local humor do not always translate well. All cultural differences, visual signals, and tone of voice are also important." She states that a simple translation of a message from language to another certainly does not guarantee a similar interpretation in saying, "Just as a simple hand gesture may be a sign of welcome in one country and an insult in another, some forms of words can just as easily be offensive as flattering." This could be why Ebel claims, "I really don't even like using the word translation – we're really transforming text." Parry goes on to discuss the challenges facing multicultural teams in an environment of differing "cultural backgrounds, languages and work practices." However, she mentions that many times these teams can be even more successful than entirely domestic teams due to the presence of "diverse skills, varying experience and different personalities." In order to achieve that type of success, team members must appreciate the differences in the various cultures and learn to communicate to transform the differences into a competitive advantage in communication (Parry, 2009).

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Parry cites global communication specialist company Melcrum's report on how to communicate with a company's own international employee base to show six suggestions that can lead to successful message translation into multiple languages and relaying to multiple cultures. The first is to "make sure translators understand what they are working on". The second is to "have translators available when you need them". The third involves frequent communication with the authors to ensure that the meaning of the message is not lost in translation. The fourth cautions message creators to be aware of the dangerous implications for direct translation. The penultimate suggestion is to avoid taking short-cuts to translate a message such that a portion of the meaning is lost, in which case a careful reader will realize that something is missing. Lastly, publishers should "make sure the material is checked by someone else before it goes out" so as to ensure correct spelling, phrasing, and interpretation (Parry, 2009).

Parry likens an individual's culture to an onion. She says that in order to discover the reasons behind another's cultural behavior, one must carefully peel back layer after layer to finally discover one's personality. Outermost, she cites, is the professional culture associated with an organization or career experience. Closer to the core are other external factors such as "actions and events that have influenced us over time," which could include national, regional, or even local features. Still closer are the internal factors like "physical behaviors and emotional traits". At the very heart of the metaphorical onion is one's unique personality (Parry, 2009).

Peter Drucker, the recently deceased world-famous management author, taught that top management should go beyond the obvious is discovering what they did not understand by asking tough questions about any and every issue. He created the theory of "management by objective" in which managers must dictate a clear strategy complete with measureable milestones and target deadlines to keep everyone on track. By asking the tough questions, management will receive more critical answers. By creating and articulating a clear vision with check points for everyone to follow, corporations will avoid time wasted squabbling over many minor integration issues or simple differences in opinion. That is not to say that it will

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avoid confrontation altogether, but it will avoid many minor altercations and rumors that could have spread otherwise without direction (Thurm & Lublin, 2005).

The integration process can be facilitated by clear vision and strategy in terms of revenue goals, cost reduction goals, and market positioning goals, among others, that is communicated efficiently, effectively, and frequently to employees at all levels. These types of goals can unify a combined workforce around common issues to reduce resistance to the integration. To maximize efficiency, an “integration office” can help to design and implement the integration plan, draft a new organizational structure combining the two workforces, designate new work teams, and channel information through the appropriate communication networks. One study shows that such values as “fairness, transparency, respect, trust, freedom, and reciprocity” shared in a deal have led to a combined entity stronger than the sum of the two previously separate firms, thereby creating true value (Carbonara & Caiazza, 2008).

Dan Hogan, the Vice President of P&C Capital Management and Alternative Risk Transfer at The Hartford Financial Services Group, normally gives The Hartford Interns a seminar on leadership in which he discusses some of the key features of a corporate leader. In his presentation, Hogan shows that leaders have to “establish and articulate a clear vision of the future of your business to inspire commitment from others that includes measurable indicators of progress and success.” He also states that leaders have to craft a long-term strategy made up of short-term “tactical initiatives” that ultimately lead to the attainment of that original vision. In rallying the others and developing a culture around that vision, it is important that the vision be inspirational and it must be demonstrated at the very top, meaning that, as Hogan says, “You cannot dictate culture, you have to lead” (Hogan, 2009).

Later in his speech, Hogan comments on a famous Herb Kelleher move at Southwest Airlines when Kelleher, facing a tough economic situation, sold an airplane in his fleet, a major asset and revenue creator, rather than lay off Southwest employees. In doing so, Kelleher asked for reciprocal dedication to the company such that the employees had to improve turnaround time, improve the experience for customers, and help create a better airline overall. Under Kelleher’s founding and visionary leadership, Southwest Airlines has consistently been a

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most sought after place of employment for top talent and is well known as the most profitable airline in the history of aviation (Hogan, 2009).

Toward the end of his presentation, Hogan gives a good outline of what, in his view, defines a high performing culture. He shows that a high performing culture is one that builds successful teams of individuals based on hiring winners, challenging top performers, and treating poor performers with one of the three R's, namely, "redeployment, rehabilitation, or removal". A high performing cultures in Hogan's definition also includes "aggressive performance management" through setting clear expectations, monitoring progress, and delivering constructive feedback throughout the process. Hogan states that top management in a high performing culture will "drive a culture of open and fast communication to support rapid response to changing business conditions" and will, of course, "leverage diversity" (Hogan, 2009).

2.16 Conclusion

According to the above results gleaned from research, there appears to be strong focus on a strategic and cultural fit, the creation of integration teams, and the development of action plans. Current literature also mentions the importance of both management and employee buy-in, the financial and cultural aspects of superior due diligence, and open and early dialogue between management and employees. The avoidance of arrogance and managerial hubris and the effect of globalization on international mergers and acquisitions are also covered topics. Some studies discuss the use of measurement tools to estimate employee satisfaction, their perception of the success of the integration, and the actual success of the integration both physical and cultural as well. However, we are still left with several unanswered questions, including: How common are these characteristics in regard to transactions involving the international acquisitions? This question is important due to the overwhelmingly domestic focus of current literature. What are the major actions that companies take from a corporate direction and from a business-line or transaction-specific vantage point? Inevitably there must be differences between overall vision for a company and the vision for how management sees individual deals playing out, and current literature does not seem to distinguish between the two. How can a difference in approach affect the outcome

of integration? Some studies typify various levels of cultural integration, but do not explain how they affect integration decisions and relate to corporate vision. These are some of the questions that need investigation. Ultimately, we hope to generate some conclusions or hypotheses for these answers to be tested in future research. The following chapter will explain how we intend to do just that.

CHAPTER 3: METHODOLOGY

3.1 Overview

The objective of this research is to generate a better understanding of the process by which workforce integration in international acquisitions takes place and the actions through which the process is possible from both a corporate standpoint and a deal-specific standpoint. Literature on the subject of mergers and acquisitions normally focuses on domestic deals and, more specifically, the financial aspects of due diligence or target company valuation versus projected synergistic financial gains. This project focuses solely on international deals and the combination of hundreds or thousands of employees from diverse backgrounds and containing different skill sets. Integrating two separate workforces in a newly combined entity requires several direct actions. These actions are classified under two distinct categories, namely, those actions involved in creating a strategic roadmap at the corporate level and those actions involved in creating an integration roadmap at the transaction-specific level. Companies choose to integrate workforces on two very different levels, namely, partial integration and full integration, though current literature on the subject apparently does not usually distinguish between the two levels of integration. This project aims to reveal the differences in approach to the various actions involved in the creation of both a strategic roadmap and an integration roadmap depending upon the level of integration desired by the acquiring firm. Interviewing employees with diverse ranks and titles from the various companies engaged in the transaction, and desiring different levels of integration, allowed the interviewer to obtain a relatively unbiased pool of information regarding the companies' differing approaches to the various actions. Of the four transactions investigated in this project, two were deals involving partial integration while the other two involved companies striving for something closer to

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full integration if not completely full integration. The table below outlines the distinction between the companies.

As the reader will note, we have interviewed individuals from four companies in different industries. Tribe Mediterranean Foods and Veggie Patch are two former American companies that were bought by Nestlé Osem, the Israeli-based portion of Nestlé, and consolidated together within the last year or so. Despite the fact that the two American companies were fused together similar to a domestic merger, the Israeli company took more of a hands-off approach in the integration. Up to the date of the last interview, there had only been three people transitioned from the Nestlé side. Those three people were in the financial, R&D, and quality departments. Obviously Nestlé wants the former American companies to run mostly as is with the exception of several new policies and procedures in making its fresh produce and organic hummus products while also making sure that a Nestlé-trained employee signs every outgoing check.

Optical Fiber Solutions, or OFS, was originally known as Spectrian Corporation. In the dawning of the computer age, Spectrian was founded to manufacture high-quality fiber optic cables and sell them worldwide. During the peak of the dot-com bubble, Spectrian was acquired by American technology giant Lucent Technologies and fused with several other branches of Lucent operating in the same area. However, Spectrian had to change over from “single mode” fiber optics to “multi-mode” fiber optics to match up with the other branches. Other than that, Lucent did not play much of a role as far as integration was concerned. Only a couple years later when the dot-com bubble burst, Lucent’s optical fiber business line was “put on the chopping block” fairly quickly and sold at a deep discount to Japanese-based technology conglomerate Furukawa Electric Systems, or FEC. FEC decided to convert what was renamed OFS back to single mode from multi-mode. That was the first step. The next step was simply to sit back and watch in attempt to learn and understand the reality of what they had purchased. Once they had a pretty decent understanding of OFS, the FEC managers decided to implement some lean manufacturing techniques throughout the various branches. Other than those policies and procedural changes, FEC has not sent over too many Japanese-based employees to work on American assignments or vice-versa. There was a presence in

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management for some time, but even in those areas the Japanese have withdrawn to let American managers take over once again.

American Power Conversion, or APC, was a worldwide leader in uninterruptible power supply systems with dominating market share in many countries. Its products ensure that computers and other electronics do not crash and burn in the case of power outages and electric surges while some of its products help to store data or keep technical rooms from overheating. When it was purchased by French conglomerate Schneider Electric, it was merged with former competitor Merlin Gerin Electric, or MGE, as well as the parent company, Schneider. It was also renamed APC by Schneider while the MGE name faded to the wayside. The three-way integration was given a slogan, “One Team, One Dream,” and hammered in from all angles to all areas of the company worldwide. Employees were shifted globally and put on integration teams with former competitors. In a sense, everyone was forced to relinquish any former culture to make way for an almost entirely new culture resulting from the combination of the cultures of the three former companies.

Keyspan was one of America’s largest utility companies located in the Northeast region of the country. National Grid, the British-based utility company that acquired Keyspan, had previously acquired several smaller companies in the Northeast such as Eastern Utilities and New England Electric Systems. The smaller companies gave National Grid a preview of what full-scale operations in the U.S. could be like and allowed the company to gain knowledge and experience in international acquisitions. Once it was comfortable operating across the pond, National Grid took a major risk in acquiring Keyspan, which doubled its U.S. holdings in one stroke and leveled the business equally on each side of the Atlantic Ocean. With such a large U.S. influence, National Grid managers chose to globalize many of the company’s functions. Thus, National Grid went from just an international company to a globalized company, even though primary operations were only in two countries. This case was similar to that of APC and Schneider in that people were shuffled and a sense of a global company was infused in all areas of the company. Best practices were spread around from both sides and a new culture emerged.

Table 3.1: Level of Integration Desired by Transaction

<i>Transaction</i>	<i>Level of Integration Desired</i>
Tribe and Veggie Patch by Nestlé OSEM	Partial
OFS by Furukawa Electric Systems	Partial
APC and MGE by Schneider Electric	Full
Keyspan and others by National Grid	Full

3.2 Phase I: Sample Selection

In the earlier stages of research, criteria was set to identify and screen relative transactions fit for interviewing in association with the project goals. Those criteria are outlined in the table below. In essence, the reader will note that we chose recent deals to ensure accurate recollections of the transactions and integration processes. Those deals also needed to have at least some accessible subsidiary nearby for interviewing purposes and company or university familiarity. Also, the feasibility of getting our feet in the door could only be possible by utilizing our network of alumni and other contacts, so we focused heavily on companies with a strong alumni presence.

Table 3.2: Criteria for Transaction Selection

<i>Criteria</i>
International deal involving two or more countries
Transaction completed within previous 10 years
Subsidiary within 100 mile radius of Bryant U.
Feasibility of access to interviewee candidates

3.3 Phase II: Request of Participation and Responses

After a list of potential transactions to investigate was drawn up using online news sources and the alumni network, identifying companies within reach that fit the above screening criteria, a letter of participation request with project details was sent out via electronic format. The letter was sent to known contacts at the various companies or to alumni found on the Bryant University alumni network currently employed by one of the companies involved in each of the transactions. The original list included sixteen transactions, of which there were seven strong contenders. Letters of request were sent to contacts at companies involved in those seven transactions. Contacts from one transaction did not respond at any point, despite

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multiple attempts to establish a connection. Contacts from another responded positively but later had to rescind participation acceptance due to orders from higher authorities. Contacts from one company responded positively but, unfortunately, outside of the allotted time frame and deadlines for the conduction of interviews and related research. It is regretful that that particular company could not be included in this project's research and analysis. The remaining four responded positively and the next phase of the methodology was designed and implemented.

3.4 Phase III: Interview Question Creation

Using key topics gleaned from the literature review, a list of questions was designed for the interviews to come. The questions were probing on general topics associated with international mergers and acquisitions, deal-specific information, and the integration of two distinct workforces. This list of questions was not designed to be standard or sequentially administered. Instead, the list of questions was meant to be a reference for the interview conversations to follow, serving as flexible topic suggestions to facilitate the interview and ensure as smooth a conversation as possible. Additional questions supplemental to the question sheet and serving to probe for further information on new topics or a deeper understanding of a standard topic were later improvised during the interviews, further facilitating a smooth conversational interview and more interesting results. The question list is exhibited below.

Table 3.3: List of Interview Reference Questions

Question
Please state your name, title, and role in the company as well as years worked in either the acquired or acquiring company.
What do you remember about the announcement of the deal and the first phase of integration?
How did this deal fit into the goals or objectives of the acquiring company?
Were the two companies previously competitors?
Are there or were there any fundamental differences between the companies?
Did this deal face any anti-trust or regulatory hurdles on either side?
Was there a difference between the companies in terms of private versus public ownership?
Was there any sort of “integration plan” or “roadmap” created or communicated?
What was done to avoid the loss of top talent of the acquired firm?
What was the general feeling toward the deal for the majority of the employees on each side?
What role did communication play in the integration process?
Which sort of actions did the company take to make the integration smoother?
Do you think the size of the companies made a difference in the integration?
What was the make-up of the new management structure of the combined entity and how was it decided?
Did either company have an international footprint beforehand? If so, where?
How would you describe the working environment at your company before the deal? How has it changed as a result of the deal?
Were any outside consultants or integration advisors used by either side to help give direction to employees in the integration phase or to conduct any sort of “culture audit”?
Was an integration team or integration teams formed at any level? If so, what was the make-up and what were the objectives of the team(s)?
Was there any sort of reward for employees for participating in the integration or ensuring that it went smoothly?
Were there any attempts to maintain employee optimism or motivation throughout the integration? If so, were they successful?
Where has the deal created value? What role does human capital play in any added value?
How did differences in corporate culture, in regard to benefits and such, change the way in which employees are incented?
Did the international nature of this deal pose any specific or unique challenges that a domestic deal would not have?
Did either side have to compromise on the way in which they did their daily duties? By this, I mean, did one side have to abandon a lax dress code for a more formal one? Or if the acquired company was a smaller, entrepreneurial company, did the employees have to take more structured and more specific responsibilities and abandon broad roles?
Were there any major changes in processes or procedures for operations? Or for the relay of information?
What type of tools or metrics has the company used to measure the success of the integration?
Would you suggest doing anything differently if you were to do it over again?

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3.5 Phase IV: Interviews and Interviewees

Overall, there were fourteen interviews conducted of employees with various ranks and titles within the companies involved in the four transactions investigated. Each interview began with a brief biography of the interviewee and soon transitioned into a conversation about their involvement in the recent deal, in which case the questions in the above list were utilized as prompts to engage the conversation further. The duration of these interviews ranged from a brief thirty minutes to a lengthy two hours, depending on the schedule of the interviewee, of course. Whether the interview was brief or lengthy, an earnest attempt was made in either case to conduct a thorough and penetrating conversational interview touching on virtually all desired topics referenced to the question sheet and then some. By many measures, this objective was achieved. Therefore, the duration of each interview does not weigh heavily on the project as a variable and should be neglected as immaterial in contrast to the important subject matter contained within each conversation.

In no cases was the CEO or equivalently ranked employee interviewed as a contributor to this project. The majority of the interviewees were considered to be middle to upper-middle management. Several interviewees were top executives of either the U.S. portion of the business, whether a subsidiary or business line, or the global operations of the combined entity. Very few, if any at all, interviewees would be considered anything below a mid-level manager or director of some department or aspect of operations. The list of interviewees from the various companies involved is given below.

Table 3.4: List of Interviewees by Company

Company	Name	Title	Years at Company
Tribe/Veggie Patch	Scott Webster	CFO	1
	Steve Berman	Director of Trade Marketing	4
OFS	Peter Dowling	Senior Manufacturing Manager, Sturbridge Facility	28
	Chris Carragher	Managing Engineer, Sturbridge Facility	14
	Deb Belanger	CFO, Sturbridge Facility	10
APC by Schneider	Frederic Chanfreau	CIO of APC Worldwide	6
	Nicolas Cindric	Worldwide Services Offers Director	7
	Matt McKee	Program Manager	N/A
	Mario Recine	Quality Engineer	10
	Girish Rajashekar	Director of Test Engineering Worldwide	10
National Grid	Ken Daly	Group Financial Controller	21
	Keith Fowler	Director of Global Reporting and Planning, Gas Distribution	21
	Rick Burlingame	Director of Mergers and Acquisitions	25
	Mike Laflamme	VP, New England and NY Regulatory	30

3.6 Phase V: Data Analysis

Once all fourteen interviews had been conducted and recorded by either a digital mechanism or hand-written notes, each was transcribed into a word document. Transcription was necessary to ensure accuracy in referencing quotes as well as coding ease when the time came to chop up the data into pieces. In essence, speed reading is easier than listening and re-listening to hours of conversation. These word documents were then read and reread several times. After reading the interview transcriptions and comparing them to the question sheet and literature review, searching for standard themes, actions, and categories, an analytical coding scheme was devised to classify the data. Using the code allowed for the separation of the data into five major topics, illustrated in the table below.

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Table 3.5: Coding Scheme for Data Analysis

CODE #	THEME	APC/SCHNEIDER	TRIBE/OSEM	OFS/FEC	KEYSPAN/NG
1	❖ National Culture				
1a	⌘ Hofstede's Dimensions	✓	✓	✓	✓
1b	⌘ Cultural Behaviors	✓	✓	✓	✓
1c	• Avoiding Cultural Gaffes	✓	★	✓	✓
1d	• High Context vs. Low Context	★	★	✓	✓
1e	⌘ Developed vs. Developing Country	★	★	✓	★
2	❖ Organizational Culture				
2a	⌘ Compensation Structure (esp. for Top Mgt)	✓	✓	✓	✓
2b	⌘ Culture of Change, Diversity, Excess/No Frills, Unionized, Young/Old, etc.	✓	✓	✓	✓
2c	⌘ Training and Retraining	✓	✓	✓	✓
2d	⌘ Management Styles	✓	✓	✓	✓
2e	• Managerial Hubris (CEO=Chairman, Values)	✓	✓	✓	✓
2f	⌘ Public vs. Private Entity	✓	✓	✓	✓
2g	⌘ Big vs. Small Companies	✓	✓	✓	✓
2h	⌘ Accounting and Financial Differences in Approach	✓	✓	✓	★
2i	⌘ Older vs. Newer Companies	★	✓	✓	✓
2j	⌘ New Org Culture Challenges Specific to the Deal	★	✓	✓	✓
3	❖ Strategic Roadmap				
3a	⌘ Stages of Acquisition Process (pg. 18 Lit Rev)	✓	✓	★	✓
3b	⌘ Strategy/Goal for Acquiring	✓	✓	✓	✓
3c	• Achieving Scale vs. Scope	✓	✓	✓	✓
3d	• Friendly vs. Hostile Takeovers	✓	✓	✓	✓
3e	⌘ Previous Experience in Acquisitions	✓	✓	✓	✓
3f	⌘ Site Visits	✓	✓	✓	✓
3g	⌘ Presenting a Big Challenge	✓	✓	✓	✓
3h	• State of the economy matters	✓	✓	✓	✓
4	❖ Gaining Buy-In				
4a	⌘ Community and Government Buy-In	✓	✓	✓	✓
4b	• Antitrust and Regulatory Hurdles	✓	✓	✓	✓
4c	⌘ Employee Buy-In (Top to Bottom)	✓	✓	✓	✓
4d	• Retaining Talent (esp. Mgt)	✓	✓	✓	✓
4e	• Employee Feedback	✓	✓	✓	✓
4f	⌘ Customer and Investor Buy-In	✓	✓	✓	✓
4g	• Customer and Investor Feedback	✓	★	★	✓
5	❖ Integration Roadmap				
5a	⌘ Level of Integration Desired (Hands-Off/Partial?)	✓	✓	✓	✓
5b	⌘ Overestimate Time & Resources Necessary	✓	✓	✓	✓
5c	⌘ Culture Audit (incl. Fraud? Corruption?)	✓	✓	✓	✓
5d	• Outside Consulting Firms	✓	✓	✓	✓
5e	⌘ Early, Often, Honest Communication	✓	✓	✓	✓
5f	• Clear, Accurate Message or Vision	✓	✓	✓	✓
5g	• Employee Uncertainty and Resistance	✓	✓	✓	✓
5h	• Integration Preview	✓	✓	✓	✓
5i	⌘ Integration Team(s)	✓	✓	★	✓
5j	• Speed of Integration	✓	✓	✓	✓
5k	• Creating Timelines	✓	✓	✓	✓
5l	• Action Plans	✓	✓	✓	✓
5m	• Agenda Linking	✓	✓	✓	✓
5n	• International Communication With Peers	✓	✓	✓	✓

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50	✕ Redundant Position Layoffs	✓	✓	✓	✓
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✓ Mentioned or included in at least one interview ✕ Added from literature or personal insight; Not included in interviews

Following the division of the data into coding scheme classifications, the themes inherent in the coding scheme were then classified under two categories. Each category is comprised of various direct actions that companies can take as a means to integrate the two separate workforces. The first category involves actions that lead to the creation of a strategic roadmap at the corporate level, meaning a transaction plan in line with top management’s vision for the future and structure of the company that identifies target firms matching pre-set criteria. The second category involves actions that lead to the creation of an integration roadmap at the transaction-specific level, meaning that after one or more targets are identified, a plan is crafted to integrate the two workforces and operations, but this project focuses mainly on the integration of the distinct workforces. The table below depicts the two categories and relative actions.

Table 3.6: M&A Action Categories

<i>Categories</i>	<i>Actions</i>
Creating a <i>Strategic Roadmap</i> (Corporate Level)	Set criteria and perform global search for targets in line with management vision
	Initiate negotiations and perform due diligence
	Decide level of integration desired
	Make cross-border site visits
Creating an <i>Integration Roadmap</i> (Transaction Level)	Perform a culture audit, for both national culture and organizational culture
	Develop clear vision for integration, communicate it early, often via integration preview
	Create a timeline with deliverables
	Budget necessary resources, including for training, retention incentives, and severance
	Form one or more integration teams

This sort of classification scheme is highly consistent with scholarly done by reputable researchers such as Kathleen Eisenhardt of Stanford University and Michael Roberto of Bryant University, formerly of Harvard Business School. Eisenhardt, for example, did a study entitled “Making Fast Strategic Decisions in High-Velocity Environments” which classified top-manager behavior in various firms under a number of decisions that were made, based on

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how the managers described themselves (Eisenhardt, 1989). Michael Roberto took a similar approach in classifying how managers in the aerospace industry make decisions based on their role and the existence of various alternatives (Roberto, 2003). Similarly, our study classifies components of a deal as the result of various actions based on an approach of a partial integration or a full integration.

By repeatedly reading the transcription from the various interviews and relating it to the categories of actions identified, some key differences appeared in the data. The major distinctions were the differences in approach and intensity of the various categorized actions according to the level of integration desired or attempted. Two of the transactions, namely, those of Tribe/Nestlé and OFS/FEC, were discovered to involve only a partial integration of the disparate cross-border workforces. Meanwhile, the other two transactions, namely, those of APC/Schneider and Keyspan/National Grid, signaled a full integration of international workforces. This distinction was amplified when analyzing the data in regard to the different categories of actions involved in the creation of a strategic roadmap and an integration roadmap. These major differences are essential to the meaning and value-adding components of this project. Detailed discussion of the key differences in approach to the categorized actions follows.

3.7 Conclusions

This chapter details the various methodologies through which project participants were identified, interviews were conducted, and analysis was implemented. Through the abovementioned methodologies, I was able to achieve a relatively unbiased data pool by interviewing employees from multiple ranks, titles, and sides of a transaction with varying durations of employment at those companies and unique perceptions of how the integration processes were carried out. In analyzing the data according to the original coding scheme, I was able to identify two separate categories of actions taken during a merger or acquisition in relation to the objectives of this project. Furthermore, it was found that these actions are approached differently according to whether an acquiring firm wishes to fully integrate the target firm into its existing workforce or to only partially integrate the workforce from the target firm into its existing workforce. The heart of this project and the next chapter will focus

heavily on the differences between approaches to those actions in regard to the desired level of integration.

CHAPTER 4: ANALYSIS & DISCUSSION

4.1 Overview

This chapter illustrates a great deal of data gleaned from fourteen different interviews conducted as primary research for this project. Following the methodology described in the previous chapter, this particular section will be outlined according to the categories and actions classified under those categories as well as the outcomes achieved. Toward the end of this chapter, the reader will note the more conceptual outcomes of the actions and the various approaches to those actions according to whether the intention of the companies involved was to integrate fully or partially. Basically, this chapter begins with a look at what it takes to create a strategic roadmap at the corporate level and the various actions involved in creating that roadmap. The reader should easily be able to distinguish the differences inherent in the responses from partially integrated companies Tribe (Nestlé) and OFS (FEC) in comparison to fully integrated companies APC by Schneider and National Grid. Next, the reader will discover the various actions involved in the creation of an integration roadmap wherein discrepancies in approach will reveal themselves almost explicitly. Lastly, the reader will be able to step back from the quote-rich data and analyze the conceptual outcomes of these many actions, such as gaining employee buy-in.

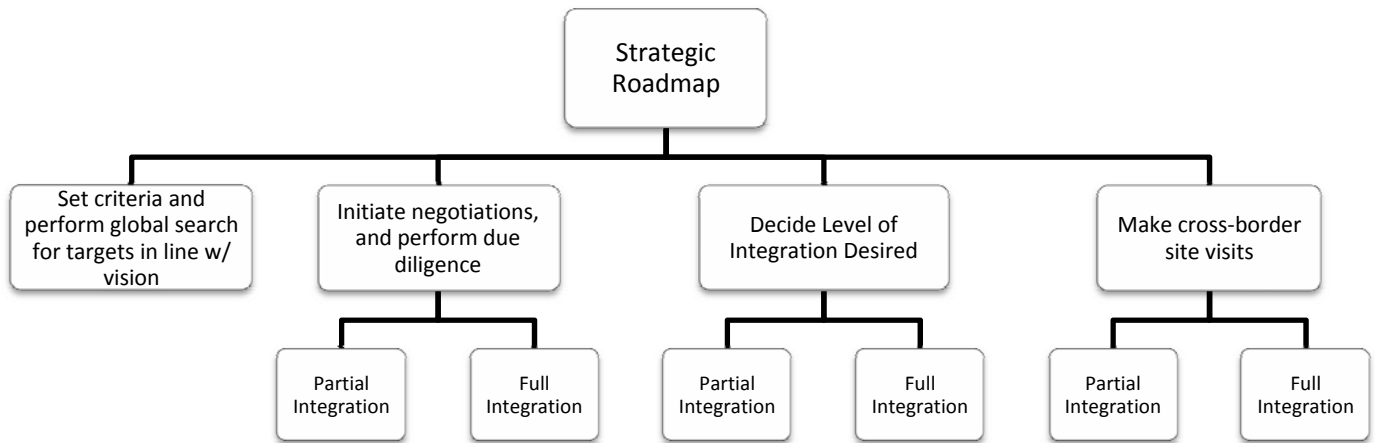
4.2 The Creation of a Strategic Roadmap

A strategic roadmap relates to fulfilling top management's long-term vision for the company through specific actions, including strategic international mergers and acquisitions. This roadmap involves setting key criteria by which to adhere when performing any large transactions and creating profit and synergy goals. Since this roadmap is in line with the vision for the company as a whole, it may indicate various approaches to different situations, including different approaches specific to international mergers and acquisitions. It involves due diligence, negotiating deals, and performing critical site visits to become acquainted with target companies and their workforces and cultures in regard to strategic fit. In major deals, the acquiring company must choose whether to integrate the target company partially or fully

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into its existing operations based on extensive research and information gleaned through site



visits. In any case, the strategic roadmap is a corporate tool for creating value and growing the company.

Diagram 4.1 Actions Resulting in Strategic Roadmap

4.2.1 Set Criteria and Perform Global Search for Targets in line with Management Vision

Every manager has to have a vision for his or her company. Without a vision and aspirations for continuous improvement, a company will squander and die. A vision can be for anything from being number one in sales to having the highest quality products on the market. It can include having the lowest production costs, the best service, or the largest global footprint. If all or part of top management's vision has to do with international expansion, then there is a high possibility that he or she is considering an international merger or acquisition. Entering new markets through international acquisitions can help a company overcome regulatory and political barriers to entry, alleviate the cost of new product development, gain economies of scale and scope, and amplify the rate of international expansion (Hitt, Harrison, & Ireland, 2001). Of course, it would not make much sense to acquire a company just for the sake of acquiring it since management is held accountable by shareholders who require that funds be allocated in the most effective manner possible. To achieve that effectiveness, management has to create a vision and back it up with a logical, executable plan.

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For this action in the creation of a strategic roadmap, it is presumed that top management has decided to expand through at least one acquisition. In this study, the acquiring companies are non-US companies looking to either enter or expand into the US market. Clearly, the reasons vary for why managers choose to adopt a growth by acquisition strategy, and those reasons play a major role in the creation of the company's future, especially if the acquisition serves as a means to expand internationally. After deciding that an international acquisition is the best approach for growth, the company must set forth criteria on which to measure the feasibility and profitability of the various target candidates that will help in striving to achieve the vision. These criteria help to decide why one company would make a better acquisition than another.

Scott Webster, CFO for Tribe Mediterranean Foods and Veggie Patch (closely linked Nestlé companies), did a lot of work in M&A for Nestlé corporate in Switzerland. "When deciding to acquire another company," Scott says, "You've got to buy it for a reason. It's got to have something you don't have. It's got to have products, it's got to have R&D, or it's got to have a patent, something that you don't have. It can be factories in places where you don't have them, sales in countries where you don't have them, any number of things that are missing from your puzzle." He adds, "If it's completely overlapping and doesn't add anything to your business, there's not a great reason to do it, and chances are you'll be facing antitrust issues in some countries, too." In his most recent involvement, Webster came from Nestlé Osem, the company's Israeli-based division, and took over the umbrella financial role at the formerly separate Tribe and Veggie Patch. The vision of the Nestlé Osem management was to capture the US hummus and organic and natural foods markets. Nestlé Osem had a huge share of the Israeli hummus and vegetarian markets, and management believed they could utilize their knowledge of hummus products and consumer behavior in Israel to obtain market share in the US. To facilitate that transition, Nestlé Osem eventually purchased two companies with major operations in the US, namely, Tribe Mediterranean Foods (US-owned) and Veggie Patch (Israeli-owned) in 2009.

Peter Dowling, a Senior Manufacturing Manager for Optical Fiber Solutions (OFS), comments on Japanese acquiring company Furukawa Electric System's (FEC) vision. Before

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it was dubbed OFS in 2003, Dowling's employer was part of Lucent Technologies and had been acquired at the height of the technology bubble. Before that, the company's original name was Spectrian Corporation. "Spectrian was just in Sturbridge, MA and Avon, CT, and Lucent already had a global footprint," says Dowling. When it acquired Spectrian, Lucent packaged it with several of its existing fiber businesses down the US Atlantic Coast as well as in Europe. Dowling explains the rationale behind that deal, "We were a multimode fiber manufacturer originally as part of Spectrian. We did very little work in what they call single mode. These are two distinctly different product types but still fiber. Lucent purchased us and converted us from a multimode to a single mode factory to increase their capacity and invested millions in expansions to do so."

A couple years later, when Lucent was experiencing a backlash to its rapid expansion through pricey acquisitions, FEC decided to pick up some of Lucent's US assets on the cheap since Japan, in many cases, had not experienced quite as much of a burst as had the US market. Dowling explains this transaction as well, "FEC was looking for us to go back to multimode because it was one of the product lines that they didn't have much of in Japan. Now with a US presence, FEC can market its products through OFS without much risk of tariffs and things of that nature, so that opened up other markets for them." As Dowling points out FEC bought what is now called OFS as a complement to its existing product lines as well as a means to penetrate the US market, essentially killing two birds with one stone.

According to Mario Recine, a Quality Engineer at APC by Schneider, France-based Schneider Electric had acquired fellow French company MGE, a well-known European producer of uninterruptible power supply systems several years prior to its acquisition of American Power Conversion (APC), a global leader, innovator, and competitor. The vision of Schneider's top management in acquiring APC, as it relates to the former acquisition of MGE, is relayed by Frederic Chanfreau, CIO of APC by Schneider. "The strengths of the companies were different and complementary," says Chanfreau. "APC was extremely strong in the US, which was their historical market, very strong in home and small business uninterruptible power supply systems and smart supply. MGE's strengths were more on the service side and more on the very big units that you can find protecting buildings, hotels, and hospitals. It gave us

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the opportunity to enlarge the product branch that we are able to propose to our customers. We are present all over the world. We are making acquisitions where it makes sense and completing our portfolio, where it's strengthening our market presence in some countries or when it's completing our solution proposal by bringing in technology that we need but we don't necessarily have." Clearly, management's vision was to create a well diversified global market leader in uninterruptible power supply system manufacturing and service.

Ken Daly, Group Financial Controller for National Grid (NG), explains three main reasons behind British NG's acquisition of US-based Keyspan. "For one, pre-merger National Grid was lopsided UK to US. In one fell swoop it gave them a chance to double their US presence and to make it a more balanced 50/50. Secondly, it was a chance to really become global in operations. Thirdly, it was simply an example of National Grid's growth by acquisition strategy." Prior to acquiring Keyspan in 2007, London-based NG had acquired gas, electric, and other utility companies all over the US Northeast in comparatively smaller transactions. Those smaller transactions served as a way for NG to wet its feet and test the US utility waters before diving in. In a way, it was testing management's vision to create an international utility conglomerate. Once it got acclimated enough to proceed, NG dove in and purchased Keyspan, a much larger competitor than its previous targets, to create the second largest utility company and, by far, the largest foreign-owned utility company in the US. In essence here, NG was expanding its revenue base, penetrating new markets, and globalizing its operations and workforce, all part of top management's vision.

In each of these four transactions, there was a vision imagined by the acquiring firm's top management. That vision was used in the design of criteria to select appropriate targets matching the goals for the future of the company. In the case of Nestlé Osem, management was looking for target firms in the US that would help it to capitalize on its wealth of knowledge and experience in the areas of hummus and vegetarian foods. Furukawa Electric Systems was in search of a financially-troubled US target firm capable of producing complementary products for worldwide exportation and serving as a wholly-owned medium through which it could penetrate the US market. Schneider Electric sought to expand the breadth of its global uninterruptible power supply portfolio by acquiring well-known market

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leaders with different and complementary specialties. National Grid was looking to grow through acquisitions, drastically increase its US presence, and globalize many of its business functions. In all cases, companies were targeted on set criteria.

This is where the decision making starts. It is where companies decide that they want to grow internationally through at least one merger or acquisition in a certain location at a certain time for certain reasons. It is also where top management begins to craft and outline the overarching corporate strategy for the company. Once this strategy is in place, targets have to be identified that fit the criteria of the vision, making sure that acquiring a company will not compromise or deter the vision in any way. That is why criteria needs to be set on which to judge the feasibility or attractiveness of the list of targets created. This is also where companies can decide how much they would like to spend for a company and creating certain contingency plans for bargaining.

4.2.2 Initiate Negotiations, either Friendly or Hostile, and Perform Due Diligence

With a clear vision in mind and a target in sight, the next logical action is to engage in negotiations with the target firm. This is also the stage in which the two or more companies get to know one another more closely through the due diligence process. Since this study intends to reveal the differences in approach between firms that are seeking targets with which to integrate partially versus fully, the following action will be analyzed and discussed according to that framework, beginning with the partially integrated companies and, of course, workforces. Nestlé Osem and FEC chose to integrate only partially with their respective targets while Schneider and National Grid chose to pursue a fuller integration with their respective targets. Greater detail as to why these companies are considered to have pursued a partial or full integration is inherent throughout the chapter.

In its acquisitions of both Tribe and Veggie Patch, Nestlé Osem was clearly the dominant player. Neither target firm, according to CFO Scott Webster, had more than \$50 million in annual revenues while the sum of Nestlé's businesses generate upwards of \$100 billion annually. Webster jests, "Nestlé is just enormous. They're buying and selling something every day of the week." Nestlé is a gigantic company, and this case, size matters. In cases like these,

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the negotiations are completely dominated by the acquiring company. Webster notes, “Before Nestlé Osem came in, Tribe was a looser, more entrepreneurial-oriented company with not a lot of decisions by metrics, a lot of gut decisions. Nestlé Osem is a much bigger company and a lot more analysis goes into the decisions because the decisions are bigger. They literally have more money on the line. Tribe was doing really well making gut decisions but part of it was that the category of hummus was performing well overall, so one of the main clashes was they knew Nestlé was going to come in and make some different investments, bigger investments, and it’s going to do more analysis.” He adds, “A smaller company isn’t really used to those structured processes and decisions.” In relation to issues that a big company may face, and that a small company may not, Webster talks about headline risk. He says, “You put at risk a lot of sales if anything happened to the name in the papers, so as part of the negotiations we have to make them raise the bar on testing so as not to jeopardize Nestlé’s billions in sales.”

The way in which the deal is presented, though, also has an impact on employees. Steve Berman, Director of Trade Marketing for Tribe and Veggie Patch, says of the negotiation process with Veggie Patch, “Only several key people knew that Veggie Patch was seeking acquisition bids, but it was not communicated to the rest of the company. The way that the employees even found out about their acquisition was by an Osem press release discovered online by Veggie Patch employees! Things were handled very discretely.”

Before negotiations can even begin, the acquiring company has to decide what it would be willing to pay, and what it can afford, for a target. In doing this, top management of the acquiring company must make sure that understands the concerns of the major shareholders, especially for international deals where the company or investors may not be as experienced. Investors and shareholders need to grant top management permission to proceed with major deals or otherwise they will simply oust whoever is in control. To gain permission from investors, top management has to sell its vision to major shareholders. If the investors and shareholders are then convinced that the maneuver is in the best interests of the long-term sustainable profitability of the company and does not pose too much of a risk of their invested

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funds, then more than likely they will agree to the deal at the right offer price. Investors understand risk and return, so they, believe it or not, appear to be the easiest to convince.

Deb Belanger, CFO of OFS Sturbridge, talks about the Spectrian/Lucent/FEC deal that created current day OFS. She says, “Lucent acquired Spectrian and invested a ton of money into us. They hired so many people that at one point this facility was up to about 525 people, I think, and all in a short period of time. Then the bubble burst pretty soon after we got to that point, and Lucent acted pretty quickly, too. I think they must have put us on the block almost immediately because pretty soon the deal with Furukawa had gone through. We heard of the deal sometime in September but then negotiations went through several iterations as the market continued to decline because Furukawa was able to push back and say, ‘Look, it’s not worth what we originally offered you.’” FEC was seemingly able to play hard ball with the offer price, which Lucent was most likely not too happy about, in contrast to FEC investors. This sort of back and forth creates some tension between the acquiring and target companies, especially in the general workforces of both. The simple fact that there was a game of offer price ping pong shows that the FEC acquisition of this portion of Lucent’s business was not entirely friendly.

During the negotiation phase, regulatory approval is a constant necessity. Webster provides some insight on the matter, “If you think you’re just going to go and buy up a ton of market share in some countries, you may have another thing coming. Some just won’t let you do it. You have to justify why you don’t think it changes the competitive landscape in a negative way. Maybe you lose that battle and you have to sell something off your existing business.” His last point there is exceptionally important in the future direction of the company. If regulators are requiring a company to sell off one of its profitable businesses in exchange for permission to acquire the target, top management of that company has to weight the potential costs and benefits to doing so. In that way, regulators can easily reframe the rationale behind a deal and cause negotiations to come to a screeching halt or to continue with contingency clauses. One such example, Webster describes, is that of Nestlé’s previous acquisition of a former Novartis medical nutrition business. He describes how the European Union regulators would not allow the acquisition to close until definite plans were to sell off Nestlé’s Spanish

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medical nutrition unit and Novartis's French medical nutrition unit. The plan actually packaged the two different units together to make it more appealing for buyers who subsequently purchased the units.

Whether the company is publicly or privately held also plays a role in the negotiation process. As Chapter 2 mentions, major deals sometimes involve a combination of cash payment, stock options, and debt absorption. Webster speaks about the topic in yet another Nestlé acquisition, this one involving the acquisition of Dryer's/Edie's ice cream business, "My role as a public company overhead for Dryer's ceased to exist because we ceased to exist as a public company." Clearly, various roles and departments in a public company may not be transferable to a private company, and vice versa. This is an important consideration in the due diligence process as it exposes different approaches to headline risk and release of strategic information to the public.

If the target company is actively available for sale, then its top management is probably willing to offer up a lot of relative and important information. If not, then it may be difficult to ascertain a value or find information for the target, especially if the target is a privately owned entity. Webster details this part of the process, "Sometimes when you're looking to buy a company, they're not looking to sell, and you're trying to get every bit of information about the company from any source you can possibly find to get a view of their financials, how strong they are, what it would cost to buy them, and why it would strategically fit in your company." In the case of cases of both Tribe and Veggie Patch, as Berman indicates, each was available for sale and was actively seeking bids, but so discretely that the employees were hardly aware of the possibility. Other times, Webster explains, a company might be well known in the market place and some of the acquiring company's employees may have come from that company, so they are able to offer some insight into the inner workings of the company outside of the bounds of previous disclosure agreements.

Schneider performed extensive due diligence in searching for the right target company to acquire and made sure that it was the right time to make such an acquisition, similar to how APC frequently conducted market research. Recine comments, "APC purchased reports from companies like Forrester Group and Morningstar about the uninterruptible power supply

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industry. They were looking for what could be expected from the data center and uninterruptible power supply industry five years from now. I have to assume that Schneider did the same thing to give them a reason to make a strategic acquisition.”

Recine remembers the general feeling toward the deal at APC, “Schneider already owned a MGE, a smaller uninterruptible power supply company, so the fact that they were now merging with a larger company that had made some new and interesting innovations in the interesting, they felt, was a good match.”

Recine reflects on the difficulties of the beginnings of the integration process between Schneider and APC in regard to government and investor buy-in, “A couple weeks after the communication was given out to the entire company that negotiations for Schneider’s bid for APC were getting to the last phase. A couple weeks later, we were notified that the deal had been signed and the terms and conditions had been agreed to. At this point, the approval process was under way by all of the regulatory commissions like the FTC here in North America and the European Commission over in Europe. In February, the European Union had finally given its acceptance on condition that Schneider divests its single phase business. In the US, shareholders had to vote to either accept or reject the deal whereas in Europe it was strictly a boardroom-level decision. In fact, many shareholders in Europe were against the deal at first because Schneider was about to pay a thirty percent premium for APC, which at the same time made APC shareholders quite pleased because APC stock had languished since 2001 or so.”

Frederic Chanfreau, CIO of APC, gives further insight on the government approval process, “APC was one of the biggest acquisitions of an American company by a French company ever. It was a \$6 billion deal. We had some additional constraints to manage because the European community identified that they would accept the acquisition under the condition that we (MGE) carve out part of our uninterruptible power supply business. Between APC and MGE, we were close to a monopolistic situation in some countries with more than 80 percent of the market share so they asked us to get rid of one portion of that business.” He adds of the investor approval process, “You have to be adamant in communicating with your shareholders and financial analysts because they are watching what you are doing. MGE was

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privately-owned until it was acquired by Schneider, which was public, and then APC was already public. Being a public company adds complexity to some extent because of the added pressure to be successful in whatever you are doing when there is an external eye focusing on everything you do. Whatever you do will be reflected in the market price of Schneider Electric. It was very clear at the beginning that should we succeed, we will make Schneider Electric successful and should we fail it would have a direct impact on the market value of the company. So, we shouldn't fail. That was very clear." Girish Rajashekar, Director of Test Engineering at APC by Schneider, agrees, "I think in the beginning everybody understood if you don't do a good job, it's going to affect the company in the long-term. I think that was very clear."

Ken Daly of National Grid touches on the subject of headline risk. As a high-ranking financial employee in Keyspan, Daly worked on the negotiations for the deal, but he claims that the public was not given any sort of press release explaining the deal as a possibility. He says, "There was actually an announcement in the NY Times and in the *Wall Street Journal* that it was a rumored transaction. That was a bit of a shock to see it in writing even though I was working on it. Then about a week later it hit the wire that the rumor was founded and it was even more of a shock." Daly may agree that public awareness and reaction toward the deal can have tremendous influence on negotiations and even more of an influence if the companies involved in the transaction are public or private.

The state of the economy can impact the way in which a deal is perceived or the way in which negotiations flow. "A good economy can make a bad deal look good and a bad economy can make a good deal look bad, and right now we are in one of the toughest times for the economy," says Daly. He comments that National Grid's pre-funding of the deal, which took a substantial risk, allowed the deal to occur since attempting to raise \$6 billion or \$7 billion today would be very difficult. He says, "The deal could have fallen through just on the inability to raise the funds, if you can imagine, even for a big company like National Grid. The deal itself took 18 months to close, but during the 18 month window they took some risk and pre-funded the transaction in hopes that it would go through." Fowler adds of the impact of a bad economy, "People may cut back and not use as much energy as they do, but

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compared to most, this industry is more economically immune. It's an essential service. So, when you go home at night, whether the economy is roaring or the economy stinks, you're probably still putting your light on and your TV on and you're getting an electric bill every month." So, in particular to the utilities industry, while the economy can have a major impact on investor sentiment, it does not have a major impact on the general operations of the company. Rick Burlingame, Director of M&A for National Grid, talks more about how the state of the economy affects deal-making. He states, "When the economy is bad, you're growth projections are much lower than a booming economy.

Daly talks about the pre-acquisition Keyspan and National Grid in regard to the negotiation process. He states, "Both companies were publicly traded. One on the NYSE, Keyspan, and the other on the London Stock Exchange, National Grid. The only issue is that obviously you have to get the Keyspan shareholders to approve the merger. You have an annual meeting, you have a shareholder meeting, you send out ballots that tell the story and that help to get their vote on it. Usually it comes down to a price, if they feel like it's fair they'll vote yes and if they feel like it's not fair they'll vote no. You have to look at the Cadbury/Kraft transaction as an interesting story. Kraft has had to increase its offer for Cadbury in order to attract the Cadbury shareholders. Originally it was more of a hostile bid but they wound up negotiating on mostly friendly terms around the fact that they got to an agreeable price. For this transaction with Keyspan and National Grid, it was friendly the whole time. It was a negotiated transaction with no changes to the original terms, very friendly terms."

National Grid's Keith Fowler notes that the Keyspan acquisition doubled the US footprint of National Grid, which made the US an equally important region for National Grid as the UK. Fowler comments on some of the different contributors to the negotiation process. He says, "There are probably three primary shareholders with the merger. There's the investors. There's the regulator who wants to make sure it's good for the public. And there's the employees who might be the other shareholder. From the investor standpoint we set some targets and goals that we went public on like savings millions of dollars. We made statements about what this would do for the ultimate customer because when we combined these two entities, there would be synergy savings. Not only would we be saving money for the investor

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but we'd also be saving a ton of money for the public." Investors, regulators, and employees are three focal points of the deal, and buy-in from all three of those categories is necessary for successful negotiations and later for successful integration. He adds, "Probably 90 percent of the shareholders are in the UK and other parts of Europe. We have a very small shareholder ownership in the US. I think that has a big impact on how much personal attention they can give. While they do come along and do investor road shows and those sorts of things, their primary fiduciary responsibility remains in Europe because that's where all of the shareholders are."

In the due diligence process, an acquiring company can learn a lot about the environment in which the target company operates, which is sometimes difficult or at least different than its own. Fowler mentions, "I think New England has historically been a much tougher regulatory environment than other areas in the country. Our commodity prices are higher here because we don't have the raw energy. We are kind of end of the line. We have storms, we have snow, we have a lot of things. You have to build a lot of capacity to serve a very short period of time. We peak in the summer months so you have to have enough power for those three days when everybody's got their air conditioning cranking at 60 degrees whereas in the South the load factors are more flat, it's relatively constant throughout the years, but it's all part of the game."

Burlingame mentions that there were people from both the US and the UK sides involved in the valuation of Keyspan in the deal, including regulators. He says, "We brought in several people from corporate finance and corporate M&A to assist at least the upfront valuation and due diligence because it was a big international deal and it had to be approved by the UK. There is an approval process in the UK as well as the US, so that added a layer of complexity, but the process is also a different." He adds later, "You need to entice the regulators to approve the deal so that this deal is good for customers. One of the ways you do that is to agree to share some of the synergies of from the deal. And so you have to go through the whole process of quantifying those synergies, the whole process of allocating those synergies to the various companies because a whole lot of the synergies are back-office type synergies that are not specific to one company or another. Then you talk to the regulators and say, 'We

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think we can achieve this level of synergies. We're willing to share 50 percent of those synergies after the cost to achieve those synergies with you."

Negotiations are sensitive overall, but acquiring companies have to be sure that the target company not only fits with the corporate strategy but that the price paid makes sense for achieving the vision. Then again, the target company has to be able to push back and demand what it is really worth as well as assure the safety of its best people and qualities.

Compromises are most likely going to be made on both sides following the nature of negotiations, so both sides have to be sure that they do not make too many compromises to the point that the deal no longer makes sense. However, as in the case of Furukawa's acquisition of Lucent's fiber optics company now known as OFS, companies can be bought at a weak point for cheap money when the underlying industry is in turmoil. It is the same for bank mergers and acquisitions today with the encouragement of the government in its loss sharing programs. Speaking of government encouragement, it is just as important to gain government approval as it is to gain employee or investor approval, perhaps even more. If the government does not approve, the deal does not close, period. This is just another reason why negotiations need cautious discipline.

4.2.3 Decide Level of Integration Desired, either Partial or Full

This decision is perhaps the number one most important corporate decision of all as it defines how both the acquiring and acquired companies will look after the international deal is completed. This decision results in two outcomes, specifically, a partial integration or a full integration. In a partial integration, the two companies based in different countries continue to operate fairly autonomously with little infusion of acquiring firm personnel into the acquired firm and little synergy creation through the global combination of departments and workforces. In a full or close-to-full integration, there is a much higher level of synergy creation through the international combination of operations, facilities, and, most importantly, workforces. This is the deciding factor in which the acquiring company really considers why it is acquiring the target firm, and comes up with a decision for integrating the two companies based on that original vision. Companies looking to achieve economies of scale or scope will usually integrate more fully than companies involved in unrelated diversification. However,

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even companies looking to achieve similar goals will take different stances on the level of integration desired. This study attempts to provide an unbiased perspective of some of the factors that go into this decision for companies seeking either a partial or full integration.

The initial focus is on strategy and why one company chooses to buy another. Chapter 2 mentioned the necessity for a vision and depicted the vision of top management for each of the transactions being studied (Tichy & Bennis, 2007). Following the rationale behind the transactions, the decision on the level of integration involves the combination of the tangible and intangible assets of the acquiring and acquired companies in the most effective manner possible, to the degree that makes the most sense for the particular companies at that particular time. This decision involves the people, the systems, the locations, the products, the services, the patents and other intellectual property, and all other components of the companies.

Chris Carragher, an Engineering Manager for the OFS Sturbridge facility, illustrates the size of Lucent in relation to the former Spectrian at the time of Lucent's acquisition of the company, "Lucent was buying up everything when they bought us, and we were only a cool \$99 million or so when they were buying up multi-billion dollar companies." Dowling describes the size of FEC in regard to the subsequent acquisition, "Furukawa is huge." He adds, "They are in aluminum, copper, and many other things. This was a natural progression for them to expand their fiber optics presence into their worldwide market." Despite the fact that FEC has allowed OFS to run fairly autonomously since the acquisition, perhaps as a result of it being only a small portion of the overall business, there is strong financial support from the parent company. Dowling describes the sentiment, "We are self-sufficient now but if we were to slip, Ma' and Pa' are there to help us. For that reason, I think OFS as a company is far better off as part of Furukawa than it was as part of Lucent." Belanger adds, "I think if we had been acquired by someone that didn't have the financial wherewithal to carry us through as FEC has, they probably would have closed the doors because, as a corporation at this facility, we lost money for a few years. They weren't catastrophic, but they were significant." In essence, even with a partial integration, the presence of a financial cushion is comforting for OFS management. The partial integration means that the failure of OFS would not have a

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disastrous effect on FEC as a whole, but the simple fact that FEC has supported OFS through a few bad years shows its dedication to the company and its employees.

In the case of Tribe and Veggie patch, their acquisitions by Nestlé Osem brought with them major infusions of cash resources for product development, marketing, etc. as well as additional product expertise from the Israeli market. The influx of cash instantly improved both companies' competitive capabilities. Nestlé Osem soon purged the previous management from the company and brought in new management from Nestlé Osem and from outside the company, but not too many positions outside of top management were affected. In fact, Scott Webster, the American-born CFO for the new entity, came from Nestlé. Likewise, the head of R&D and a single engineer are of the few current employees of the new entity previously from Nestlé. Though Nestlé Osem has not exported too many employees to the US-based entity, they have additionally infused the company with several processes and systems for quality testing and product development.

In many cases researched, a typical partial integration will involve changes in structure and processes to adhere to the acquiring firms' standards, which are normally more stringent than existing standards. The degree to which the employees integrate outside of the procedural integration is a key decision to be made at the earliest stages of an acquisition. "There were big structural changes with some people shifting ground interruptible power supply, but business went on as usual for the most part," Carragher says of the FEC acquisition of what is now called OFS.

After the first maneuver integration at OFS, there seem to have only been a couple transitions in management, sending the Japanese managers with newly obtained American experience back to Japan and replacing them with a few fresh Japanese employees in a few key positions. "It is a big commitment to bring their families here, a big imposition to move to the other side of the world, especially when many of their significant others don't speak English, but you never hear them complain," says Dowling. He adds that not many people from the US transition to roles in Japan, nor are they eager to. Recently, though, Dowling notes, some positions have been assigned to American managers like Tim Murray, the CEO of the US fiber optics division. It seems that FEC as an acquirer purchased the fiber optics division from

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Lucent and infiltrated some key positions in order to implement its standards and procedures, such as lean manufacturing, so that in the future it could hand the operation of the US portion of the business back to American management and play a more passive role from Japan.

As part of its due diligence, FEC sent some key personnel to the US to interview the target employees about the company. Dowling recalls, “This gentleman, when he came, interviewed the entire management team at the time one on one, all the way down. It was very structured. It was also kind of intimidating because nobody really likes to go one on one with somebody they’ve never met before.” As intimidating as it may be, this type of activity is important in the decision regarding the level of integration possible. The greater the disparity between corporate cultures, the less the chances are of a successful full integration. In those cases, partial integration seems to be the usual answer. Apparently, due to the size of this deal, the volatility of the industry at the time of the acquisition, and the results of the interviews, FEC chose a partial integration with the entity now called OFS. Belanger says, “It’s almost like they bought us and set us aside to keep operating but slowly infiltrated us. It was almost like they just wanted to sit back and see what was working and what wasn’t working. Once they had that figured out they started to implement some structural and procedural changes.”

With its acquisition of a formerly very entrepreneurial company, Nestlé Osem seems to have taken a strategy that Berman appreciates, so he comments, “The best way to go forward is to maintain that entrepreneurial spirit but to implement the structure of a corporation.” Berman also illustrates the several departments and systems that have not been fully integrated, including Accounting, Sales Reporting, and Ordering. He claims that at this point Tribe, Veggie Patch, and Nestlé Osem are “about 90 percent as integrated as management would like to be.” The department with the closest ties to the parent company, since most do not have contact with Nestlé Osem on a daily basis for operations, is R&D. According to Berman, that makes sense because in addition to gaining more of a U.S. market share, “part of Nestlé Osem’s vision in acquiring Veggie Patch and Tribe was to bring to the table a lot of product design experience from the heart of the culture for fresh food and Middle Eastern flavors.”

Similar to Tribe and Veggie Patch, OFS has inherited a lot of processes, procedures, and practices from its acquirer but not much in terms of integrated departments. Dowling says that

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OFS has been professionally instructed by a “lean manufacturing sensei” who has come back every four or five weeks to check up on progress for about a year and a half. Between check-uninterruptible power supply, the lean sensei gives Dowling and the other manufacturing managers instructions for the next stage. It appears that FEC has infused OFS with its years of experience in lean manufacturing and efficiency savings, but also that FEC has not integrated any of its Japanese manufacturing plants or Japanese workforce with OFS in the US. It seems as if FEC has assumed a more professorial role than a familial role, which is working well according to Carragher and Dowling.

Also similar to Tribe and Veggie Patch, though, is the integration of the multiple American locations as opposed to the integration of the American locations with the Japanese headquarters. Dowling comments, “What’s different is that there were so many, four or five, different locations that were somewhat operating as separate locations. What’s happening now is that everything is brought under the same common umbrella of US operations. All of the metrics across all of the organizations have been standardized. There are scorecards in all operations and every general manager has access to all of those, so we can see what the other facilities are doing and we’re talking the same language.” Belanger notes that an important Japanese influence for her department has been the implementation of the Japanese version of Sarbanes-Oxley, or J-SOX. So, in effect, the various US plants coordinate operations similar to how Tribe from MA and Veggie Patch from RI coordinate in various aspects without intensive coordination with foreign headquarters aside from accounting policies, all of which has to be decided beforehand.

Since FEC is not directly involved in the daily operations of OFS, it has to frequently request updates and additional information. Belanger notes that of the few employees from Japan, several of them are liaisons to the Japanese corporate headquarters. Additionally, Belanger says, “We get quarterly requests from Furukawa for different studies. They like to track the costs of oil and how much impact it’s had on the business and things like that.” Carragher adds, “We’ve had a lot of conference calls with the Japanese headquarters when they lay out their plan for what they want us to achieve, primarily being a worldwide leader in fiber optics manufacturing.” Apparently, with a partial integration, this type of communication is

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common. There is sometimes a liaison or weekly conference calls in which the acquired firm gives status updates and receives instructions for the next steps in operations or goals for the next period.

Recine comments, “Schneider already had a uninterruptible power supply company, but they bought a stronger, more diversified uninterruptible power supply company in APC in terms of its scope.” He states, “The idea was to gain economies of scale in Procurement, HR, Purchasing, and they did it with a lot of respect. In terms of merging departments, to eliminate redundancy and gain economies of scale, it was done with a lot of respect and concern for all of the employees.” This is where integrating companies involves reducing headcount. Obviously, the more integration that takes place, the more redundancies have to be eliminated in order to achieve the projected efficiency targets. However, Recine adds, “There were no massive layoffs in the deal. The only layoffs were about 2,000 people in Schneider worldwide due to the global recession, but 2,000 people in a 120,000 person company is a small percentage. Plus, they were given a lot of advance notice.”

“What they did was put in charge the known leadership from various regions, leadership that was well-known and carried the most influence in the organization,” says Recine. “In North America, for instance, the leadership that was put in almost overnight was primarily from APC. In Europe, where MGE was bigger, it was mainly MGE people. In China, where MGE was bigger, it was mainly MGE people. In Asia/Pacific and Latin America, it was a combination of both.” He adds, “So, the leaders that more people recognized were put into place as Executive VPs and Regional VPs. After the new CEO was assigned, this whole matrix was reshuffled and redesigned, but they put something in place reasonably fast to keep the train moving.” Chanfreau adds his view on the current balance of management, “The weight of the corporate office was less in MGE than it was in APC. I think the combined entity is much more balanced. Global functions here are deciding more and more, which makes it easier to manage because you no longer have to negotiate with every country manager.”

Recine gives his experienced opinion of how leadership should be chosen per region, “In cases where the acquiring company has no footprint in the space that they are acquiring, then

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the leadership of the acquired company should be fully implemented. Otherwise, why buy a company in an industry or a country that they have no knowledge of?”

When Schneider acquired APC, it integrated its existing uninterruptible power supply business named MGE into APC fully and completely for several reasons. Recine notes an important reason, “APC had the most efficient uninterruptible power supply on the market at 97 percent. What does that mean? Well, that means that for every 100 watts, only 3 would go off in heat. MGE’s products were 92 or 93 percent. So, from that point of view, APC was greener or environmentally friendly because it was more efficient. We had to leverage that technology and those achievements that APC made back in the early ‘90s to get to this efficient level. We had to use that knowledge to take us to the next level, which was making the whole company focused on energy consciousness and efficiency.”

As MGE was virtually absorbed by APC under the direction and guidance of Schneider, the MGE brand disappeared. According to Cindric, the APC label on products and marketing tools has gotten smaller to allow for the inclusion of the words “by Schneider”. This is why several interviewees, including Cindric, note that Schneider bought APC not just for its US and world dominance or its manufacturing expertise but also for its brand and reputation. Rajashekar says, “MGE had to make a few more compromises than APC in the integration, but APC was always open, meaning everyone had to learn from everybody else. There are also certain points taken from MGE and implemented in APC, so there was a lot of learning between both of the teams and exchange of information. Schneider has many, many divisions but one of the priorities is to have a culture that shows that we are all one. It’s not easy to drive that thought process into employees of different divisions across the world but I think they are doing a wonderful job.”

Daly says of National Grid, “Prior to the merger, National Grid ran itself like two companies with a UK business and a US business. Now, where possible we run the company like a global business. For instance, my team in Finance is both US and UK. Our Information Systems team and CIO have both US and UK running. HR has the same. Procurement has the same. Previously it was a bunch of US people reporting to a US head and a bunch of UK people reporting to a UK head. Now we have global functions that it doesn’t matter what

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country you're a resident in because you report to the head of that global function. So, Keyspan was a launching pad for National Grid's global strategy." He later adds, "When we transitioned we had a new CEO, so in many ways the CEO used the transaction as his starting point, and he created what's called a global line of business strategy. We shifted from the old strategy of US/UK to three business lines, namely, Gas, Electric, and Transmission." Fowler, also from National Grid, states, "One of the things that National Grid's CEO, Steve Holiday, wanted to get across was that we are one team, we are one global company."

Mike Laflamme, VP of Regulatory for National Grid, talks a little bit about the history of National Grid leading up to the Keyspan acquisition. He says, "National Grid bought New England Electric Systems and left the senior management team intact. For a number of years we operated fairly autonomously in that we always did and kind of reported to the UK. When we acquired Niagara Mohawk in the 2002-2003 timeframe, it was a considerably different type of merger because we now had a completely separate service territory. Around that time, we started seeing more influx of British management coming to the States to put their foot in and start calling some of the shots here. Most of Niagara Mohawk management was cleaned out, but that was a company that was pretty much on the brink of bankruptcy when we acquired them. It was a situation where the NY regulators who have historically been very difficult to deal with thought that National Grid was coming in as the savior on the white horse and was going to right the Niagara Mohawk ship, which it did."

This is where the acquiring company decides how involved it will be in the integration of any acquired firm. An acquiring company can decide to integrate with its targets and sacrifice some of its pre-existing culture to do so, or it can maintain a hands-off management of the target and thus continue, for the most part, with the old culture. This is the type of scenario where companies plan at the corporate level to continue business as usual and to allow the target companies to continue business as usual once they are acquired. If it decides to integrate fully, it may begin with hands-off and then gradually increase its presence, but according to the research for this study that does not appear typical. That is why the decision has to be made early in the planning process as part of the vision.

4.2.4 Make Cross-Border Site Visits

Initial site visits allow top management to become acquainted with one another during the negotiation phase. Site visits allow the acquiring company to determine the status and health of the target firm's factories, the environment in which the employees work, and the difficulty to reach the international location. More importantly, it gives top management a preview of the culture within the target company. Of course, most top managers do not cruise the ground floor on their first few visits to the target company's headquarters or plants, and if they do then they are usually directed to speak with predetermined employees who are sure to make the company sound terrific. This is why managers only get a hint at the culture and not the full picture, so it's important not to overestimate the synergy between corporate cultures. Later site visits help management create momentum for the transaction. They help to get employees from both sides excited and convey a message of accountability and dedication to all while alleviating some concerns about the future direction of the companies. In essence, site visits help form the initial physical and emotional bonds between the acquiring and target companies.

Webster describes the early stages of negotiations and the importance of site visits, saying, "When an auction happens you get a chance to meet the management team of that business who presents it. And they all want to be retained, because they are being sold by whoever owns them and they want to be the ones managing the company going forward. They'll describe their culture as super-strong, super-cohesive. They might say, 'Don't change a thing or you'll ruin the magic.' So you get a chance to meet them, tour the factory, and things like that, but it's not like you get a chance to interview a lot of people or anything. You have to try to learn whatever you can about the culture of the company, though, while you're there because it's going to be different than yours and you've got to figure out if it's going to fit."

Post-acquisition site visits can be extremely useful in relaying the vision for the new entity to the new management team. An intensive site visit, as Webster explains, is similar to a retreat. In fact, he says, an actual retreat is common and recommended. "The new management team doesn't even know each other. You've got to get them all on the same page with the owner's who bought it. That's a very smart thing to spend money on, and you've got to do it as

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quickly as possible after you get all of the players in place. After that, you've got to get the blueprints drawn up at that meeting out to the rest of the team." As seen here, it is important to get the new management involved in and excited about the vision for the future of the now larger and more international company. Once they are bought in to the vision, they will carry it to their business lines, districts, or other management areas to be spread throughout the company.

Berman says, "Top management has come down to Tribe and Veggie Patch several times to talk to the people and alleviate some of those concerns and to keep people focused." Berman also notes the importance of peer to peer communication if there were multiple companies acquired, "Many of the integrated department personnel travel between the Veggie Patch and Tribe locations and communicate well with each other on a regular basis." This sort of communication acts as lubrication for operations whether or not the company is partially or fully integrated.

Managers from FEC tour the OFS facilities about six or seven times per year. Dowling provides details on the average post-acquisition FEC site visit, "Typically, when they are willing to spend money to send somebody to the US, they make sure that if they go to Atlanta then they also go to Sturbridge and make the whole belt run in a highly regimented fashion. They give a presentation on what it is they are doing, what they are responsible for, and their expectations and what they are looking for, like a plant tour and updates. They always provide you with some area to improve when they leave. They say, 'We appreciate everything you've done. Great factory, but consider this.' And it's not, 'This is an area to improve,' but it's, 'Please consider this.' It's always a compliment and constructive criticism together. That's much different than the typical US-style, 'I saw this. This is what you need to work on,' but the meaning is the same. They expect that when they come back, whoever comes to visit will check to see if it was done."

Just as several FEC managers travel to OFS, several OFS managers travel to FEC. Dowling says, "There are Board meetings that people from OFS have to attend and they come back and share that information. The President of OFS calls Avon, CT home but he travels here, he travels to Atlanta, he travels to Japan and everywhere else, but most of the time he's only

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forty-five minutes from us and so he's here often. It's nice to hear what's going on in Japan because we get to learn best practices as part of integration; it's kind of a requirement." As the reader will notice, there are not many trips back and forth, but the few visits that do occur are valuable and the information gathered at each is translated back to the different elements of the company both in the US and in Japan.

Site visits are a much clearer method of communication than conference calls. Carragher says, "The conference calls became hard to listen to after a while because of the language barriers and the limits to teleconference technology. Sometimes it cuts out or gets fuzzy and you can't always make out what people are trying to say, and accents can make that a little harder, unfortunately." At the beginning, Carragher mentions, when the former Lucent business line was renamed OFS after the acquisition, there was an official revealing of the logo, but it was by no means extravagant like the ceremony that Lucent held at the height of the market boom. Belanger also compares the transition to that of the acquisition by Lucent, "With Lucent, I remember, when they came in there was a big party out on the lawn and they had some guy dressed up as their mascot. There were all these gift bags with a mug, a coat, and a pen. It was really a big to-do. With Furukawa it was much quieter. It may be that Japanese businesspeople are more reserved by nature than Americans are, too."

Chanfreau recalls the success of Schneider's approach to aligning agendas through physical conferences, "After six months of the deal closing, the message delivered to us was, 'One Team, One Dream.' They brought all of the sales people together here in Providence. There were so many people that they needed to do it in three sessions. So, all the US sales people, all the field service engineers, all the people from Europe, and all the people from Asia. They all came here, and we had six or seven hundred people for each session where 'One Team, One Dream' was communicated to get everyone on the same page." When talking about early interaction and site visits between the global teams, Chanfreau adds, "It's part of the necessary interaction. We had a lot of people traveling back and forth between the US and France and our other major sites to create necessary links. Most of us tried to balance within our own leadership teams us going there and those people coming to Rhode Island." Cindric

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provides insight on the matter as well. He says briefly, “Once you establish those first links, those relationships, you can be more open with each other.”

Rajashekar talks about his experience with site visits at APC by Schneider, “The top management, since we have a lot of facilities, picked different locations and came in small teams and did a presentation. They brought up a lot of positive aspects in this meeting. We, too, made a lot of visits later on to French factories at the top level, and even I went a few times to meet the new team, trying to understand their practices and explain what we do and how we can come up with good standard practices.” He adds, “The challenge was how to keep the team motivated and how to make them understand how this can bring better opportunities. Of course, we taught everyone on my team in a one-on-one basis and had a lot of meetings. I took some of them to France and other factories to make them feel that we are all the same. It’s a different country, a different factory, a different culture, but people are people.”

Rajashekar goes on to say, “We realized that face-to-face interaction is very important. You can make hundreds of phone calls and have a videoconference but there is nothing like meeting a person one-on-one. The touch and feel that a handshake makes can break down a barrier. When you shake a hand and sit across from someone, that is what breaks barriers. We went there many times, they came here many times. Personally, I was able to meet almost every type of person from top management to people who worked on the floor level. The introductions and contacts between the teams may not have been from day one, but it was definitely early. We created a lot of good friendships and a lot of trust between the global teams at APC and MGE.”

“Up front we did a lot of face-to-face,” says Daly of National Grid. He continues, “We invested in the air travel to get to know each other. You can’t really sustain that forever because it gets quite expensive. Later, when we couldn’t do as much face-to-face, we used videoconferencing. We upgraded our videoconference capabilities, so I can have a meeting with my team around the world and it looks like we’re in the same room. We also use a lot of emails and electronic communications. But still, there’s nothing like us at a table with a few pieces of paper, a spreadsheet, and a cup of coffee and just banging out issues. We don’t have

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that luxury, so we've begun to use those electronic means to overcome that barrier." Daly brings up a great point, international deals are between companies that are literally thousands of miles apart. Travel between the different locations can be expensive if done to excess, but at the same time some face-to-face is almost a requirement, especially during negotiations and at the early stages of integration. The trick is to balance face-to-face when necessary and media communication.

Daly also talks about the difficulties in communicating across the globe, "The five hour time difference is about as far as you can get with making these things work. Fortunately, the US morning is the UK afternoon. So our global day is really just from 1:00pm to 6:00pm. The US people come in around 8:00am and the UK people go home around 6:00pm. It's really just 1:00pm to 6:00pm UK time and 8:00pm to 1:00pm US time. Let's say we get a California company and there's an eight hour time difference. That could be a problem. I'm packing up for the day and there's some bright-eyed employee of mine in California just getting in for the day and wants to start covering a lot of topics. By the time he gets done, I've got to go. You wind up playing a lot of email ping pong because you're never together."

By doing international site visits, companies can more easily absorb and transfer best practices. Fowler says, "The Gas business truly is the most global of the businesses. In the operation field they definitely try to do as much best practice as they can. We have our US guys go to the UK and the UK guys go to the US. We have them look at everything from how they dig holes in the middle of the London streets to what equipment they're using." Fowler is no stranger to international travel. He has worked in both the US and the UK sides of the business, currently in the latter. Burlingame states, "We had a couple people from M&A come over to the States during negotiations and a couple people from Corporate Finance. They brought the management of Keyspan over to the UK to meet the UK people and to understand the reasons why National Grid wanted to do the deal." Fowler adds, "International communication is very important. A lot of my role comes from being in both spots, the US and the UK. We both speak English but not necessarily the same type of English. We've come a long way. We have monthly conferences where we have people from both sides of the pond in the room, on the phone, or on the videoconference equipment at the same time."

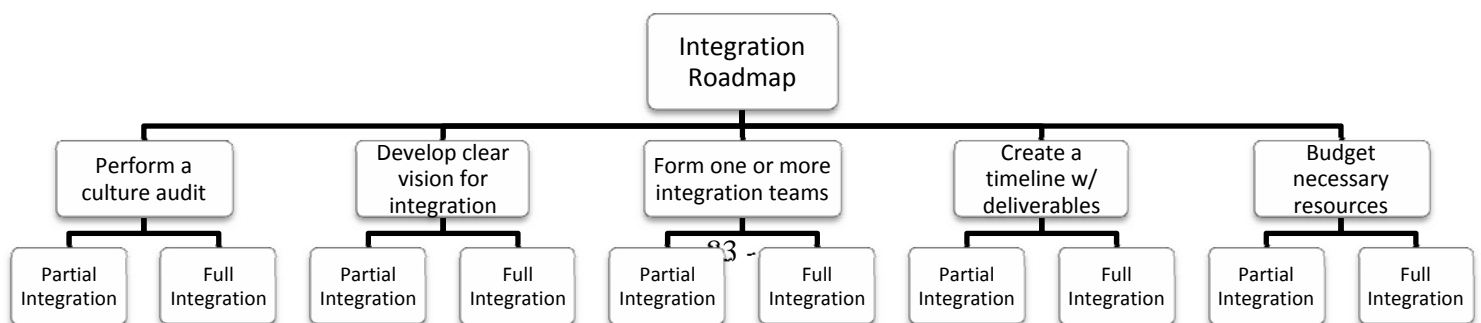
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Laflamme says that there was more room for site visits at the early stages of integration between National Grid and Keyspan. He states, “It was difficult for them to really learn how regulation works here and they didn’t spend too much time here trying to figure it out. They came a week at a time but up until fairly recently we didn’t really have a number of senior managers that were here for any length of time and certainly the company CEO and the Finance director and all of those are all based in the UK. They make period trips but we could see more of them, for sure.” For many people, it seems, the more face-to-face interaction there is, the better. Obviously, international travel is expensive, especially when done frequently or for long periods of time, but it contributes incredibly to successful integration in terms of understanding the various cultures and business models.

The consensus seems to be that nothing will ever be able to replace face-to-face interaction. That may be true, so companies need to plan in time and resources for creating those face-to-face bonds internationally. If people are going to be working with each other on a daily or less frequent basis, it would be beneficial in any case to make those relationships more of a reality, as much as possible, by encouraging some level of international travel at the outset of a deal. It is also just as important for top management to get a feel for the operations of a company away from the financial statements and phone calls. Top management should physically visit the locations of the target company and get a feel for the culture that exists there as it will help discover whether or not a strategic cultural fit is possible. This is consistent with legislation that requires real estate appraisers to physically visit the properties they are assessing, so top management should physically visit the companies that they are buying.

4.3 The Creation of an Integration Roadmap

Similar to the strategic roadmap, an integration roadmap involves a vision for the company’s future growth and setting performance goals. The key difference is that an integration roadmap is specific to a single transaction or series of transactions, which in this project involve international mergers or acquisitions. The integration roadmap for an international



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deal relates to the discovery of management styles, national and organizational cultural practices, and unique synergies as well as the development of transaction-specific profit and cost cutting goals, an integration preview for how the company should look going forward, a timeline with deliverables by which to measure the success of an integration, and the formation of an integration team or teams to carry out the objectives of said vision. In any case, the integration roadmap is a blueprint for actions that bear strong resemblance to the corporate goals drafted earlier by top management via the strategic roadmap.

Diagram 4.2 Actions Resulting in Integration Roadmap

4.3.1 Perform a Culture Audit

A culture audit helps to reveal the true identity of the target company's workforce. In a culture audit, the acquiring firm will discover employee sentiments toward prior and current management, the degree of knowledge about overall company operations, any inter- or intra-departmental tensions, and general employee satisfaction. Basically, a culture audit provides a deeper understanding of the workforce and, possibly, why the company has been so successful. Looking back to Chapter 2, a culture audit can help to reveal any differences between how the employees perceive the company to be in terms of operations, management vision, and profitability and how the company actually is. It may also reveal how those same employees would like it to be, or how they would like to be involved in the process of changing the corporate culture in the future as a result of the deal (How to Do a Culture Audit After a Merger, 2007). Most importantly, perhaps, is the fact that it may expose any employee uncertainty in regard to the deal, such as reluctance to be acquired by a foreign company or to interact with international colleagues. These types of issues can be detrimental to the health of a company even after the financials are negotiated successfully.

Veggie Patch, for instance, was owned by an entrepreneur. Steve Berman reflects on Veggie Patch prior to its acquisition by the much larger Nestlé Osem, "It was run very entrepreneurially. The financial focus was on money in the bank because company profits or losses were equated with the owner's personal gains or losses, so it was difficult to make major investments that didn't show any sort of short-term return, and understandably so. There was not too much structure, and nor was there too much structure at Tribe. Before, if

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one of the top executives wanted a certain new product made, the request was carried out regardless of whether or not the customer or consumer wanted it. The flavors weren't necessarily guided by customer demand or wants." These are the types of things that a company is able to discover through a culture audit. Understanding these crucial aspects of day-to-day business helps identify and solidify not only the vision for the future of the combined entity, but also the vision for integrating the two workforces to whatever degree was deemed necessary earlier. Once this is done, top management can plow ahead and execute its vision. Berman adds, "Now, things are run like a corporation with many more processes and procedures. Employees are now managed on results as opposed to seniority. That was a big cultural change."

A smaller, more entrepreneurial company has a much different culture than a large, global conglomerate. Berman provides insight on the topic, "In big corporations, it takes 665 years to get anything done. One of the advantages of an entrepreneurial company is that there are only one or two people in the decision-making cycle, so things come to market a lot quicker. The trick is to utilize the new structure inherited from the acquiring corporation but to maintain that quick turnaround time of a small company. A major benefit of that structure, too, is that taking a little longer makes you more forward thinking so that you have to plan a lot more in advance." Helping to understand the entrepreneurial nature of the target company through a full-blown cultural audit could help craft a plan to make the mutual benefits possible earlier in the integration phase. Deb Belanger of OFS provides insight on the matter, "I think going lean and doing some of the things that we're doing now would have benefited us back then in times that we were losing money. Maybe we could have broken even had FEC taken a more active role in teaching us about Japanese business practices."

Belanger talks about the OFS culture before it was acquired and named OFS by FEC, "Many of the employees have been here for a very, very long time. We've got several that were here when Spectrian's doors opened, so I think they may feel some ownership." That connection to the company and the feeling of ownership can easily be disrupted when a company is acquired, especially if it is acquired by a foreign firm that the target company employees know nothing about. It can create high levels of anxiety and harmful resistance to the

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integration. By conducting a culture audit, an acquiring firm can discover this sort of information and craft a cautious approach to the subject that limits resistance and eases integration or the elimination of redundant positions when necessary.

When speaking about the rationale behind FEC's continued investments into OFS despite poor initial results, Dowling indicates that it has much to do with FEC's culture as a Japanese company. He says, "They were really focused on the long term and they seem to usually do things that are very long term with a focus of twenty years or more. They believe in investing in things to build their corporation for the future." As far as results are concerned, Dowling says, "They seem to be concerned about, 'What did you say you were going to? And did you do it?' If you claim that your budget is going to lose money in certain months because of market trends, etc., that's acceptable as long as overall you have your plan. Once you commit yourself to that plan, delivering on that plan is very important. It's very much about face and commitment than it is to just a number, and they expect more effort and explanation on the front end than this facility was accustomed to doing in the past." Belanger adds, "Because it's been a long relationship now, we're seeing some of the fruits of having FEC own us. We're going down the lean path and getting more presence in Japan to the point that we sell quite a bit there."

Dowling talks about FEC's post-acquisition approach to its strategy for OFS. "It wasn't your typical 'chop-chop'. It was more to get an understanding of where we are and where we needed to go." Once FEC learned more about the company it had acquired, it began facilitating the direction in which it wanted OFS to go with clear training and instructions. Dowling states, "When they implement, they train from the top down. It isn't just, 'Here's the flavor of the month.' They are serious about it. They provide you with the training, the direction, and the guidance, but you define your own goals. It just all flows. There's more continuity in our business today than there ever has been." Belanger adds her view, "It was a very slow process. They really had a hands-off approach for a long, long time. We've seen significant change since then, but it's been very progressive. They don't demand it. They encourage you and instill it in you and somehow it happens. It's actually kind of nice."

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Compensation is sometimes a key difference for international workforce integration. In terms of bonuses and increases, Dowling comments, “If you make money, you share it. If you miss money, there are no bonuses. In this market, the one we are in right now, to them a facility that loses money does not warrant any increases. That’s how they do things in Japan, and there’s a gap there. Not saying the American way is right or wrong, but they are trying to close that gap.” Likewise, long hours are common in some cultures and despised in others. In the OFS/FEC deal, Dowling comments on his perception of the matter, “The expectation is that if you have to work ten hours overtime to get the job done, then you have to do it. That’s definitely a cultural aspect. Independent of Japanese influence, though, this facility has always had a ‘can-do’ attitude, so that was part of this culture anyway and made it an easy transition. It’s what makes this place fun to work at!”

Another cultural aspect noted by Dowling is that of the apparent Japanese approach to hierarchy. He speaks about how when FEC managers come to Sturbridge for meetings, the last person to speak is usually the one in charge. “It’s something we hadn’t seen before,” says Dowling. He adds, “There always seems to be a certain level of respect.” This is something that can be learned through careful research into the national or business practices of a particular country. To discover whether or not a particular company exercises these practices, the inquiring company management must request a cultural audit by internal staff or third party consulting firms with experience in the area.

There are many pieces of the puzzle that can be identified during a cultural audit, including the practices behind operations and products. The Israeli standards for labeling food products “all natural” or “organic” are generally more stringent than those in the U.S., according to Berman. Berman comments, Nestlé has requirements that are stricter than the FDA, and the American marketing people at Veggie Patch did not realize that at first. They were selling products with “all natural” labeling that met the FDA rules but not the Nestlé rules. Nestlé also requires more testing for microbiological issues that we did not have to do before. Ultimately, though, these changes lead to better products.” Looking at this particular case, had Nestlé Osem done more of a cultural audit, getting the American workforce to understand and

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implement stricter marketing practices could have been placed a top priority and drastically shortened the learning curve.

In Japan, Dowling notes, there is an expectation that in order to achieve a top level position in a globalized Japanese firm, one must first experience foreign markets firsthand. Part of the culture at FEC involves overseas assignments, including assignments to the various OFS facilities in the US and Europe. Dowling says, “The employees will get assignments for twenty-four to thirty months. Somebody that was doing well as a general manager in a smaller plant over there might come over here as the general manager of a larger plant, or maybe they’ll be transferred a vice president and asked to do two years in the States to understand the business and return to Japan at a higher level in the organization.” That sort of corporate hierarchy and relatively explicit map to career goals, as Dowling indicates, appears to be typical in the Japanese business world and much different than the more chaotic American system.

Top management of the acquiring company is typically excited about the opportunity to grow and expand capabilities through an acquisition. In most cases, say many interviewees, the workforce of the target company expresses a great deal of uncertainty and resistance.

However, in some cases, the workforce of the target company may actually be just as excited as the top management of the acquiring company. Scott Webster gives an example of a prior Nestlé acquisition, “When Nestlé bought Gerber, they bought it from a major pharmaceutical company that didn’t necessarily have the culture of investing in brands, marketing in brands, and growing consumer products and businesses. They approached Gerber differently, not as core to their business. When the Gerber employees found out Nestlé was buying them, they were enthused because they knew Nestlé saw the value of the brand and was going to invest in the company’s growth. So sometimes a culture is welcoming to new owners because they are somewhat held back by the previous owners, but every acquisition is different.” By using a cultural audit, Nestlé was able to work better with the Gerber employees during the integration phase. It is unclear whether any sort of similar cultural discoveries were made by Nestlé Osem in this deal, though.

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Third party consulting firms are a great outside resource to utilize in an in-depth culture audit. Experienced firms are normally able to access more information than the acquiring company due to previous business relationships and trustworthiness. Berman talks about his experiences, “Nestlé Osem brought in a third party HR consultant to interview people at Veggie Patch. The goal was to discover individuals’ strengths and weaknesses as well as attitudinal differences and preferences for boss’ management styles. It showed that they cared about the people and that they were going to make decisions not by what they thought, but instead by what they knew.”

Webster gives his view, “When you’ve announced the marriage but haven’t closed it yet, you can hire consulting firms like the Big Four. They are going to have integration teams and you can hire them to do what’s called ‘black box work’. They can sit there and ask your questions, as the buyer to the seller, about their systems, their people, their reporting structures, and their payroll. They get all those answers for their eyes, make decisions on your behalf as the buyer, and prepare to execute on those decisions, all without ever showing you the details so that if the whole deal goes south, you aren’t walking away with precious information about the seller’s books or trade secrets.” Webster then talks about the dangers of the seller giving so much information to the buyer at the early stages, “Having that information about the seller automatically reduces the seller’s value, so the outside consulting firm can get that information for you and use it to your benefit without compromising those regulations. It really depends on how big the deal is because those third party consultants can be really expensive, so you have to be sure that you can create value if the deal goes through. Either way, waiting until it closes to start all this planning is the wrong thing to do.” Therefore, companies will, in many cases, utilize third party consulting firms to attain sensitive data and make informed decisions based on that data on their behalf, minimizing the risk of both the acquiring and target companies in the case that the deal does not go through.

To better understand the industry and its competitors, APC frequently purchased professional reports from various reputable research grouninterruptible power supply. Recine strongly feels that Schneider maintains similar practices to stay alert and on top of industry trends. Doing so can help reveal the strongest competitors while exclusive coverage on particular

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companies in those reports might provide a glimpse into the culture of those competitors. This sort of research is a form of culture audit using secondary data, and it is what Webster from Tribe and Veggie Patch is referring to when he says that during due diligence and after due diligence companies have to find information “from any source possible” to get a glimpse of their financial statements as well as the corporate culture.

Schneider hired the Boston Consulting Group, according to Chanfreau, to facilitate cultural and operational integration. Recine recalls, “The consulting company acted as the moderator that collected all of this different data. The scope of their role was to see if integration was even feasible or if the companies could ever get along with each other.” Recine adds, “I have to believe that whatever data they got, whether it was numeric data, anecdotal data, or emotional data, led the company to restructure the organization once Laurent came on as CEO. The information they collected was instrumental for two reasons, in terms of setting the initial management team to keep the teams moving, and then to have the permanent team.”

Recine highlights the importance of even the lower tier employees in providing input about the functioning of the organization, “One of the things that companies don’t do well, and unfortunately it’s kind of a reality, is they don’t put a lot of focus on people in the background like Engineering people, Production people, Purchasing people. It seems like they get lost in the shuffle. Sales, Marketing, heads of Manufacturing, they always seem to get the spotlight during acquisitions, and the people who actually create the products seem to get the back seat.” Often the ground floor employees know where the most inefficiency is and can provide incredibly detailed ideas on how to improve the company going forward in areas ranging from operations to morale. Recine seems to stress every opinion on culture and operations is equally important.

It is hard to understand what exactly makes the culture of a company. Scholars have said that corporate culture is “the compilation of historical behaviors, founding ideologies, and interrelated set of beliefs shared by most of the members of the organization about how people should behave at work and what tasks and goals are important” (Badrtalei & Bates, 2007). Recine mentions that the management style of the CEO plays an important role. He says, “It has to do with the personalities of the CEOs. Schneider’s CEO at the time of the

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acquisition was 42 years old and running a 120,000 person company. That's impressive. The CEO of APC, a 12,000 person company, was only about 45, too. That's also impressive. I think the fact that they were very clued in to the hopes and fears of different categories of people, like younger people and older people, helps create the culture of the company." In other words, the degree to which top management can connect with everyone and anyone in the company is a critical aspect of the prevailing culture and the way in which they are perceived and trusted.

According to Recine, the general historical progression in terms of corporate commitment to a workforce has led to increased expectations on the part of the employees. He says, "Maybe in the 1970s nobody really cared about how to treat people, but in the 21st century, people are a lot more aware. The fact that APC was a western company, in a knowledge-based society, where people are more aware and more knowledgeable, means that people expect more. They expect, no they demand, a lot more respect. You've got to be careful how you choose your leadership and your actions. You've also got to be careful about how that leadership interfaces with the current and previous employees from both companies because it could create resentment. If you alienate enough people in the company, you'll never recover. A lot of companies have been taken down because they didn't have the right people in the right place." Doing a cultural audit will assist in allocating the appropriate human capital to the right areas, in making sure that there is a high possibility for cultural fit in those areas, and in unifying an integrated workforce.

In most cases, a successful integration is followed by higher employee morale and quality of what Recine refers to as "work life". He reflects on pre-acquisition APC, "The quality of work life was poor at APC before the acquisition. It was good when I first joined, and then it began deteriorating when the stock price wasn't going up. There was pressure to increase profits, and it just wasn't coming because expenses were increasing at a faster rate than revenues. Management couldn't seem to get a handle on the increasing expenses, and it was creating a lot of tension in the company. After the acquisition in October 2006, there was a sense of hope at APC." That hope has transitioned into more of a sense of tranquility in the workplace as a result of the acquisition. Recine adds, "I think it's a European thing and maybe

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even a French thing. I think the fact that they are European creates a sense of tranquility in the company because that's how they live in Europe. They work to live, they don't live to work." Along similar lines Chanfreau contributes, "APC culture was very American to some extent, very US-centric but with a global presence. The MGE culture was very French-centric and not global at all with lots of entities that were managing themselves on an autonomous basis."

Cultural audits help acquiring companies discover how the underlying national cultures take part in the target company's corporate culture. "In international deals you're dealing with not just corporate cultures, but you're dealing with human cultures. The Latins, for example, the Spaniards, Italians, Colombians, place more emphasis on emotions and are more sensitive to each other than in maybe an Anglo-Saxon or Japanese company. It's important to get all of that factored into the integration process," says Recine. Rajashekar comments, "The way we operate at APC is very aggressive whereas the French culture seems to be more laid back and 'take it easy'. It was mentioned in many of the meetings that they [MGE employees] were not going to be taking on the aggressiveness of APC."

The way in which employees introduce themselves to each other or to outsiders says a lot about their feelings toward the deal. Chanfreau states, "Just by discussing with people you know immediately that person is from former Company X or former Company Z by the way they are explaining themselves. Most of them are telling you up front where they are coming from, even five years after the acquisition." Chanfreau goes on to say that, in his opinion, full integration can be considered a success when the employees no longer refer to themselves as coming from either of the former entities. In a cultural audit, the acquiring company can somewhat gauge the difficulties it will face in creating that sense of belonging sooner and discover whether or not employees of the target firm feel that sense of intense pride for their company. Top management can be influential in creating this sense of unity. Chanfreau says, "People here are close with their employees. They are not just in their corporate ivy tower where they never get out, that is not our culture. If you see the CEO, he will say hello to you even if he does not know who you are. He might ask you who you are and how you are doing. That is not like many other companies."

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If a company has a strategy of growth through acquisitions, its culture may be, at least in part, a combination of all of the formerly separate cultures. Chanfreau says, “The growth of Schneider has been made mainly through acquisitions. We used to buy 15 to 20 companies every year, but it ranged from \$20 million deals to APC’s size \$6 billion. We have doubled in size in the last five years mainly through big acquisitions, and APC was one of them. You cannot say that the culture of Schneider Electric is coming from this or that acquisitions because everybody in Schneider has been acquired one way or another. It’s the way that the company has been built.” Rajashekar believes that Schneider has done a great job exhibiting care for its employees. He says, “One of the top priorities is to make sure that they understand that the people make the company, the company doesn’t make the people. So they respect the value of every employee.”

Cindric describes the pre-acquisition APC and MGE cultures, “APC was mostly American-centric because it was most successful in the US. MGE was mostly French- or European-centric because it was more successful in Europe for the most part. MGE was very service-focused and the field employees were trained to make money for the company by prompting new service opportunities, so MGE had long-term relationships with its customers and profited every step of the way. As part of its culture, MGE was quite frugal in regard to expenses. It had a big focus on EBIT but that made it so they lacked innovation because they didn’t invest much in R&D or in marketing. APC, on the other hand, had long-term relationships with its customers but did not train its field techs or engineers to promote new services the same way. Instead, APC was very product-focused and achieved cost savings through high levels of efficiency in production and operation.” He adds, “Now, as a combined entity, APC by Schneider is a great balance of product and service orientations and is able to maintain long-term relationships, profit every step of the way with service business opportunities, and save on production costs through high efficiencies.”

Cindric, a French citizen from the French operations of MGE, also talks a little bit about the differences in national culture, “Europeans treat failure as a big mistake and look down on people who fail. When Americans fail in a project or assignment, the manager says, ‘It’s OK. Just make sure you learn from this and do better next time.’ That’s why Americans are much

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more apt to take risks because failure isn't seen the same way. Europeans spend more time planning and perfecting plans so they can avoid making any big mistakes the first time around." In that sense, language was not the only major communication barrier. The perception of various levels of performance are clearly affected by differences in prevalent national cultures, and so are means of compensation to some degree. Matt McKee, a Program Manager at APC by Schneider, comments, "Benefits and compensation are important but different culturally. For instance, bonuses in a French company are awarded annually, not quarterly. Healthcare is more expensive while vacation seems to remain the same or longer."

In regard to the Keyspan/National Grid deal, Daly claims that there were realistically three different cultures involved in the integration. He says, "There was a Keyspan culture, there was a National Grid US culture, and a National Grid UK culture." In order to discover and interpret those cultures, employees have to be interviewed. Daly adds, "It's a classic HR type function, like screening, interviewing, etc. You might want to bring in a Mercer or Watson Wyatt or one of those top HR consulting firms to help you when the volume is huge."

American and British companies each have their own national influence. Daly speaks on these, "The UK and the US are more alike than they are different. I think the differences get exacerbated more than the similarities get celebrated. I think they're two commercial and industrial countries. We are large financial players, we speak the same language, we share a history starting several hundred years ago. It's more similar than different, luckily. However, there are some interesting things. I would say the US employees come in an hour early. The UK employees stay about an hour later, so it's the same length of the day, but probably about an hour different in start and end. That's just an interesting tidbit. US employees tend to be more business casual. UK employees tend to be dressed up. US employees are a bit more relationship oriented. More gets done on an informal basis, like in-between meetings, at the water cooler. The UK is a bit more formal, government structured. Things are done a bit more properly. I think the UK culture has more of a focus on things like safety and security. The US has a better understanding of the customer. The US tends to be more political and regulatory and union driven than the UK. The US is a big country with a lot of small states on a relative basis. The UK is effectively one big country and one big state all in the same."

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Some of the more personal cultural aspects play into the day to day operation after an international acquisition. Daly comments on some of these involving the US and the UK. He says, “One country celebrates the Fourth of July and the other one doesn’t, for obvious reasons. Compensation is different as well because you have to compensate for that difference in the cost of living even if the job is the same. In the UK most medical is provided by the government, so that wouldn’t be an attractive benefit for an employee there whereas in the US the cost of the medical is up to the employee. Most UK employees get a car with their employment. US employees by and large do not. You can’t try and make all of these things consistent because you wind up compromising, which is sometimes not good.” Fowler also comments that it is important to get the employees on both sides to understand the reasoning behind these differences. He says, “People understand the differences in costs of living and all of that.”

By doing a cultural audit, an acquiring company can look into the mix of sentiments at the target company. Daly mentions, “The feedback from Keyspan employees was not all positive, it was quite mixed. Likewise, the feedback back to the Keyspan employees was mixed. A lot of the Keyspan employees bought into the change and into the new company. Others were very resistant and they probably got feedback that they didn’t want to hear.”

Sometimes the demographics of the company can make a difference as well. Fowler says of National Grid, “You’ve got veterans in the company that have been there for 20 or 25 years. All of a sudden they’re told that they have to work with somebody else and do something different, so there were some morale issues and it was a significant challenge. I think the leadership from vibrant guys like Steve Holiday really helped.” This type of apprehension has to be discovered early during integration and addressed as soon as possible. The sooner these are addressed, the sooner everyone is on board and the unified culture is created. If the demographics of the target company are understood clearly, then cultural issues can be handled appropriately. Laflamme adds, “We have a fairly older employee base here. We may have a cliff situation because much like government employees, folks that work in utility companies have a tendency to stay their entire career, including me. I’m a 30-year guy.”

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Laflamme talks about challenges integrating with an older company with a huge amount of institutional momentum. He states, “If you have people who are going to be in the business for 40 years, institutional knowledge is substituted for process. Somebody asks, ‘How do you do this?’ The other guy answers, ‘Ask Bill because he’s been here for 40 years.’ There was never a huge concern that you’re going to have mass turnover and Bill and everybody who knew what Bill does is gone, that was never a concern. I think that, as the business gets bigger first of all, there’s not enough Bills to have institutional knowledge on everything, and I think that the day of the 40 year utility worker is probably a thing of the past. I think that by and large the workforce today is considerably more mobile than the workforce when I entered in 1980.” The same goes for companies entrenched in unions versus companies generally without unions. Burlingame notes, “There are a lot of union employees here in the US like the Electrical Workers’ Union. The UK is a whole different union environment because Margaret Thatcher many years ago broke up the unions, so it’s not something they’re really used to. If you think about it, though, unions make managing big groundinterruptible power supply of people a little easier because they are dealing with a standard set of rules to abide by.”

In essence, cultural fit can be the make or break aspect of a deal. If the cultures do not fit, then the employees will not want to work together and nothing will get done, goals will not be achieved, and the premium paid will not be proven justified. Looking back to the Daimler-Chrysler example, the cultures were by no means complementary and, coupled with an enormous amount of managerial hubris, led to the demise of the integration process. In this respect, the consensus seems to be that if companies do not make any attempt to discover the underlying culture of the opposing company, the risk of culture clash remains gigantic. Simple culture audits through asking questions or using third party consulting firms to gain more intensive cultural data can have a huge payoff in deciding whether or not the deal makes sense, period.

4.3.2 Develop a Clear Vision for Integration

Just as developing a clear vision is important for the company as a whole, it is important to design a plan for the integration of the two companies. Without a formally documented and universally communicated vision, there is no structure through which integration can flow.

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The vision for the integration is a combination of the vision and direction for the overall company, the decision to integrate partially or fully depending on that corporate vision and synergy potential, and the feasibility of creating a unified culture despite two formerly distinct workforces. The feasibility of combining the two cultures is assessed based on any information gleaned during due diligence, cross-border site visits, and the culture audit. This vision serves as the mental map or blueprint for combining the two disparate workforces. Not only is it important to develop this vision, but it is just as important to communicate it all the way through the company, top to bottom, side to side. The more that this vision is spread out, sold as beneficial, and hammered into the minds and hearts of every employee, the better the chances are of having a timely and successful integration.

Carragher that the Japanese manager site visits to OFS were helpful in understanding the intended direction of the company. He says, “We were introduced to how we were going to be doing things using slide shows and things like that. People have said, ‘You can’t do that,’ but you can. It takes a little bit of work and things are going to be different, but you can.” Some people at the newly-coined OFS were not sure whether or not the company would survive. Dowling notes, “Everybody understood that the market was crashing and it was tentative whether or not we would continue to survive through it. It was a key interest to find out what was going on and if our future was going to be here or not. We were wondering what was going to happen to us.” Dowling brings up another insecurity at the time of the acquisition, “We were wondering what it was that they were going to expect from us. I think now that we’ve been part of the FEC group for a few years, we understand what our role is and what their expectations are of us.” With a clear vision communicated to all employees on each side, those uncertainties and insecurities can be resolved at the outset of integration.

Uncertainty plays an immense role in resistance to the integration for employees of the acquired company as well as employees of the acquiring company. In most cases, resistance is a result of one or two types of uncertainty. One has to do with job security and the other relates to unknown changes processes and the way in which the company operates. In many cases, including international deals like the Tribe and Veggie Patch acquisitions by Nestlé Osem, management of the acquired company is the first to retire from their roles or to be

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removed from the company. Webster comments, “When you acquire somebody and then change the management, you’re left with a bunch of people who are wondering, ‘What’s the next shoe to drop? Is my role in jeopardy?’ So you want to make sure that you have a big amount of communication from day one when the new CEO comes in. You want to communicate what’s happened, why it’s happened, and that there are no more shoes to drop. You’ve got to say, ‘Here’s what we’re trying to do,’ to get everybody bought into the mission.” Without that sort of communication, rumors begin to spread in the vacuum that forms. There is also a chance for miscommunication as a result of differing communication styles, so the culture audit can help to realize the proper communication method to use in networking the vision throughout the company, as is suggested in Chapter 2 (Schnurr, 2008).

Dowling states, “There was a roadmap for each of the facilities. Sturbridge’s mantra, if you will, was to move back to a multimode product line from a single mode product line.” For the OFS manufacturing facility in Sturbridge, apparently, that was the vision set forth by FEC to be executed once they had enough of an understanding of the business after the acquisition. Dowling adds, “We’re more, ‘Let’s get it done.’ They’re more, ‘Let’s understand it before we even start.’”

Structure and processes are not easy to implement into an acquired company, especially if they are not accustomed to using many processes. Webster says, “Getting the workforces to understand the reasoning behind all of the new processes, why we’re doing it, why it’s important, and why it’s more expensive. But this is why it’s going to lead you to more sales because you’ve gained trust in the Nestlé process and in Nestlé as a parent company.” Berman adds, “There is more of a long-term focus now. We know where we want to be in five years and we have to develop strategies and plans to get to that point. We always had goals, but they were almost unobtainable with the resources that we had. Now we have goals but we also have the resources to go and achieve them.” With a vision communicated to all departments, a company can maintain a long-term focus and allocate the appropriate resources at the right times to achieve those objectives and provide direction to the employees working on those projects.

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The one thing that any employee despises is a lack of clarity what is going to happen to them or the company in general. This tends to develop a lot of impatience, especially on the part of the employees of the acquired firm. Webster talks about uncertainty in the Veggie Patch deal, “There was a lot of impatience for clarity because of the nine months it took to figure out the new leadership. We bought it in January and we didn’t have a clear story to tell them. We had a general manager who was sitting there not knowing whether he was staying or going. So he was sitting there weighing his bets on another option and not spending all of his time on a new plan that he might not be a part of. That translates down to everybody feeling that the uncertainty level is high, so without communication of what is expected to happen, you’re creating more risk that things might not go well.” Fortunately for Veggie Patch and Nestlé Osem, things seem to have gone well despite the initial lack of clarity and employee uncertainty.

Berman compares uncertainty at the initial and later stages of integration, “Prior to the acquisition, it was kept secret. To keep top talent, you need to communicate up front that you want them to be part of the team going forward. Communication is very, very important because when you don’t communicate, people start to not do their jobs and instead start to spread worry about the future. But once we were bought by Osem, there was a series of meetings held at Veggie Patch’s headquarters in New Haven where they said, ‘This is what’s going on,’ so nobody was really left in the dark. You felt a little bit more secure because you knew what was happening.” Berman also spoke about how top management has visited Tribe and Veggie Patch several times to alleviate these types of concerns. So, evidently, even a few visits and a small amount of communication can go a long way.

If the vision for the new company involves capturing synergy, then there will most likely be an elimination of redundancies. Belanger comments on her experience at OFS, “The Finance and IT departments went through pretty significant downsizing. We build in a lot more automation in the way we do things. We have multiple hats that we all wear. When Furukawa came in, in my department we had a receivables person, a cost accountant, a capital project accountant, an accounting supervisor, the controller, and an administrator, so there were six or seven of us. Now, it’s myself and the accounts payable person, but I do get the GM’s admin

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half-time! So we've made some sacrifices, but amazingly enough when you look at the wasted resources we had before, you can understand how we're able to do things with only two and a half people now."

"Generally speaking, human beings don't like change. Anything that changes how they did it yesterday, there's going to be resistance," says Dowling. When talking about employee uncertainty, Dowling adds, "Some employees were thinking, 'You're saying this is going to happen but I want to wait and see what really happens,' but what really happens is what we've been saying was going to happen. So we're building the confidence. We are turning the corner to, 'Management is saying this,' and now they are more a part of that process than they are against it." It is important to have a clear vision and to communicate it thoroughly to employees, but it is just as important to act on that vision. Otherwise, vision becomes an empty series of words. This is what Dowling is referring to when he speaks of the weariness of his peers and subordinates.

In one of Nestlé's previous deals, explains Webster, Nestlé's existing business line was smaller than the competitor it acquired. In that instance, the Nestlé people were folded into the acquired firm and management of the acquired company retained control of the unit with direction from the Nestlé parent company. Webster mentions that Nestlé deemed top management of the acquired company best fit to run that business line going forward, which sometimes is the case. Further down the line, once integration has taken place and former identities begin to fade, the acquiring company can begin to infiltrate management of that business line and learn from whoever had been in charge during the integration and afterwards.

"APC had 8,000 people while MGE had half of that at 4,000 people," says Nicolas Cindric, "which meant that APC would be the more dominant player in the integration process and would strongly influence the culture of the new company. Schneider, the parent company of both, had about 120,000 employees and wouldn't be much affected culturally by the acquisition."

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Rajashekar indicates the importance of taking the customer into consideration in regard to the APC/Schneider deal. He says, “A top priority is customer satisfaction. They are doing wonderful there, putting in a lot of resources to understand the customer and any problems. All of the goals within the company link back to customer satisfaction.”

Chanfreau talks about revealing the strategy on a global basis after the acquisition. He says, “Everybody has to receive the same message. We were encouraged to have direct communication with our teams. At the beginning of the merger, every month or two I used to have everybody here in the auditorium and we used to connect through videoconference or telephone to the rest of the other sites. Most of the big sites I equipped with videoconference technology. So every four weeks I was giving information to everybody in the IT team across the world. So we had the two hour conversation starting at 7:30am here, so it would not be too late in parts of Asia. We had one or two hours of presentation of all the new steps so that every time there was a new layer of integration unveiled, we were presenting the strategy for the team and giving objectives. There was always 40 to 45 minutes left for Q&A, and time was left to give people the chance to interact and get to know each other.”

Third party consulting firms can be instrumental in helping to create a vision for integration, especially if the acquiring company intends on pursuing a full integration. Chanfreau says, “We were helped globally by the Boston Consulting Group during the three or four months post-merger when we all had to deliver our plan for restructuring. Organization was one part of it but another part were synergies we could create and where we could save money by rationalizing everything such as vendors, products, processes, etc. It was part of the incentive of everybody to deliver on these targets.”

In regard to products and offerings, Chanfreau states that APC and MGE had to combine business practices to become even more profitable. He says, “APC, by nature, was more of an IT company in the smaller range of uninterruptible power supply in terms of power. MGE was more on the upper side, specializing in services while APC was trying to eliminate services. Part of the challenge was to change the APC way to more services which are by far the most profitable thing that we can deliver to our customer. But that required some change in the way APC was working.”

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Chanfreau states, “The way the executive team was built was a mix of people from both of the companies. Actually, it was a three player game, so it’s a little more complex. Schneider already owned MGE and bought APC and merged the two companies, but the CEO came from Schneider and the CFO came from Schneider, too. It was a good thing to have the CEO, Laurent, and the CFO come in because he was neither APC nor MGE so nobody could tell that they were driving things one way because they came from the third company.” That make-up is decided prior to attempting integration. Top management has to realize who should go where and make appropriate moves to execute that vision for integration.

“It’s a big challenge,” Chanfreau says. “It’s part of creating that huge challenge and aligning everybody in reaching this challenge that probably helped to have everybody thinking we used to do things this way and you used to do things that way. On day one all the teams had to be merged together more or less. As CIO of the company, I had all of the IT people reporting to me, no matter where they were coming from. So on day one, we created some sort of organization that was a result of the merger of the two companies and people from every part of those organizations.”

To get everyone on the same page and to alleviate some of the resistance, it is important to include everyone in the communication process. Chanfreau notes, “One of the key difficulties is the time zone difference because when you have to manage people all over the world, your day of work never stops. It is either very early in your morning or very late in your evening. You have to adapt the way you work, but nevertheless you are never up to date. When you go home or come in the morning, you already have 30 or 40 emails waiting for you, so the world is never ending. Part of what we did adequately is that we’ve been communicating extensively with the team all over the world to make sure that nobody was left alone. It probably contributed very much to the quick disappearance of the, ‘I’m from MGE and you’re from APC,’ where the two firms were seen as competitors.” Therefore, including everyone in the discussion and communication proves for faster and smoother integration. Chanfreau later adds, “We have been hammered all the time to stop thinking of the way you used to work because you are in a new world, a new company, and you need to think outside of the box. The messages hammered by all of the managers were exactly the same with some framework

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that was prepared and some key parts that we had to adapt to our teams. The framework was very clear for all of us.”

Some may have trouble integrating with another company or into a new environment. Chanfreau comments of the APC/MGE/Schneider deal, “There were some people resistant to the change who had difficulties to accept they were bought by a French company, that the guy from the other company was taking the lead of the overall organization. I continued on the same level that I had at MGE because I was picked but the guy from APC in my role was not picked. They tried to keep him in the company because they believed he could bring things to the company. The issue is that he had difficulties to switch from the previous world to the new one. Some people cannot adapt and make this leap from the work they used to do in the past and move into their new work with new rules of engagement.” He adds, “In any career, when you come to the decision that you are not fit to work in a new environment, it is time for you to leave. Sometimes it helps some people to leave the company. Some decided to stay and others decided to leave. It has been important to every manager to make sure that the structure put in place was a healthy structure with people who were 100% behind the creation of this new merged entity. What I try to do here is to try to bring in some new blood who were not part of either company to help with the new culture and to focus on the future.”

When employees do buy into the vision of the new entity, great things can happen in terms of integration. Chanfreau states, “One and one can equal more than two if people from APC and people from MGE go into the same direction altogether. It was the regular communication and making sure everyone was part of the strategy, bringing their own stone to put into the foundation of the new company. The moment people stop saying, ‘We used to do that at MGE,’ or saying, ‘We used to do that at APC,’ that is when I consider that we’ve succeeded from a managerial standpoint. You need to disrupt the way that people were working in the past. You need to do things that make sense, not what you used to do in the past.”

Recine states, “People need a sense of direction no matter how low in the corporate hierarchy they are or how high they are, they need direction. That’s why Schneider implemented an interim CEO for, I’d like to say, four months after the acquisition. The permanent CEO, Laurent, came on board in the summer of 2007. There was always somebody in charge and

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setting a clear direction for everybody else to follow.” In order to implement any changes or to carry out objectives, people need a vision to follow. Cindric states, “I have to understand and learn how we are going to do things from the new management I am working with, and then I need to act fast because speed is key, but you need a roadmap and tools for how to implement and deliver that plan to make the speed possible.”

“The moment the new CEO came into office, he restructured the company. That sent a clear message to employees that we did this and despite any resentments about who was in power now or who was promoted or somebody else, it was a necessity and we needed to survive. He essentially was saying, ‘Now that I’m here, this is the real company, and I’m in charge.’” He adds, “There has to be leadership, but not leadership just as in somebody to manage. There has to be true leadership. Show that you have vision for the company, that you understand the employees, that you know where we’re heading, and share that vision. The current leadership at APC and Schneider definitely fit that mold.” Rajashekar notes, “There was a very clear plan. They knew it would take some time and they had different levels of restructuring in a clear plan that was communicated very well. Everybody was on the same page company-wide, globally.”

McKee says, “You can achieve stability by having and defining metrics and goals and communicating those metrics and goals. We need to make money, have the best products, or the best service. That drives the corporate culture, but you need to have defined goals and means to get them.” Rajashekar adds, “The challenge was how to keep the team motivated and how to make them understand how this can bring better opportunities. Of course, we taught everyone on my team in a one on one basis and had a lot of team meetings. I took some of them to France and other factories to make them feel that we are all the same. It’s a different country, a different culture, but people are people.”

“Normally what happens is that your operating folks would meet and figure out how they are both doing it now, they’d pick which is the better way, and then they’d implement over time that way. I think that’s the right way to do it. In Marketing you’d look at how we do sales and agree on the best approach and start to implement that. Across the board I think it makes perfect sense,” says Daly of National Grid. Creating a vision and deciding who goes where is

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immensely important to the success of integration. Daly comments, “If I choose your location rather than my location, the HR issue is more about my employees than yours because mine are the ones who’ll have to relocate. If I choose your people and your location but not your systems, then I’ll have a heck of a learning curve because I won’t have anyone who knows the systems. There are some major cut-across areas that have to be considered before any detailed decisions have to be made. Some of those areas are the right locations, the right people strategy, and the right systems strategy, but they have to work and overlay with one another.” Daly later adds, “You have to draw a continuum line where one end has the word ‘local’ and the other has the word ‘global’. For the areas that are past that half-way mark, it’s probably worth taking them to a global function. For the other areas where it’s very local like working with the community, with regulators, with politicians, it doesn’t make any sense to go global because all of the work happens on the ground.”

Allocating the right people into the right positions is a daunting task. “I think the first step is to go with the ‘best’ approach, not the incumbency approach,” says Daly. He adds, “You almost want to have an open pool where everybody reapplies for their jobs, but it can get unwieldy with thirty thousand people. So, within parameters you want to have that open pool. Where there’s an obvious candidate, where there’s only one incumbent whereby someone’s clearly better suited than just appoint that person, don’t waste any time. Appoint all those you can right away and then have that open pool where the rest of the overlap is.”

Daly also describes three categories of employees, which seems to be a pretty accurate description. He explains, “There are three pools of people. Most people fall into the middle where you don’t need to do anything because they want to stay and you want them to stay, so you don’t have to do anything but to keep them engaged. Category three is people that you

Category 1	Category 2	Category 3
<ul style="list-style-type: none">• Employees: Want to Stay• Company Says: Can't Stay	<ul style="list-style-type: none">• Employees: Want to Stay• Company Says: Can Stay	<ul style="list-style-type: none">• Employees: Unsure of Staying• Company Says: Want to Stay

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want to stay but who have the ability to leave because they are marketable with a unique skill set. They may be the only one in the company who knows how to run a certain system, so they're specialists. In that case, you need to come up with some sort of retention strategy. That may mean signing them on for a year and giving them more money to stay for that year. Category one, though, is unfortunately what you usually hear about. It's the five or ten percent of people who go as a result of these mergers. It's important to handle it humanely, and most companies will agree. You can either offer what's called 'voluntary', so some people who want to leave and you don't want to keep is almost a perfect match, or most often you give them early retirement incentives to retire a bit earlier than they would have otherwise. That's usually the happiest scenario because they get to leave early and they get another year or two of fun. What was good is that we did it in a way that we controlled the end date, not the employee."

Three Categories of Employees According to Ken Daly

"The way you create value is one of two ways," says Daly. "You either generate more revenue, like with a classic cross-marketing type approach, or more commonly if Keyspan had a payroll supervisor and National Grid had a payroll supervisor, you probably only need one going forward and one staff as well. So up front you need to set some growth goals and some cost cutting goals," he adds.

Laflamme comments, "I think they're trying to invigorate the workforce. They're trying to get everybody to think outside the box going forward as a new company. Just because it was done this way for 100 years at Keyspan doesn't mean it has to be this way again. Sometimes the right answer is the way that it has been done all along, but you can easily get lulled into thinking that's the right answer for everything. The older you get, the more difficult it is to break those links and those assumptions."

Each acquisition requires its own vision, its own purpose. According to several of the companies involved in this project and many others researched, the first acquisitions in a new territory or new business line tend to be smaller in scale and are left relatively alone for a while, until that major acquisition occurs. Once the acquiring company is able to get down that learning curve enough to step out and take on more risk, it usually makes a much larger

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acquisition and integrates its formerly acquired entities with the new, larger entity. The National Grid acquisition of Keyspan followed a series of smaller, strategic acquisitions across the Northeast US. The smaller acquisitions were integrated together to a light degree and now referred to as “Legacy US.” Burlingame comments, “At the beginning, National Grid allowed the Legacy US business to operate on its own and to manage on its own for the most part. It kept all of the same executive structure in the US that had been there before for several years. Then they started to exert more influence, and so they did away with the strong CEO and some other execs. That all started to happen around the time of the Keyspan acquisition.”

Setting and communicating a vision is important, but miscommunication can be detrimental to successful integration. Burlingame notes, “There’s a balance between just getting information out and getting the proper information out. It’s not easy. You don’t want to make commitments too early on things like exactly what you’re going to look like after and where you’re going to be and what your concentration will be.”

Without a vision, the integration process has no direction. Employees do not know which way to turn for advice or how things will look tomorrow or the next day. If none of the employees or middle managers are informed of what things are going to look like, then they will begin to worry and anxiety will be increasing by the day. With added anxiety comes reduced productivity and more chance for internal strife within the company and its culture from both sides of the deal. If the acquired company and its employees are informed that the acquiring company does not wish to integrate fully, they will breathe a sigh of relief and continue business as usual. If they are informed of the acquiring company’s intentions to fully integrate, they will most likely resist at first until proper actions are made to persuade them toward the other side of the argument, like reshuffling the company’s structure to mix and match employees from both sides. In any case, shining light on the path appears to be a better choice than forcing everyone to walk in the dark.

4.3.3 Create a Timeline with Deliverables

Once the vision has been created and effectively communicated to all, it is time to develop a timeline by which deadlines for certain aspects of the integration are to be met. Costs have to

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be cut, redundancies have to be eliminated, employee count typically has to be reduced while some new positions have to be created, policies and procedures have to be implemented, and other goals have to be met as well to match the vision communicated. This timeline serves as the guide for integrating the two companies and as a list of checkpoints on the way toward the integration goal, which is either a partial integration or a full integration.

At Tribe and Veggie Patch, the goal is much more of a partial integration than a full integration. The disparities between the American market and the Israeli market, apparently, are too large to fully integrate. Nestlé Osem has been able to implement many policies and procedures in many areas of the company, however, and several key positions have been filled by former Nestlé Osem employees. The speed of integration in this case has been determined by the Nestlé Osem's need for Tribe and Veggie Patch to adhere to its policies and high procedural standards. Berman notes, "Things have happened a little faster here partly due to Scott [Webster] coming from the acquiring company. He obviously had a great relationship with Nestlé and knowledge of their way of doing things. But we haven't seen a lot of influence from Nestlé except for a lot of accounting policies and tighter quality regulation. The books have to be faster because Nestlé needs the numbers quicker." Here, Berman indicates that one of the first slots filled by a Nestlé employee was that of CFO. In much of the research done for projects, this seems to be the common practice, namely, to replace the existing finance team with personnel from the acquiring company. This is understandable since the acquiring company has to have an intimate understanding of the cash flows of the acquired company to be sure that it is operating up to all governments' ethical standards as well as its own.

Sometimes when creating a new management team, the existing management is the best to continue handling the newly acquired entity. In many other cases, the management is replaced with either employees from the acquiring company or from outside the company altogether. This is one of the earliest decisions that have to be made in regard to the specifics of the deal. Webster elaborates on Nestlé's decision in regard to Tribe and Veggie Patch, "The existing management wasn't what Nestlé wanted, and they weren't going to take the people and grow them into what they wanted, so they had to go out there and recruit; it took months. Nestlé

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made the right moves in replacing general management with outside people, but it took them a long time to recruit.” Markedly, the lag between management structures can be harmful to the business, especially since it delays the implementation of the vision. Webster continues, “It’s pretty hard to articulate a blueprint through the voice of somebody that’s not going to stay, so you don’t invest the effort and time in the GMs that are about to leave. The longer it drags out, the more checked out they become and the more your business suffers. Competitors love to see that because it gives them more time to advance themselves and possibly take over some of the promised market share.”

In the vision, top management has designed the post-acquisition framework for how the international entity should look based on the culture audit and original strategy for acquiring the target in the first place. To fulfill the vision, management has created goals for the new entity that are attractive to investors since otherwise the investors would refuse to allow the deal. To help sell the vision to investors, managers have to create a feasible timeline in which the initiatives will be achieved such that money will be saved and earned. As Webster explains, “A timeline is the business plan that you present to investors to say, ‘Here’s how we’re going to create value.’ It’s an integration instrument because once you sign the deal, you have to go and hit all of those synergy targets that you said you would in the timeframe that you said you would.”

Originally, FEC did not take a very aggressive approach to implementing change at OFS. Initially there was a shift in the financial department, but other than that it was a more “hands off” approach, as Belanger points out. Once FEC had a better understanding of the US market and the company, OFS, that it had purchased, it began implementing greater changes in strategy and operations and monitoring those changes through liaisons. Locally, the OFS approach to timelines and deliverables involves quarterly town hall meetings. Carragher comments, “The GM of the plan will stand up in front of everybody and show where we are, where the market is, what we’ve sold, what our competitors are doing, the market share we’re going after, and how we are going to do it. There’s a Q&A session at the end as well.” The results of those meetings are then relayed to FEC in Japan and digested.

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As Dowling mentions, the first shift in the workforce took place in the Finance department at the Norcross, GA facility. He says, “They immediately ended up having a Japanese presence in Finance and their Chief Operating Officer was also assigned from Japan.”

Chanfreau notes, “There was a plan that was designed to drive integration very fast. It was a top management plan. We had a lot of things that were supposed to be delivered.” He adds, “The day of the acquisition, the management structure was announced. Four weeks after that, the second layer was announced. Four weeks after that, the third layer was announced and four weeks after that the rest of the integration was announced. So to some extent it gave every manager four weeks to think how he wanted to organize his own team. Everybody was supposed to produce that according to a certain plan. It put everybody into motion in the right direction.”

Many believe that a sense of urgency helps people to overcome their differences in the pursuit of a common goal or vision. Chanfreau says, “If people don’t really think it’s important to deliver on the challenge fast, it’s where you can get some sort of religious war starting. If you really want to drive that in a very efficient manner, you need to create a sense of importance in what people are doing and a sense of urgency, showing that by doing whatever they are doing, they are contributing to a greater goal.

“Communication and giving a vision are important,” says Chanfreau, “but you need to make sure that the people are focusing on moving forward. To do that, you need to put some sort of challenging task in front of them because there is nothing worse than people having too much time to be introverted and to think of the past.” He adds, “If you know you have things to deliver and you need the guy sitting next to you to deliver it, first you need to work together, and that creates the necessary relationship. I cannot say it is easy because it takes months to shed the establishment on both sides, but at least you have something that both people can focus on.”

Cindric gives his general view, reflecting on another merger he had been a part of in a different company, “You cannot take too much time to make decisions. If a disease develops because of neglect, you have to kill it. If there is a lot of uncertainty or a lack of clarity, it

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make the merger that much more difficult. Spending too much time to make decisions makes your competitors happy because they are able to catch up or pull ahead while you remain stagnant.” This goes for both partial and full integrations. If the company is pursuing only a partial integration, it should still choose which policies and procedures to implement in the acquired company and whom it should send over as a liaison or financial department head. If the company is pursuing a full integration, then it has to make many more decisions and soon.

Daly of National Grid talks about general goal-setting as a way to capture the benefits of an international acquisition. He says, “We have a balanced scorecard. Roughly half the goals are for the company and the other half are for the individual or at the personal level. On the company side its about financials, safety, reliability, and customer satisfaction. At the personal level, it’s much more tactical around the integration plan and getting everybody converted to one culture. All of those goals were lofty but they were things that we could certainly see and hit.”

Fowler states, “We had a plan for a few years where they would bottom out all of the savings. With this plan there were fairly specific goals by different areas of the company where the savings were going to come from. It was tracked and monitored, too.” Clearly, National Grid utilized a timeline with strategic deliverables allocated to the appropriate departments that were scheduled to deliver on specific objectives.

It is common to set goals, but the loftiness of those goals varies. Laflamme talks about the integration goals at National Grid in regard to the Keyspan acquisition. He says, “The goals are a bit lofty, but it’s probably not the worst thing in the world because I think as senior managers or any kind of managers you should certainly set goals that are somewhat lofty. If you set goals that are considered ‘slamdunk’ and easy to achieve, they’re really not goals at all, just daily work. The challenge of any manager is to try and balance the height of the loftiness and perhaps be not so critical if those lofty goals are not achieved. You can recognize the fact that you made it 80 percent of the way, or 90 percent of the way, that’s still great. If you make it, then it’s a homerun, and that’s even better.”

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“What you have to try and do is figure out which entity is more efficient in certain areas, what is the more efficient way to do a certain task. Whether it’s yours or the other company’s way, it doesn’t really matter,” says Burlingame. He adds, “Then for reducing headcount, for this size company you may need 75 people, not 100. So, we can reduce that workforce by 25 related to that task, and so on. But you always come up with a timeline, always. You have to really strive for it, too. Synergies are important, and the quicker you can get to a certain level of synergies, the better, so you do try to stick to that timeline. With the regulators and with the regulatory process it’s not easy because sometimes you have no control over certain things. We always figure it’ll take about a year for a deal to get approved and closed, but Keyspan took us almost a year and a half. It was a tough process but without a timeline and objectives during that time, it may take even longer.”

After the vision is delivered and people know where they are going, they need checkpoints. Employees will in many cases appreciate the value of small wins in accomplishing set deliverables and reaching those checkpoints, so their productivity should be seen increasing between each subsequent checkpoint. It is the difference between reporting quarterly and reporting annually as public companies do in Europe. In Europe, companies can amp up activity in the latter part of the fiscal year to make up for lost time and meet the goal, but it adds stress for the company for those months. However, companies in the U.S. must report quarterly so as to assure investors that constant, consistent effort is being given throughout the year to meet goals. The same goes for employees at the integration level. If they are given goals and deadlines, they will be more or less forced to strive for those goals daily without putting them on the backburner. It usually gives companies a better chance for success at integrating workforces. The relevance for partial integrations, though, is slim. Partial integrations by nature do not focus on combining workforces so deadlines must be made for implementing policies and procedures and not much else. Therefore, the degree of intensity for the timeline and deliverables correlates with the degree of integration being pursued.

4.3.4 Budget the Time and Resources Necessary for the Integration

“Big deals sometimes involve footprints in many countries, and negotiations can get very messy, very time consuming. Nothing ever works seamlessly, and it’s very expensive,” says

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Webster. Even small deals can become quite complex, so having a realistic expectation of not only how long negotiations and integration are going to take but also how much they are going to cost is vital to the success of a deal. As the old saying goes, time is money. As mentioned earlier, the less communication there is and the longer a transaction takes to come to fruition, the more checked out employees become and the less value they place on the work they are doing. Contrasting corporate cultures, philosophies, and practices can hinder an expedient integration. Regulatory hurdles are ubiquitous, especially in international mergers and acquisitions. They can actually complicate a deal or increase the true cost of the transaction so much that it pushes negotiations over the breaking point where the deal no longer makes sense for either party.

In the interview, Webster talks about his experience with big international mergers and acquisitions throughout his tenure at Nestlé and, in particular, about how long such deals can take to close. He states, “When Nestlé bought Dryer’s, Gerber, and that medical nutrition business from Novartis, it took a while to close because of a lot of regulatory issues. You can’t close those deals until the government lets you and you have to sit through a long time in court to get through it, but you know something is going to close so you have a lot of time to prepare for integration.” Webster claims that rarely do deals close within six months, and a year could be considered average. He mentions that in many cases for big transactions regulators will require one or both of the companies to divest a portion of the business in order to avoid monopolistic issues, and he gives an example from Nestlé mentioned earlier about packaging together and divesting medical nutrition businesses in both Spain and France to get the European Union regulators to agree to the deal with Novartis.

The price that an acquiring firm pays for a target company is directly related to the return that a company expects to gain after integration. Just as important, however, is the cost of the integration. Chapter 2 mentions how Mattel had to spend an additional 23 percent of what it paid for the Tyco toy company in integration costs (Hitt, Harrison, & Ireland, 2001). Often those additional costs can keep the new company from reaching profit and integration goals marked in the original integration blueprint and corporate vision on time or at all. In other instances, those costs can make a deal that first looked terrific to later look foolish. Webster

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provides insight, “If Nestlé can buy a company for \$8 billion and make it into a \$10 billion company, it can make \$2 billion and this will please investors. If, however, it has to spend \$8 billion and another \$200 million later on the integration, it brings the total cost to \$8.2 billion, so the overall return is lower. Nestlé and its shareholders have to decide whether or not the deal is still worth it, whether it can still make profit margin targets or not.”

Berman recalls how the integration process flowed between Tribe, Veggie Patch, and Nestlé Osem. Berman says, “The integration process began after about four or five months, beginning with some of the purchasing decisions. Several months later, the Marketing and Sales departments were moved into an integration phase and a VP of Sales was appointed. But there are still several areas not integrated, like accounting systems, sales reporting, and ordering, for example.” As previously mentioned, Berman believes that the integration is about 90 percent completed in relation to the level of integration desired by top management. Given that this deal was closed in early 2009, there is still plenty of time left on a typical integration clock for integrating that remaining 10 percent or so. Unfortunately, though, those systems are often the hardest to integrate and can take longer than expected, so it is important to overestimate the length of time that it will take and the costs that the company will incur associated with integrating those systems rather than underestimate time and costs. Another important point that Berman mentions later in the interview is that existing employees from outside the US had to reestablish their work visas as a result of new ownership, which caused a bit of anxiety and uncertainty on their part. These issues are common in international deals, and they can cause a great deal of stress for employees, managers, and government officials who deal with them.

The vision and timeline directly affect the time and resources budgeted and allocated to integration. Dowling comments on FEC’s financial dedication to OFS for the last decade, “Even though they picked up the facility for a significant discount, they’ve continued to invest hundreds of millions of dollars into a factory and into a product line that wasn’t necessarily making money at the time. It may be profitable now but it wasn’t profitable for a few years after their purchase.”

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It will usually take some time to train employees in the ways of the new entity, which are often the ways of the acquiring firm. Dowling notes, “It’s almost like the four or five years in-between the initial shift to Japanese management and the first shift back to American management was a training period for the next generation of leadership, and not just Japanese leadership, either.”

The FEC acquisition of the Lucent fiber optics business now known as OFS involved extensive price negotiations. The state of the economy during the dot-com bubble burst contributed to a continuous devaluation of the fiber optics industry as a whole, especially in the US. As the economy continued to decline in relation to the industry, FEC continued to push for a lower and lower price. Therefore, the deal became more and more attractive to FEC investors who had high hopes for the turnaround of not only the fiber optics industry but particularly the company that would become OFS. Perhaps the most aspects of the deal that made it attractive to FEC and its investors were the facts that, with some effort, the price continued to decrease and there was a lot of wasteful spending as part of the former Lucent culture that could be drastically cut and turned into an efficient operating platform. In terms of implementing those changes, however, FEC took its time, waiting for the market to settle down before pouring money into the new entity. Belanger says, “We figured getting acquired by a Japanese company was going to be a stabilizing factor because of Japan’s reputation. We thought they would come in and reformat our business entirely and off we’d go again, but the market continued to slide down and they weren’t stepping in and making these big changes. They were hesitant to infuse any more cash in us than they had in purchasing us.” Clearly, there are some savvy people in FEC’s Japanese Finance department.

Recine comments on some of the barriers to integration that kept the deal from closing and the workforces from integrating. He says, “Even though the deal with APC was signed on February 7, it couldn’t close until the other deal [divesting MGE’s single phase business] was completed. So APC remained intact while MGE was split into single phase and three phase businesses. The three phase business snapped into the APC portfolio and the single phase business was stand alone until it could be sold off to Eaton.” These regulatory hurdles can take time and sometimes reduce the overall projected profit from the deal. Such stipulations

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may limit the amount of synergies that can be achieved. Perhaps these regulatory challenges have forced companies to scale back plans from full integration to only partial integration? Such a topic would be a terrific focus for further research.

“We had a plan to bring back APC to profitability with a certain level of EBIT. It was a three year plan, and we went over it in the second year. To some extent, we’ve been much faster than we were expecting. Should we have done that slower, we may might have been hit harder by today’s global crisis,” says Chanfreau of the APC/MGE/Schneider deal. Recine comments on the time it takes to integrate and achieve success as well. He says, “It’s my understanding that an integration can only be deemed a success or failure after five or six years. We are only half-way through it. So far it seems pretty good.

Chanfreau comments, “The merger of cultures usually takes several years to see any evolution into a mix or balance. I consider that we have been very, very fast during this acquisition. Probably after one and a half years you didn’t hear people saying, ‘I am from APC,’ or saying, ‘I am from MGE or Schneider.’ It was very fast.” For a combination of reasons, it seems that Schneider has been very successful in fully integrating its former holding, MGE, with its newly acquired uninterruptible power supply business, APC. The leadership and systems put in place for change management have probably contributed tremendously to that success. Chanfreau states, “Our CEO put in a lot of energy and is a very charismatic guy. He has been the locomotive driving this merger very quickly.”

Cindric talks about the employees from both sides getting acquainted with one another. He says, “Sometimes motivation and energy are high at the beginning but once you get to know the people some angriness happens because you discover if you are compatible or not. The company needs to keep that level of motivation up the whole time.”

McKee recommends greater levels of cultural awareness. He states, “I would advocate for more cultural awareness and education, especially about French culture and French business practices, because it takes time to learn those things. The French like to be challenged whereas people in the US like to get by doing whatever they have to without taking on too

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much. The French are more hierarchical as in the flow of information, and the French do not identify themselves by what they do.”

It takes time to integrate and to find the right balance of powers. This is especially true in the area of engineering. Rajashekar says, “In test engineering from APC, we know we are good and that we can make a strong impact in Schneider, but we needed to do it in a very systematic way so that they did not feel that we were trying to bring our practice into theirs. It’s a challenge. It’s like any company where if you are doing the same things for 15 or 20 years, your mind is conditioned to think that what you are doing is the right thing. It is difficult to accept change and to be open-minded. We were thinking it would take six months to one year but it took almost three years to come to a level where everybody is on the same page and everybody understands what we are trying to do.” Rajashekar also mentions that Schneider did a lot to encourage intra-company mobility. He states, “Being in a big company, Schneider encouraged people to go into any other division or any other country.” Giving the employees flexibility and options helps them to feel less stressed and less boxed in by the implications of the international deal.

For the Keyspan/National Grid deal, it took a little longer than expected to get the governmental bodies on board and to finalize the transaction. “There was a whole litany of regulatory issues. If you look at February 2006 through August 2007, you’ll see an 18 month process in which we needed to get a bunch of regulatory approvals. There were the local utility regulators. We call them the public service commissions. Those are by far the most important. In fairness, they are regulators. They want to know why they and their customers or voters are better off with the deal than they were without the deal. They are looking for bill impact, reliability, safety, etc.”

In the UK, there appears to be a single but empowered regulatory agency. Fowler explains in a phone interview from his office in London, “There’s one regulator over here known as OFGEM, which is basically responsible for overseeing all of the rate plans for transmission and gas distribution of all of the companies in Great Britain. In the US it’s a lot of different states with their own regulators. What they didn’t quite understand over in the UK was how complicated the rate plan structure is in the US and how difficult it is to because you’re

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dealing with different states, each with its own sort of personality. There had to be a lot of patience to deal with the complications because the information doesn't flow quite as quickly when you're dealing with international companies." He later adds, "There were no antitrust issues in this deal, but there are a lot of watchdogs that are out there when it comes to a merger of this size, especially when the acquiring company is coming from over in the UK. An international acquiring company gets that much more scrutiny and it's that much more difficult to prove the benefits and what not to regulators."

Systems are one of the hardest items to integrate after an international merger or acquisition has been closed. They are difficult to figure out, expensive, and often redundant. Fowler says, "Legacy National Grid used Peoplesoft and Keyspan used Oracle. Both of those systems are still being used by whoever was using them before and we are still patching it together with a bridge program. We have projects underway to come up with a system that will bring the two general ledgers together. It's an ongoing issue that does cause a lot of pain in terms of smooth operations but we're trying to solve it. It takes time and patience."

"Between February 2006 and August 2007, during that whole period you're trying to figure out what the most efficient way of doing things is. There is a lot of uncertainty for employees during that long period," says Laflamme. He continues, "They're saying, 'Where's my job going to be? Is it going to be in NY? Is it going to be in MA? Will I even have a position?' So you get some attrition during that period as well. But then I think the company thinks it's OK as long as they indicate to some employees that they want those employees to stay. Then you downsize to a level you need to downsize to. Usually you offer an early retirement enticement. That gets rid of a lot of redundancy of people."

Integrations cost money. As simple as those three words are to understand, many companies still do not get it. The Mattel example in Chapter 2 shows a perfect example where post-acquisition integration costs can actually add on millions of dollars in overall costs. Those post-acquisition costs could potentially set companies back from reaching projected goals and thus make the transaction less profitable or not profitable at all. All the way from site visits to severance package payouts, integrations represent large expenditures despite the projected synergy savings. Without taking into account those costs, companies will not be able to

project accurate forecasts and the vision set forth may be skewed, creating impossible goals in an unrealistic timeline such that the employees' inability to reach those goals may cause low morale and reduced productivity. Clearly, it is important to make accurate integration cost estimates.

4.3.5 Form One or More Integration Teams to Carry Out the Objectives

Probably the most influential component of integration is the formation of some sort of integration team. This "team" is sometimes an individual designated as an "integration officer". In some unfortunate cases, the practice is not utilized at all and therefore integration takes a very long time, if it ever occurs at all. In most cases, however, there seems to be the use of at least one integration team involving individuals from both sides of the transaction. Often these individuals can be top management, mid-management, ground floor employees, or a combination of all tiers from both the acquiring company and the acquired company. In any case, the integration team(s) objectives are to assist with the development of the aforementioned timeline, to create an action plan for that timeline, to gather information about corporate culture and employee satisfaction, and to drive home the vision projected by top management.

Webster comments from experience, "Surviving senior management is going to set up an advising integration officer. You have international HR issues, international IT issues, etc. You need a whole team, but a lot of times you're going to see somebody from the senior management of the acquiring company get set aside to be the integration officer. However, that integration officer could be an executive from the acquired company instead because they are highly skilled people, highly paid people. You might want to keep that person around for a year or so and assign them a crucial project, like the integration, since they are so close to the business already. Basically, you have to find the most qualified person at the time to handle the integration." Whoever those qualified people are, they need to be on the same page. International communication networks have to be established, cross-border site visits have to be made, and integration plans have to be designed in accordance to top management's vision. By forming a managerial integration team, the key players can "form a consensus about where they want to take the business and what it is going to be in the future," as Webster details.

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Berman says of the Tribe, Veggie Patch, and Nestlé transactions, “There were integration teams made for R&D, Accounting, IT, and a few other departments to assist in the introduction process, but no real teams were created in the Marketing or Sales departments. Instead, joint meetings were held during the integration phase, and now a single salesperson can represent both companies.” So, even though no integration teams involved the Marketing or Sales departments, those areas were still part of the integration. This may be why there was initial confusion in the marketing department mentioned earlier in regard to differences in standards for labeling products “all natural” or “organic”.

When talking about selling the idea of the deal and the integration to investors, Webster says of top management, “You’re going to say, ‘I’m going to take our P&L X, combine it with P&L Y, take out duplicative things, and I’m going to come out stronger. I’m going to have more sales with less cost per sale and I’m going to make more money.’” In order to accomplish those objectives, it takes successful integration. It takes a timely and effective integration process, a vision and a preview of what the structure should look like going forward, and a strategic integration team or a number of teams to put that vision into action. It does not happen fast, but with an integration team it betters the chances of an expedient and successful fulfillment of top management’s vision.

Frequently the integration team is the party responsible for performing the culture audit, which is useful before and during integration but probably just as useful after much of the integration has taken place. As mentioned previously in this Chapter 4 and in Chapter 2, the cultural audit can be done by either the acquiring company, by people from both sides, or often third party consulting firms. Third party consulting firms are excellent integration agents as they have a wealth of experience in the area, professional merger and acquisition specialists, and can focus all of their attention on the subject. Also mentioned earlier was the fact that they are able to collect more detailed and proprietary information than could the acquiring company due to confidentiality clauses in the contract that protect the target company if the deal, for any reason, is not completed. Large third party consulting firms generally have existing global footprints and expansive international communication networks as well as knowledge of virtually every international market to some degree or another. By

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acting on the acquiring company's behalf, they are able to utilize their experience in collecting sensitive information from disparate international workforces and enacting action plans that effectively adhere to management's vision while also consciously avoiding any national or cultural gaffes.

For some employees at OFS, their perception of what was going to happen after the acquisition by FEC was not realized. Belanger is one employee who envisioned a faster takeover and restructuring, leading to a more rapid return to profitability in a difficult economy. She says, "There was some frustration that we thought the Japanese were going to come in, clean house, and make things more profitable, but it took a long, long time and there may still be some areas that we can improve but they've slowly done a lot of combining positions and streamlining." Often, setting lofty goals is a result of managerial hubris. Those goals do not correlate with feasible cost expenditures or synergy targets but are instead the result of overconfidence or even arrogance. However, goals seemingly just beyond reach can be tremendous motivators for employees in breaking the ice and forming working relationships despite disparate cultures so long as the goals are not impossibly far out. Lofty but achievable goals were set at both APC by Schneider and National Grid.

At OFS, several employees are sent to Japan on occasion for strategy meetings while several Japanese employees have been assigned, either temporarily or permanently, to assignments in the US. Belanger comments, "I know of at least one original FEC employee who still acts as a direct liaison to FEC in Japan. On the domestic side, we have weekly staff calls where all the divisions check in and give status updates on revenue and whatever else is going on. There's some sort of network of continuous communication." Though OFS has never had a designated integration team, there has been steady communication either direct or indirectly through liaisons. This helps integration in providing FEC with updates detailing whether or not OFS has integrated the FEC processes and procedures to the desired and planned for level.

Cultural training can go a long way prior to and during a merger, but waiting until integration is fully underway or after systems have been forcefully combined is too late. "Once the acquisition was announced and before the regulatory bodies approved the acquisition, Schneider and APC set into motion an integration team and then teams from the service areas

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on both sides,” says Recine. Chanfreau recalls, “Even before the merger, some multicultural training on both sides was done. People in France were trained on the cultural differences of US people and the US people were trained on the cultural differences of French people. In France, the guy learned that things were managed slightly different in the US and it was easier to understand the cultural differences on the US side. On top of that people were encouraged to read some research done about differences in corporate culture and change management to make it easier to align all of the companies.”

An integration team can help institute new training and facilitate the virtually inevitable shuffle of the workforce. Recine states, “One of the things that Schneider did was institute a lot of training. One of the trainings was on change management with a little booklet and a lot of seminars about how to deal with the stresses and the fear of change. A big message in the book *Who Moved My Cheese* is that if you feel as an individual that if in change there is an opportunity for you, then don’t try to fight it but instead immerse yourself and run with it. But if you feel that the new company is not for you and that the change is not going to benefit you, for whatever reason either real or perceived, then it’s time to get out. There’s no use staying there and groveling.” Integration teams have a closer reach to the workforce and are more in touch with the feelings of the employees. In that sense, they can help to put the right people in the right place and to encourage the strong resistors to seek other opportunities outside the company.

Some companies form a single integration team with members from both sides of the deal while other companies form multiple teams. Others still use outside consulting firms with pre-set integration teams to act as third party integration agents. “There wasn’t just one team, there were several teams. One team was for Field Service, another was for Sales, and that sort of thing,” says Recine.

Member selection for the integration team or integration teams is a significant aspect of the whole process. Recine says, “Unfortunately, some managers who are no longer here kept information to themselves and gave a false sense of security. They selected a few people from their teams and made them part of this integration team. There was this sense that, ‘I’m on the integration team, so I must have a secure job.’ No way. The integration team had a job to do,

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and their job was to insure that both companies could merge successfully for a long-term survival so that Jean-Pascal could justify a 30 percent premium to shareholders and the employees.” This is an important point, that the integration team has specific objectives that have to be achieved and that in no way should a position on the team guarantee tenure. However, it is probably just as important to make sure that the people on the team are strong advocates for the new entity and have a higher likelihood of success in the new company going forward so that their experiences on the team can be infused into the workforce after integration is considered complete.

“Get a lot of people involved and get as much information as you can. You need to make it visible that every department is important. You can bring in people from R&D, engineers mechanics, ground floor employees, everyone as part of an integration team. It helps for two reasons. It gives a company advanced information so they can structure the new company more effectively, but at the same time it brings people together early on. The same people who were discussing in a forum or panel environment under the direction of a consulting company or an integration team are going to be working as colleagues later on. It’s pretty clever, I think,” says Recine. He adds that even when people discover that they may not get along on a personal level, they have a better chance of learning how to get along on a professional level with the use of an integration team and the benefits that one or more integration teams can provide. He says, “There are still people in the company who don’t get along because of different personalities, like everywhere, but when it comes to doing their jobs, they are doing it better now than they did two years ago because the organization took steps early on to ensure that they understood the barriers they would face for successful integration.” Another interesting point that Recine mentions is that additional training in general business philosophy will help explain the rationale behind the deal and the workforce integration and help to gain buy-in. Employees will be better able to understand, appreciate, and participate in the intricacies of integration.

The integration team is closer to the workforce, so they will be able to assist in choosing the right people going forward, which is no easy task. “You have to try to keep the best people so that after the bad people leave you still have people to run things well. In choosing the correct

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people, you can make huge mistakes. You have to recognize certain characteristics that you are looking for in an interview process. To keep motivation high, budget rewards for good players like bonuses, but you have to know who the key actors are who are very important and contribute to the core goals of the team,” says Cindric. McKee adds that in some situations, it is difficult to choose who stays while in others it is fairly obvious. He says, “In a merger or acquisition there is trepidation of career, certainly. It pushes people’s decisions to stay and go, especially when there are a lot of redundancies because most of the specialty positions are safer. People aren’t productive when they are worried and it acts like a viral infection. If you’re laying people off, you’ve got to do it in one fell swoop in a very targeted manner.”

Rajashekar comments on the make-up of the integration teams in the APC/MGE/Schneider deal. He says, “At the top level there was a core team formed between APC, Schneider, and MGE and then smaller teams were formed branching off of that because the leaders of different departments were responsible for forming their own teams internally. Different aspects of the business were given different responsibilities like in supply chain, service, sales, marketing, engineering, R&D, everything. Basically they formed a team comprising of all the entities and worked together.”

Communication is a key component to integration. It can be improved by using an integration team or integration teams as channels through which information can flow more effectively. Rajashekar says, “With the communication from the teams that were formed, people felt like, ‘We are being informed well.’ They didn’t feel left out. They felt that they were part of the process. A lot of people from middle management and at the executive level were involved in the merger, which gave them the feeling of ownership and they felt like they were leading something.” So, not only does communication and the use of integration teams improve the flow of information, it seems to gain buy-in to a degree at which people involved feel ownership.

Daly says of National Grid, “We put together a bunch of transition teams. We call it the Noah’s Ark approach with people from each side, meaning from Keyspan and from National Grid. We used an outside advisor called Mercer for merger consulting and support. We did a

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lot of work around integration with the teams. We started with what's called 'as is' work where you get a baseline figuring out what it is Keyspan does and what it is National Grid does. Then we did 'to be' work, asking how we wanted to the new company to look, how we wanted the new company to operate. Then we put together all of the pieces as best as we could." Integration teams help frame and name these issues and sort out best practices going forward.

"Even though Keyspan was the acquired company, one of the things Keyspan got from National Grid during negotiations was the right to help build the new company with National Grid honestly taking Keyspan's views into consideration. To do that, there were probably ten teams of ten people or so doing nothing else but integrating the two companies. There was a Finance team, a Gas Operations team, an Electric team, a Systems team, an HR team, etc. And they absolutely had goals," says Daly. He continues, "Goal one was around cost savings. Goal two was around gaining more revenues. Goal three for all of them was around designing the new organization and fully integrating Keyspan with National Grid. Up front, you have to set the defining principle for the design for the future, not looking back to the past but much rather designing for the future. I think that helps people a bit get past their allegiances. Top management from both sides has to be involved and outside advisors are great places to look for help. Once you get those objectives, it's important that you cascade them throughout the company so that folks realize that's how we want to run our business." After that vision is designed, integration teams can hammer out the objectives using their detailed knowledge of the inner workings at level to provide for a major impact at every corner of the business.

Instead of having one single team try to conquer the daunting task of integrating two large companies or a bunch of small teams trying to handle minute tasks, Daly recommends a hybrid. With many issues affecting various areas of the company at the same time, which Daly refers to as "cut-across issues", it might be better to have a single team review those issues and gain consensus. He says, "I would recommend taking a top level team to look at three major issues, the systems, HR, and locations. You might need individual teams for those areas anyway, but that one team looks at the big cut-across issues and decides how to streamline those. For example, you don't want to pick the Brooklyn people, the Boston

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facility, and the Syracuse systems. It won't be a good fit for anyone. You have to make sure you understand the timing implications and the overlap between those three decisions.”

Fowler identifies some of the tasks of the integration teams. He says, “The goal was to merge functions between Keyspan and National Grid. We said we would save millions in costs by combining these two companies. We are on a path to achieve our goals, too. There were change agents put out, and they still exist in almost all of the departments. The change agents are kept in the loop more tightly and are given the job to communicate what's going on with the merger to the rest of their teams.” He adds, “If you have two separate procurement departments, two separate supply chain departments, how are you going to bring them together? How are you going to find the best practices? Well, pretty much every department has to be reevaluated and it involves eliminating some jobs, most of which are done through early retirement or those types of things, but there's a cost associated with that, too. In the long run you'll save more because of efficiencies, but up front there is a cost. “

Burlingame comments on the use of multiple integration teams, “We use people from both outside consulting firms and from within. The consulting firms have access to a lot of information. It's usually multiple teams with various leads, and then the leads report on each of their respective areas and decide how to integrate it. It's a number of teams because it's complex. There's a number of operational areas and customer related areas, finance related areas, overall company management, etc. So, you need expertise in those many different areas.”

In conclusion, integration teams are comprised of the people who put into action the vision created by top management. This is the main route through which fully integrating companies fulfill objectives. Once management creates that corporate vision, and then the vision for integration, they must delegate. To whom they delegate is crucial to the success of the plan. Whether that leads to the creation of a single or multiple integration teams is one thing, but the existence of at least one in full integrations seems to be vital to integration success. Partial integrations may not involve an identified integration team, but they should at least have employees designated as change agents or communicators of the vision. They should be given specific responsibilities to monitor the success of implementing even the few policies and

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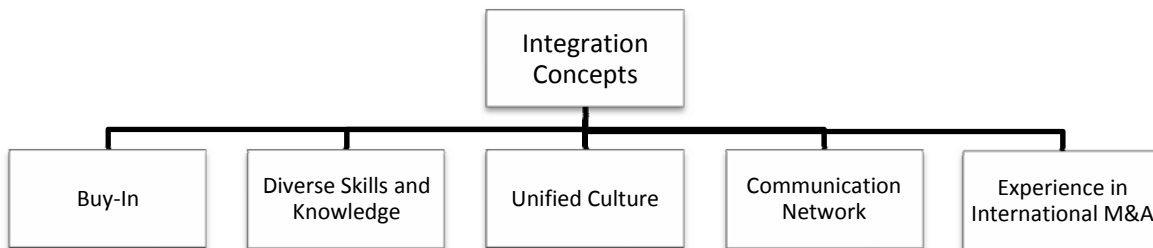
procedures or transplant of few employees. In any case, people should be assigned responsibility for integrating the companies. With those responsibilities, employees will be forced to communicate with people from the other company, which helps develop relationships as well.

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4.4 The Conceptual Outcomes

This chapter will focus on the more conceptual outcomes of the aforementioned categorized actions. Outcomes such as “buy-in” contribute to the overall success or failure of integration as actions require commitment and results inspire emotions ranging from sense of ownership to resentment, or from complete satisfaction to complete dissatisfaction. The actions explained above by the notable interviewees are meant to accomplish explicit objectives but inherently achieve broader, more conceptual results at the same time. We will attempt to reveal a number of those outcomes and describe what is actually being achieved by



completing the above actions.

Diagram 4.3 Conceptual Outcomes from Roadmap Creations

4.4.1 Government, Investor, Employee, and Customer Buy-In

The first category of people that have to buy into an international acquisition, outside of top management, is the pool of investors, shareholders, shareholders, or whichever other term the reader would like to give them. These are the people that, in fact, put up the money to potentially purchase a target company and receive compensation when their company is acquired. Without their consent, a deal cannot be accomplished. Acquiring companies need to create a profitable corporate vision as well as a vision for integration, both described above. Once they have that vision, they need to clearly and effectively communicate it to the major shareholders of the company whose funds are to be invested into the new company or whose company is to be acquired. Obviously, for many deals, the number one deciding factor is the price of the target company. If the two sides can agree to a fair price early in the negotiation process, then there is a higher likelihood that the deal can be considered “friendly”. If they cannot come to a logical and friendly consensus on price or valuation, then chances are the acquiring company has submitted a so-called “hostile bid” in belief that the target company is

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grossly overvalued or that it can take advantage of certain circumstances present in the surrounding environment or industry by picking up the target company on the cheap. The other possibility is that the target company believes itself to be valued appropriately or undervalued when, in fact, there are several aspects of the company that realistically pull the value below the level where it believes the company is.

The second category of people that have to buy into an international transaction is a combination of governmental and non-governmental agencies and regulators whose approval is required by national, regional, or local law to close an international transaction. Regulators can make or break a deal as they can impose costly barriers to the acquisition. One of the barriers mentioned is the requirement to divest a portion of either the acquiring company's business or the target company's business before negotiations can be finalized. Scott Webster from Tribe and Veggie Patch explains that in prior deals unrelated to the acquisitions of Tribe and Veggie Patch, Nestlé had to divest portions of its existing businesses before European Union regulators would allow certain deals to close. Similar situations occur when major transactions are conducted in the within the US, but those are too narrow of a scope for this project.

Another example directly related to this project involves the APC/MGE/Schneider deal. Before international regulators approved Schneider's acquisition of APC, they required that Schneider divest a portion of its MGE uninterruptible power supply business, namely, the single phase business line because otherwise the combined entity would be approaching monopolistic proportions in that area. Though Schneider complied with the request of the regulators and completed the divestiture, negotiations were delayed and integration was therefore stalled, synergies took longer to reach, and greater levels of uncertainty rose throughout both workforces. The sooner the companies involved in the international acquisition can achieve regulator buy-in, the sooner the appropriate actions can be executed to accomplish the objectives of the vision.

When an acquiring company takes the time to understand and communicate with employees, as many of the companies interviewed did, it has a better chance of gaining employee buy-in. Some people believe that employee buy-in should be sought after negotiations have been

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completed and the acquisition has closed. This, however, may already be too late. Several interviewees explain that the interim period between the initial announcement of international deal negotiations is the perfect time to begin approaching employees with the intention of inspiring employee buy-in. Also during that time, a draft of the integration plan can be drawn up and communicated to employees of both sides via an integration preview of some sort, whether a chart or a pamphlet, etc. This is where town hall meetings, positive electronic and face-to-face interaction, conference calls, culture audits, and feedback requests are very effective.

Employees also seem to appreciate a swift rather than drawn out elimination of redundancies. The earlier that employee uncertainty is addressed, the earlier they will cease to worry and become more productive. It is important that miscommunication is kept to a minimum, but frequent and honest communication is highly valued by employees of all levels. The more employees are left in the dark, the more they feel isolated and betrayed, and the less productive they'll be. If employee retention is a point of concern for the acquiring company, then that company should address the people whom it would like to stay immediately and get those individuals engaged in the international integration. If employees play even a minor role in some aspect of the deal, especially integration, they will more likely buy into the deal and almost become change agents for the new company going forward. Employees can be involved in employee feedback forums or panels, international communication streams, or positions on one or several integration teams. Either way, communication and involvement are crucial in obtaining employee buy-in.

Around the same time as the employees are being persuaded to buy into the international acquisition and the new entity that ensues, customers should be taken into consideration. Customers are the ultimate users of the end products or services. The result of customer buy-in is directly linked to the success or failure of the new organization as a whole. If customers buy into the deal, then they clearly feel that they are better off as a result of the integration of the formerly separate companies and, perhaps, competitors. If they feel this way, then they will most likely purchase more products or services from the company and contribute the acquiring company's additional revenue targets designed in the vision. The opposite is true if

they sense that they are worse off as a result of the acquisition and integration as they can seek alternatives in most cases, other than utilities as we find in the case of National Grid's fairly captive audience, and thereby cause the combined entity to lose value and miss its revenue targets.

4.4.2 Diverse Skills and Knowledge

By making international acquisitions, as opposed to purely domestic acquisitions, companies are inherently obtaining massive amounts of value-adding human capital. APC by Schneider's Girish Rajashekar claims that "people are people", which indeed they are as humanity does share many common traits and values, but unique national and corporate cultures bring unique and intrinsic skills, abilities, and experience. This transfer of skills and experience is bilateral, meaning that the target company is injected with the experience of the acquiring company and the acquiring company absorbs the best practices and skills of the target company.

Business practices and cultural behaviors differ among companies in diverse countries, and both the acquirer and the acquired company stand to gain tremendously from knowledge sharing. For instance, when FEC bought Lucent's fiber optics business and renamed it OFS, it infused OFS with decades of experience in lean manufacturing that has helped edge toward cost cutting goals. FEC did integrate fully with OFS, but even still it maintains a strong influence in policy and procedures, which has helped OFS to operate more efficiently and profitably after several years of financial instability prior to the acquisition and even a few years afterward. Tribe and Veggie Patch were beneficiaries of Nestlé Osem's deep Israeli ethnic experience in organic and all-natural vegetarian foods while Nestlé Osem inherited much needed professional experience in the US business climate for said foods. Again, though Nestlé did not integrate fully with the newly combined Tribe and Veggie Patch business, it was able to glean profitable skills and experience and transfer to it value-adding experience and efficient policies and procedures.

Schneider inherited valuable manufacturing experience and a globalized workforce culture from its acquisition of APC. Meanwhile, APC gained not only the explicit financial support but access to all of Schneider's existing human resources worldwide which bring years and years of diverse industry experience. APC can now recruit talent from virtually anywhere in

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the global job market with the assistance of Schneider's many locations and business lines. Since Schneider has now integrated APC and MGE fully into its central lines of business, inter-company knowledge transfer has become intra-company knowledge transfer. Even more than knowledge transfer is the intra-company, international workforce mobility offered to employees from all aspects of the company. National Grid gained valuable knowledge in the Keyspan employees and employees from prior US acquisitions, particularly in dealing with national and local regulators and setting rate plans to fit required specifications. National Grid was able to reduce the amount of time it would have to spend learning about the US regulatory environment if it were to "greenfield" a venture in the US by acquiring several American companies, leaving management intact for during a learning period, and then utilizing that knowledge gained to justify and facilitate the larger Keyspan acquisition.

4.4.3 Unified Culture

Combining employee buy-in and additional skills and experience into a melting pot gives the newly combined entity a unique culture. Many times that unique culture is simply a loose link between two or more disparate cultures, which is the case in many partially integrated scenarios such as the Tribe/Veggie Patch/Nestlé deal and the OFS/FEC deal. However, sometimes even formerly separate entities are able to share tools and resources, including human capital, as in the merger between Tribe and Veggie Patch their acquisitions by Nestlé Osem. In reality, without the intention to integrate fully, the two or more separate cultures do not stand to gain an incredible amount from a unified, cohesive culture. In that sense, then, the creation of a unified culture applies almost exclusively to companies pursuing a full international integration.

In some instances, employees are able to enjoy a more relaxed work atmosphere in which they are more comfortable and feel that they can be more productive, such as in the integration of MGE into APC after Schneider's purchase of the latter. Additionally, employees of APC by Schneider have greater international mobility and have the ability to transfer to other companies within Schneider if they should so choose. Likewise, employees at National Grid, including several of those interviewed, frequently change assignments between the US and UK, which adds value to each participant's résumé in terms of international experience and grows international relationships between workforces at the geographically separate locations.

It helps that some companies frame and name the vision for integration, such as "One Team, One Dream" in the APC/MGE/Schneider integration. By framing and naming a corporate vision or an integration vision, or both, companies can solidify its intentions for the deal as a feasible objective. Essentially, creating a title or a slogan for the acquisition or integration goal objectifies the creation of a unified culture, which is really more of a concept than an explicit goal. Despite the difficulty of measuring the success of an actual integration, presenting integration as a challenge to be accomplished with the assistance of employees from every side of the deal contributes to the overall action plan and helps link agendas companywide.

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4.4.4 Communication Network

When employees rally around common goals and require information or participation from other employees at the formerly separate company, the beginnings of an intra-company communication network are created. The birth of the new and intensified communication network of the combined entity really happens at the very beginning during negotiations. The acquiring company has to communicate with the employees of the target company to get them bought into the deal before it even closes in order to ensure a smooth transition. The target company has to communicate with the employees of the acquiring firm to make sure that its own employees are not going to suffer too much of a culture shock when the more dominant player takes the reins and to make sure that there is an appropriate cultural fit conducive to collaboration in the case of a full integration. The two top management teams have to have strong communication in order to negotiate on friendly terms and to reach an agreeable price. In turn, top management has to communicate with its own employees at every level to assure everyone that the deal is in their best interests.

Communication should start at the top and flow all the way down in an organized stream that eventually reaches every corner of the company. In order to create a unified culture and to really achieve employee buy-in, frequent and honest communication is essential. Top management might make a statement that he sends to the entire company. That is one direct and universal method. Another method involves a more intricate web of communication with top management sending that statement to the tier of employees below them who then submit it to the tier below them and so on until the lowest ranked ground floor employee is fully aware.

Outside parties also need to be involved in the communication. By explaining the rationale for the deal to investors and shareholders for both companies internationally, the companies are enhancing brand awareness and investor relationships. The more investors are clued into the progress of the deal and the ensuing integration, the more they feel informed and involved, and so the more they put themselves behind the success of the transaction. Customers need to be communicated with in order to provoke customer buy-in and thus additional future purchases leading to revenue goals. In fact, forums can be held that include both investors and

customers and which speak to the concerns of the various parties. Such open dialogue between the investors, the companies involved, and the customers contributes to the goal of open and honest communication.

4.4.5 Experience in International Acquisitions

As the reader will see, many companies begin international expansion through small acquisitions in a key territory or in a key industry. Sometimes they choose to proceed with a hands-off approach for a time until they begin to understand the operating environment and regulatory environment enough to stick their heads out a little more. After they have this desired level of understanding, they may proceed to make a more substantial acquisition of a much larger company than the one or more it acquired before.

A perfect example is that of Keyspan and National Grid. National Grid made several prior acquisitions of US utility companies in different areas around the Northeast US. Some companies acquired include Eastern Utilities, from which several of the interviewees originated, New England Electric Systems, and Niagara Mohawk, among others. Once National Grid felt that it had absorbed enough knowledge of the US market, it began to exert a more managerial influence by infusing the American locations with UK management and sending several US employees to the UK. Around that same time, National Grid acquired Keyspan and in one maneuver doubled its US presence and balanced out its US and UK holdings. The same goes for Schneider. Schneider Electric acquired MGE, a decent-sized uninterruptible power supply company but still half the size of APC in terms of workforce headcount. Once Schneider had a better understanding of the uninterruptible power supply industry, it chose to acquire APC, a worldwide market leader in the industry.

Small acquisitions are common entry points for international expansion, and large international acquisitions allow companies to expand product or service scope as at OFS and globalize functions as at National Grid. The underlying knowledge gained from these acquisitions is almost more important than the added revenue or savings from cost cutting synergies. The knowledge gained allows the acquiring company to apply its experience in future acquisitions or even divestitures as it provides for a framework within which

companies are valued and cultures are integrated. Experience may well be the most important benefit of performing international acquisitions, especially in the earlier deals.

CHAPTER 5: OVERALL CONCLUSIONS

5.1 Overview

In the previous chapter, we outlined the various actions that four different companies took to create strategic and integration roadmaps. We also looked at the more conceptual outcomes resulting from those actions. This chapter will now describe some of the overarching conclusions found based on the different approaches companies take to integrating internationally. Some conclusions are general in regard to international deals overall. Some involve equally important conclusions for partial and full integrations while others are specific to either of the two. Every research project has limitations, so we will also describe the limitations of this project. Toward the end of this chapter and thus the end of the project report overall, we will look at some key manager take-aways and suggestions for future research.

5.2 Contributions to Literature

The previous chapter helped answer the questions surrounding which actions are important in the process of integrating two or more companies and which actions go into creating a strategic roadmap at the corporate level. The following conclusions are the result of analyzing not the actions but the approach to those actions, meaning from a partial or full integration standpoint.

5.2.1 General Conclusions

These conclusions have to do with general international mergers and acquisitions rather than the specific approach to integration whether partial or full.

Price, or target valuation, is a main deciding factor in whether or not the deal is worth it. If the price is fair, then investor buy-in is likely. The opposite is also true. Price may also be influenced by the state of the economy, as it was in the case of FEC's acquisition of OFS when the dot-com bubble burst and FEC was able to purchase what is now called OFS from Lucent at a discount.

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Companies decide to perform international acquisitions for a plethora of reasons. Some of the purposes for acquisitions are achieving or obtaining economies of scale or scope, market share, additional capacity, or brand recognition. The purpose of the acquisition, such as obtaining additional capacity in the case of FEC's acquisition of OFS, may be the key deciding factor in the level of integration that ensues.

In some instances, and perhaps many, there seems to be a learning curve approach wherein acquiring companies begin international expansion into a certain country through small acquisitions in which operations are left to run fairly autonomously, with the exception of several policy and procedure implementations. After the acquiring company feels comfortable enough with that country's regulatory systems and economic factors, it then seems to take a greater risk in making a much larger acquisition that significantly enhances its market position in that country or in that industry in particular. This happened at both Schneider, who's existing US operations and acquisition of MGE, which had a small but influential presence in the US market, and National Grid, who made a variety of small acquisitions in the US Northeast before doubling its US presence and balancing its US and UK operations with the acquisition of Keyspan. According to this trend, Nestlé OSEM and FEC may one day acquire another dominant US competitor and, once the size of its US business is significant enough, integrate the US operations more fully into the parent company.

Just because the acquiring company is much larger than the target company does not mean that the target's culture and essence will be lost once it is acquired. For instance, APC has exerted a strong influence in the way that Schneider runs its global UPS business, and many of the smaller MGE's practices were implemented company-wide. For National Grid, Keyspan became the dominant player in the US side of the business and was able to implement many of its own practices throughout the other portions of the business that National Grid had already acquired. In fact, Keyspan became almost as strong of an influence on operations as National Grid, the acquiring company, itself in terms of global operations and functionality.

When a large international acquisition takes place, there is a high probability that the new organization faces antitrust or other debilitating regulatory issues in at least one country. In

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those instances, as Scott Webster from Tribe and Veggie Patch details of his previous experiences with Nestlé acquisitions, regulators may require that a certain portion of the business from one or both sides be divested or spun off. This may hinder the profitability of the transaction perhaps even to the point where the deal no longer makes sense whether or not the companies intended to integrate partially or fully.

Americans do not seem too resistant to acquisitions by foreign companies, at least in the last decade or so. The issue appears to be more involved with the degree of effective communication and the varying approach to the integration, which may be influenced by the acquiring company's national culture. For instance, in the OFS/FEC acquisition, the Japanese use an indirect communication style whereby changes are recommended but expected after a polite commendation on work and success thus far. In contrast, the French Schneider seemed to be more direct and charismatic in integrating APC and MGE into its global family of businesses. Obviously the level of importance of this aspect of communication correlates to the level of integration desired.

5.2.2 Multilateral Conclusions

These conclusions affect partial and full integrations equally, meaning that certain actions or circumstances have a mutually impactful result when companies integrate partially or fully.

Metrics become more important as the size of the acquiring company grows. Standard metrics are developed either for the company as a whole or in a way such that the acquiring company can easily understand the operations and performance of the acquired company or companies.

Goals are made in two areas, namely, revenue growth and cost cutting. Revenue growth is gained from capitalizing on the acquired company's market share as well as cross-marketing both companies' products or services. Cost cutting is gained through elimination of redundancies, achieving economies of scale, or implementing lean manufacturing techniques.

Third party consulting firms may prove useful in either partial or full integrations because international cultural disparities are not always obvious or explicit and they can assist companies of either side to better understand the surrounding business environment or internal corporate culture depending on the level of integration desired.

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Vision is almost equally important in the case of partial and full integrations. A clear vision gives the acquired company or the entirely new organization an outlook for the future and a sense of direction for workforce operations. This will contribute to achieving the desired goals.

The Finance department seems to be the first and hardest hit department in any acquisition. Whether the companies plan to integrate partially or fully, the acquiring companies seems to always require the strongest presence, or sole presence, in the financial realm. This may be because the acquiring company wishes to obtain a clearer view of the financials after the purchase has been made or because the acquiring company wishes to ensure that no big checks are signed without approval from the parent company.

The speed at which the management for the acquired company or new entity is established can play a major role in inciting or alleviating employee uncertainty. The longer there is a void in top management, who give the direction for the entire company, the more likely it is that employees will worry and become more uncertain of the direction of the company, possibly allowing top talent to seek alternative opportunities. This is equally as influential in partial integrations as it is in full integrations.

International acquisitions are more expensive and time-consuming than purely domestic deals. International deals involve multiple regulatory systems to deal with, unique national and corporate cultures, geographic spreads, etc. It takes longer to satisfy multiple governmental agencies, especially if there are antitrust concerns, in an international acquisition and longer to convince the workforces, investor bases, and customer bases that the international deal is in their best interests.

Systems may be the hardest aspect of operations to integrate, even more difficult than workforces. In several cases, including the Tribe/Veggie Patch/Nestlé OSEM deal and the Keyspan/National Grid deal, this seems to be the case. Several interviewees have commented that though they may be comfortable in the new environment, using repetitive and disparate systems can be painful and unproductive.

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5.2.3 Partial Integration Conclusions

These conclusions involve actions and circumstances that affect or result from partial integrations in particular.

There is more of a focus on one of the goal categories, namely, revenue growth or cost cutting. Nestlé OSEM focused on gaining US market share and growing its international revenue base for fresh vegetarian foods. FEC, however, focused on drastically cutting the costs at OFS to make the manufacturing-based company more lean and profitable.

The acquired company is commonly allowed to maintain its existing culture, except for the implementation of various policies and procedures of the acquiring company. At least at first, this seems to be the case at Tribe and Veggie Patch as well as OFS.

One tradeoff in partial integrations is that by integrating only partially, the acquired company becomes easier to divest if things do not go according to plan or if the acquisition was only a short-term maneuver. The tradeoff is that the company never fully realizes operating or functional synergies through workforce integration and the ensuing savings from cost cutting via the elimination of workforce redundancies.

Partially integrated firms, such as OFS and FEC, seem to utilize a single or several liaisons to keep tabs on the acquired company. These liaisons are limited because they almost definitely have to be from the acquiring company. As this project reveals, partial acquisitions involve minimal international workforce mobility, so the few that transfer from the acquiring company are intimately connected with the acquiring company's vision and goals for the acquired company and are better able to relay accurate information in the desired manner.

5.2.4 Full Integration Conclusions

These conclusions involve actions and circumstances that affect or result from full integrations in particular.

There seems to be an equally strong focus on both goal categories, namely, revenue growth and cost cutting. Schneider looked to utilize the APC and MGE acquisitions as tools through which to grow its global UPS business line in terms of outreach and revenue potential, but it also looked to drastically cut costs through fully integrating the two together and into the

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Schneider corporate family of businesses. In full integrations, these lofty goals serve an additional purpose as an ice-breaker for linking employee agendas in working together to achieve a common purpose, thereby overlooking cultural differences that would act as barriers to integration.

Management tends to shake-up or reshuffle the entire new organization, which helps create a new culture and sends a message that neither company will be sticking to the old ways. Schneider and National Grid both did this.

Framing and naming the integration is a useful tool in defining the new culture and the vision for integration. Schneider framed and named its corporate vision for all integration as “One Team, One Dream” and National Grid framed the Keyspan acquisition and integration as a maneuver for globalizing its business lines and major functions.

More integration teams are used as more departments are being integrated while several major “cut-across issues” are handled by one or more overarching teams. Also, more integration teams means a greater chance for intra-company, international networking in preparation for full integration and mobility as opportunities for international career opportunities begin to open up. In other words, integration teams double as networking vessels.

It is more difficult to decide who stays on in the new organization and to decipher cultural fit, so a cultural audit becomes even more important in full integrations. By better understanding the skills, abilities, and preferences of the workforces, the acquiring company is better able to decide the new management and organizational structures. That may involve the existing management being implemented in all or particular areas, but a cultural audit will solidify that or another decision in any case.

The acquired company is usually introduced relatively early to the culture, operations, policies, procedures, and workforce of the acquiring company. As a result of corporate reshuffling, an entirely new culture can be created as a mixture of all formerly separate cultures based on best practices and overall employee satisfaction. Basically, the new culture will be designed around efficiency and whatever makes the employees more productive. It

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will also inspire the employees of either side to let go of their former workforce cultures as much as possible and to accept a new environment in which to work.

Full integrations require greater amounts of communication, more site visits, especially at the beginning, more of a sense of direction, more numerous redundancies. The geographical time difference has more of an effect on full integrations as the employees communicate across borders much more often and at a more operational level. Site visits are a form of face-to-face interaction that inspire trust and respect earlier and to a more emotional level, which is extremely important in full integrations. The more companies integrate, the more the employees communicate and work together on a more global basis, so they need a clearer vision or direction for integration and operations. The fact that fully integrating companies seek to gain workforce efficiency as much as operating and revenue efficiencies means that, generally, more people are laid off in the elimination of redundancies as more departments and functions are combined globally. Therefore, a more cautious approach to seemingly simple human resource tasks is in order and could require the assistance of a professional third party consulting firm.

One tradeoff in full integrations is that by integrating fully, the new organization will experience greater levels of synergies from cost savings and additional scale or scope while it becomes much more difficult to divest if strategic fit does not pan out or other projected goals are not met. By fusing together the various cultures and operations, the entity essentially becomes one cohesive unit with a shared vision such that the two can no longer be isolated from one another and put up for auction. If a sale was to occur, it is more than likely that the two former businesses, now combined as one, would remain a package deal.

According to the data gleaned from the interviews taken, charismatic leaders help to hasten the attainment of employee buy-in on both sides of the acquisition. Their energy spreads throughout the company to all tiers of employees one way or another and motivates all parties to partake in the integration process. Once the employees feed on the energy emulating from top management, they are more apt to increase productivity and enthusiasm, contributing to a more rapid achievement of vision objectives.

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Fully integrated companies involve vast networks of communication. The more people that work together, the more necessary it is to establish firm and fluid links through which information can flow from the top down and side to side. This sort of network can be established through the formation of one or more integration teams and carried out through the entire integration process. Of course, this involves more than just a few liaisons as in partial integrations.

In a full integration, there are more issues with international workforce mobility and connectivity. For instance, employees wishing to transfer internally but internationally will need a passport or visa and will have to make a bigger commitment to move their families to the new location or not. Full integrations, since they involve frequent international communication, virtually require that the videoconferencing or other telecommunications infrastructure components be updated appropriately. Full integrations also involve a greater level of expensive international travel through site visits, meetings, and things of that nature.

5.3 Manager Take-Aways

This portion of the chapter details some key lessons from the research that a manager should understand completely and incorporate into their international acquisition activity going forward. Given that the project covers a wide array of material and, to be frank, is quite lengthy. This portion may be the most important part of the project for managers interested in the topic of international acquisitions and the ensuing workforce integration.

5.3.1 Communicate! Rumors Spread Easily in a Vacuum

The more time companies take to communicate to their employees, the more those employees will worry and create their own interpretations of the integration, which will spread like wildfire throughout the company on both sides. Not only should companies communicate early, often, and honestly, but they should be wary of communicating for the sake of communicating. Miscommunication can be very harmful as employees will hold management accountable for promises and other explicit remarks, so communicators should be sure that what they are communicating is honest and accurate.

5.3.2 Vision and Direction are Crucial. Framing and Naming Can Help.

Framing the reasons behind a deal into a clear vision makes the logic more easily understandable for the workforce. Giving a name to it, such as Schneider's "One Team, One Dream", can even make it fun! Having a simple slogan for the integration makes it easier to post the message on letterhead and bulletin boards, emails, and break-room refrigerators. It allows management to playfully yet continuously remind everyone of the importance of the integration process.

5.3.3 Get the Hubris in Check!

As in the case of Daimler-Chrysler back in Chapter 2, managerial hubris can cause deals to become worthless. When managers believe that they can accomplish more than they can actually accomplish, there is a hubris issue. In most cases, hubris is associated with arrogance, which is a result of a variety of circumstances around how the manager got to the position he or she holds. With runaway arrogance, thousands of people can lose their jobs and shareholders may lose everything they have put into one or both of the companies. It is also important from a hubris standpoint to ensure that the cultures are complementary. As good as the companies may look on paper, without site visits the true strategic fit of the companies may not be realized.

5.3.4 Cultural Integration is Not About Social Responsibility

Instead, creating a corporate culture is a function of efficiency and employee productivity resulting from strategic fit and swift actions at the corporate and deal-specific levels. Though many benefits considered modern day social responsibilities result from taking culture into consideration, the value ultimately lies in revenue and cost cutting, the two areas of goals that companies set at the outset of any transaction.

5.3.5 Shake Things Up for a Full Integration

If top management has just acquired one or more targets and intends to integrate them fully into the overall company, then it is probably best to design an entirely new operating structure intermingling employees from all sides of the deal. Along with creating lofty goals that serve as ice-breakers and force employees to work together for a common purpose, restructuring creates an entirely new culture with limited viability for holding on to how things used to be

done on either side of the deal. Best practices have to be shared and resistant employees need to be either persuaded or let go. When synergies are a main goal, operations need to be combined and workforces have to be integrated. Shuffling up the workforce and allocating the right people to the right places may sound easier than it actually is, but at the same time it is essential.

5.3.6 Be an “Undercover Boss”

The term “undercover boss” is associated with obtaining non-biased, honest employee feedback without employees knowing that it is the boss seeking the information. However, this take-away is not meant as a scheme, it is meant as a suggestion to obtain as much non-biased feedback as possible from employees since the lower tier employees will almost always have just as much to say, if not more, than any manager. It is they who are closest to the true culture of the company, the people that make success for the company possible. Oftentimes, top management will not receive the most current or accurate information when it comes to bad news, so proactively seeking such information may reduce that time gap and increase honesty and transparency.

5.3.7 A Little Bit of Charisma Can Go a Long Way

At least as far as this research has discovered, charismatic leaders are primary motivators for change. They are the inspiration for buy-in at the investor and employee levels. In essence, if top management does not prove its commitment and enthusiasm for the deal, it is highly unlikely that anyone else will. It is another showing that buy-in is needed at all levels to drive the change.

5.3.8 Understand the Tradeoffs

There is a key tradeoff between risk and synergy. If an acquiring company is targeting synergies, then it will require a greater level of risk in integrating the target into the parent company. To achieve operating synergies, redundancies need to be eliminated and a full integration is the default approach to the actions that make up the strategic and integration roadmaps. In the case of a bad economy, divestiture is much less of a feasible option seeing as the two former companies have become fused as one leaner entity. The opposite is true for partially integrating companies. In the same case of a bad economy, such as the dot-com burst

that Lucent experienced, it is easier to relinquish a former target if held at arms' length, but then again synergy savings may have helped the company prepare better for the downfall.

5.3.9 Always Have a Direct Two-Way Channel of Information

Partial integrations seem to involve at least one link back to the parent company. That link plays the role of liaison for corporate vision and monitoring policy and procedure implementation status. In full integrations, there is a formal network of communication from the top all the way down and across the company with employees from all angles communicating with each other for daily tasks and long-term goals alike. Apparently, the degree of intercommunication between the parent and target correlates to the level of integration being pursued and thus the approach to the actions in creating a strategic roadmap at the corporate level and an integration roadmap at the deal-specific level.

With that final take-away, we draw to conclusion the results of this study on the process by which workforces are integrated in international acquisitions.

5.4 Project Limitations

There are several limitations to this project. The first is the small sample size. This project is the result of interviews from fourteen employees of diverse backgrounds in four different companies. Had we narrowed the scope to a single department, such as Finance, or a single industry, or cast a much broader net, the results might have been entirely different. We also interviewed many executives and middle managers, but we were not able to interview any CEOs or Presidents. Therefore, we did not fully reach the source of corporate direction. Had we been able to interview someone who actually sets in motion the corporate vision and makes all of the key decisions, the results may have been different. Had we researched deals older than ten years, we may have noticed some differences in methodology or economic conditions. Had we researched companies outside of the Northeast, we may have noticed different regional cultures or regulatory frameworks. Ideally, we would be able to get into any company, anywhere. However, as that is not the reality, we were restricted to the alumni network, which is actually quite valuable, and personal contacts. As the questions for the interviews were drawn from the literature review, it is possible that the questions are biased based on those sources. Ultimately, since we were not testing a single hypothesis, the end

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result is a group of conclusions as a basis for hypothesis generation. Had we been striving to prove or disprove a certain hypothesis, we may have gauged the investigation very differently.

5.5 Suggestions for Future Research

The first suggestion would be to test the various conclusions that have been drawn as a result of this limited research, using the conclusions as hypotheses to be tested. A more intensive study could be done using the size of the companies involved as a variable, analyzing whether the company is buying a relatively small company like Nestlé buying Tribe or a large company like National Grid buying Keyspan. The same could go for the status of a company as publicly owned or privately-owned or the method of financing be it a leveraged buyout or a cash transaction. Similarly, a great variable to use could be the distinct role of national culture while the existing demographics of one or both workforces could also be interesting. The level of merger and acquisition experience might play a role as well, so that is another area that could be tested. An entire study could be done on the integration of systems such as inventory processing software or company intranets seeing as they appear to be one of the more difficult aspects to integrate. Additionally, third party consulting firms seem to be crucial in full integrations. For that reason, going forward it might be interesting to focus solely on the role of those firms in international acquisitions. Those are the core suggestions for future research as a conclusion to this particular project.

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