newsletter

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Editorial

As a direct result of globalization, the past decade saw a sharp increase in international mergers and acquisitions. More and more companies are choosing this path as a growth strategy.

It is common practice for potential acquirers to perform financial, IT, legal and market due diligence in order to assess the level of risk involved in acquiring another company. A quick glance at the transaction value of these business deals explains why: in 2004, Royal Dutch Petroleum paid the tidy sum of 74 billion USD for Shell Transport & Trading; four years later, Inbev wrote a cheque for 52 billion USD to acquire Anheuser Busch. That's a lot of money. A lot of money to lose if things go wrong.

In this month's newsletter, Jérôme Dumetz reveals some disquieting information about strategic alliances: their failure rate and the reasons why many do not produce the expected results. It is ironic to think that investments driven by efficiency motivations flounder because management teams fail to see an unavoidable chain of events: If employees from different countries can't get along, their levels of productivity, creativity and reactivity will suffer and the strategic "adventure" will spiral into economic hell.

Here at Managing Worldwide Skills, we have a sense that 2016 marked a turning point in the level of attention paid to these issues in boardrooms. Let's see if 2017 will prove us right!

Laurent Lepez, Managing Partner

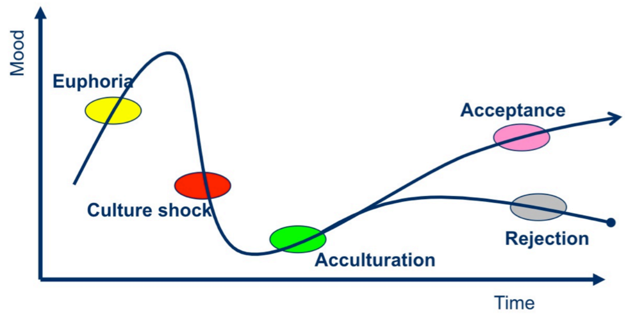
International Mergers & Acquisitions: The role of cross-cultural management

By Jérôme Dumetz, Senior Consultant

Cross-cultural management issues are all too often relegated to the "not-so-urgent" category by the stakeholders in a strategic alliance until the divide between the parties is too great. According to a KPMG study, "83% of all mergers and acquisitions failed to produce any benefit for the shareholders and over half actually destroyed value". Interviews held with over 100 senior executives involved in these 700 deals over a two-year period revealed that the overwhelming cause for failure "is the people and the cultural differences".

Strategic alliances are like love stories: they start with passionate hope, follow a bumpy road and have an uncertain outcome. The difficulties encountered are amplified when the companies involved are from two or more different countries.

The cycle of these ventures follows a typical cultural adaptation curve. The mood is initially euphoric with everyone glad to be participating in such a unique project.



Then, after a few weeks or months, things start to go wrong. Misunderstandings turn to mistrust, miscommunication becomes *non*-communication, and decisions made in one country are rejected in another. Many companies do not understand that they are in fact experiencing culture shock. If actions are not taken rapidly (ideally, steps should be pre-emptive ones), the entire success of the venture can be at stake. …tbc

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