

How to Achieve Happily-Ever-After in an International Business Marriage

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The decision to marry is one that requires a lot of thought. One must ask herself “Is this person right for me? Will we be financially secure? Will my in-laws be bearable? Do I truly love him?” Only when she can answer in the affirmative to all these questions will she marry. A similar process is undergone prior to the announcement of a merger and/or acquisition (M&A), another important kind of union. Acquiring companies ask themselves “Will this company add value to our own? Is the merger economically feasible? Will our shareholders approve? How will our customers react?” before making an M&A official (Tetenbaum 1999). Despite this concerted examination, however, 70% of international mergers and acquisitions (IM&As) fail (Aguilera & Dencker 2004). The primary cause for this sad statistic is the fact that companies do not give enough thought to the progression of the marriage, focusing on the partnership’s “synergistic potential” rather than the partners’ actual ability to become a single entity. An increased role of the Human Resources Management (HRM) function throughout the IM&A process can significantly mitigate the major problems that are endemic to any kind of international business union, increasing the chances that an IM&A will make it past the wedding alter (Tetenbaum 1999).

If IM&As have such a low chance of succeeding, why on earth do cost-effective, capitalist-minded companies insist on pursuing them? The answer is relatively simple: as the global market becomes increasingly vital to the success of a corporation, firms have recognized that IM&As have the potential to strengthen their competitive advantage both abroad and at home (Aguilera & Dencker 2004). Successful IM&As allow firms to gain market entry by acquiring foreign companies already in existence, enabling rapid growth on a global scale (Budhwar, Varma, Katou & Narayan 2009, Schuler, Jackson & Luo 2004). They permit industry consolidation, combining several smaller companies that perform the same service into a single

powerhouse company capable of navigating the ruthless waters of the global market (Schuler *et al.* 80). They can increase efficiency and reduce costs through the possible addition of a more skilled workforce or a cheaper workforce, new product lines, superior technology, and/or economies of scale (Schuler *et al.* 2004, Tetenbaum 1999). All of these attractive benefits make an IM&A seem like a no-brainer for any corporation even minutely aware of the importance of a global presence.

The fact remains, however, that the majority of IM&As do not achieve their intended results. The three major reasons that academics cite as the cause for this are: 1) incompatible national and organizational culture, 2) lack of communication, and 3) an absence of employee involvement in the integration process (Budhwar *et al.* 2009). It is important to note that all three of these issues have nothing to do with the major questions that companies ask themselves during the negotiations and due diligence stage and have everything to do with the HRM function, which deals with people and people-related processes (Budhwar *et al.* 2009).

National culture refers to the dominate values, beliefs, and tastes of a specific country, whereas organizational culture refers to the dominate values, attitudes, and norms of a specific organization. National culture determines – to a great degree – the organizational culture, and varies by country along several major dimensions including individualism-collectivism, power distance, tightness-looseness, uncertainty avoidance, future orientation, and gender egalitarianism (Aguilera and Dencker 2004, Nishii 2011, Tetenbaum 1999). National culture will obviously be different for the acquired and acquiring firms in an IM&A, given that the two companies involved are based in two different countries. Similarly, organizational culture will differ between the two firms because they are two separate entities residing in different countries.

As Toby Tetenbaum notes, the greater the disparity between the national and organizational cultures of each company involved, the more likely the IM&A is to fail, or, at the very least, pass through a rough patch of lovers' quarreling in the beginning of their marriage (1999). Companies find it increasingly difficult to enforce uniformity of business goals and strategies when the acquiring and acquired organizations' informal systems and practices largely differ. For example, when Upjohn, Inc., a pharmaceutical company based in Michigan acquired Pharmacia, a pharmaceutical company based in Sweden in 1995, the two firms struggled to navigate through their cultural differences. The "casual, laid back" Pharmacia employees quickly became annoyed at the "hard-driving, paternalistic, and tightly centralized" Upjohn Inc. employees' constant demands for progress reports and bans on drinking alcohol at lunch, while Upjohn's employees became impatient with the month-long holiday that Pharmacia employees took annually. Sales slowed, earnings stagnated and stocks fell for several years after the initial merger as a result of the discontent and ill-managed cultural differences. Thus, cultural disparity, when handled improperly, can have a "highly insidious impact on the melding of two organizations" (Schuler 2004, Tetenbaum 1999).

During IM&As, acquiring firms often neglect to let their employees, both old and new, know precisely what is happening until late into the marriage. This explains why the lack of communication with one's company workforce is the second major reason for high IM&A failure rates (Budhwar *et al.* 2009, Tetenbaum 1999). Inadequate communication with employees decreases their motivation on the job because they feel anxious and in flux, worrying more about the unknown aspects of work, such as their level of job security or potential changes in job tasks, than what they can do to facilitate the integration process. Additionally, it increases employee resistance to amendments in policy and practice that the acquiring firm may want to implement.

When adjustments occur without any prior notification, people will naturally feel less accepting or even hostile towards them. An example of poor communication and its effects occurred in the case in which Ganga Pharmaceuticals, an Indian multinational corporation (MNC) acquired a UK manufacturing plant. Ganga implemented a performance management policy without sufficiently communicating its purposes, and, as a result, witnessed a “loss of trust and confidence among the employees who started quitting the company” (Budhwar *et al.* 2009). As can be surmised, communication must be continuous, consistent, and reach all levels of the organization in order for an IM&A to achieve success (Budhwar *et al.* 2009, Tetenbaum 1999).

Lack of employee involvement in the IM&A process is the third major reason why many international business marriages fail. When employees are not directly included in the integration of the two firms, they can easily become dissatisfied, feeling that they no longer have control over their jobs and work environment (Tetenbaum 1999). This leads to a drop in employee productivity and commitment to the firm, and, inevitably, a loss of key talent (Budhwar *et al.* 2009, Tetenbaum 1999). In the Ganga example used previously, an absence of effective employee involvement also led to problems in the integration process. New quarterly goals and longer work hours were demanded of all employees without any input on their part, leading to flat-out refusals to comply and higher levels of attrition (Budhwar *et al.* 2009). Thus, like poor communication, the inadequate employee involvement can cause firms to lose important human capital and drain value that was originally factored into the projected benefit of IM&A (Tetenbaum 2009).

Recognizing that culture, communication, and employee involvement are the three main issues in IM&As is the first step to alleviating the widespread financial losses and corporate duress that only a poorly-matched international business relationship can cause. However, in

order to determine specific solutions to these problems, the actual process of integration in an IM&A must be inspected more closely, to see at what point and in precisely what way these high-stakes marriages go awry.

Schuler and his colleagues point out three different stages in the IM&A integration process, each of which has its own set of trials and tribulations that relate to the overarching issues of disparate cultures, and lack of communication and employee involvement: 1) *pre-combination*, 2) *combination and integration*, and 3) *solidification and advancement* (2004). The pre-combination stage can be equated to the proposal and engagement stage of a real marriage – it involves due diligence (investigating the company to be acquired) which is similar to a person’s determination of whether or not a partner is “The One,” as well as planning for the wedding and consummation of the IM&A. The slip-ups that occur during this stage have more to do with cultural issues than with lack of communication or employee involvement. As Tetenbaum notes, there is a “tendency for companies to front-load attention to the deal, focusing on economic formulas and cost-benefit analyses and... [giving] insufficient attention to the people element”(2004). Companies spend so much time and effort eyeing the financial potential of a possible acquisition that they forget to determine the likelihood that their most valuable assets – their employees – will cooperate effectively. When HRM is not given top priority during the pre-combination stage, oftentimes acquiring companies choose to merge with other firms from poor-fitting countries, yielding culture clashes later on in the IM&A process (Aguilera and Dencker 2004, Budhwar *et al.* 2009, Tetenbaum 1999). Thus, the pre-combination stage is the point where assessing national and organizational culture first becomes essential.

Combination and integration, the next stage of an IM&A, is analogous with the wedding and honeymoon phases of a marital relationship, in which the partners finally join and begin to

get acclimated to one another. The specific approach used during the combination and integration stage varies depending on the purpose of the IM&A, but, generally-speaking, the goal is to blend the best aspects of the two original firms and offset their individual weaknesses in order to achieve the intended additional value (Schuler *et al.* 2004). This is arguably the most important stage of the IM&A process, and subsequently is where neglect of HRM issues can be the most detrimental to the marriage's success. Problems that crop up when cultural, communication, and employee involvement issues are ignored during this stage include, but are not limited to: loss of motivation and trust, increased employee resistance, confusion, attrition rates and negative employee relations between the parent company managers and the acquired company subordinates (Budhwar *et al.* 2009, Tetenbaum 1999). All of these problems have the potential to significantly detract from productivity, sales rates, quality of products and, most importantly, profits and shareholder value. Clearly mismanagement of the combination and integration stage of an IM&A is something companies should seek to avoid.

The final "post-honeymoon" stage of the IM&A process is solidification and advancement, in which the new entity evaluates, fine-tunes, and stabilizes itself, much as a newly-wed couple will sink into comfortable pattern during the first year of their marriage (Schuler *et al.* 2004). While the stakes are not as high in this stage of the IM&A, given that it has already undergone the combination and integration stage, problems relating to culture, communication and employee involvement can still surface. Oftentimes companies will fail to assess how successfully the two firms' cultures have melded into a single coherent one, or how satisfied employees feel in the post-merger atmosphere, which requires the use of employee feedback (Schuler *et al.* 2004). In neglecting to do this, firms may overlook inefficiencies that could be fixed or tensions that could escalate into full-fledged battles down the road. They also

lose an opportunity to discover improvements to their individual IM&A strategies that can be implemented during future unions (Schuler *et al.* 2004, Tetenbaum 1999). Firms must therefore proactively avert the major IM&A issues even in this post-merger stage.

In finishing the discussion of the specific problems that manifest from the overarching IM&A issues during the three stages of the integration process, the determination of stage-specific solutions to IM&A failure rates now becomes the main focus of this paper. It has already been noted the HRM function is the best mechanism through which to promote and propagate these solutions because its jurisdiction encompasses the subjects of cultural disparity, lack of communication, and absence, and absence of employee involvement more so than any other business function (Aguilera and Dencker 2004, Budhwar *et al.* 2009, Tetenbaum 1999). Therefore, HRM policies and practices will be considered as the main remedies to poor IM&A performance.

In the pre-combination stage, the main problem identified relating to IM&A was choosing to acquire a company with a clashing culture. This can be addressed by assessing the degree to which the national cultures differ along specific country dimensions and categorizing the potential to successfully merge based on the results. The five most important dimensions to include are *individualism-collectivism* (the degree to which a person's actions are determined by those around rather than himself), *power distance* (the degree to which authority and hierarchy is accepted), *uncertainty avoidance* (the degree to which ambiguous situations cause anxiety), *future orientation* (the degree to which future plans affect current actions) and *gender egalitarianism* (the degree to which characteristics and roles of women and men differ in society) (Nishii 2011). As an example of assessment, these dimensions can be applied to the Ganga example used previously. India, Ganga's home country, is a relatively collectivistic country that

is high in power distance and future orientation, moderate in gender egalitarianism and relatively low in uncertainty avoidance, whereas the UK – the country in which the acquired firm was based – is a highly individualistic culture that is low in power distance and future orientation, relatively high in gender egalitarianism and relatively low in uncertainty avoidance (*See Figure 1. Hofstede 1967-2009*). It is small wonder that Ganga had a hard time during the first few years of its merger – the Indian and UK cultures are about as different as night and day! The fact that Ganga came from a collectivistic culture high in power distance implies that it expected its employees to accept their orders regarding the new performance management and goals, while the individualistic and low power distance British employees were willing to do no such thing (Budhwar *et al.* 2009). Had Ganga performed an assessment of the cultural compatibility during the pre-combination stage, it may have thought twice about going through with the marriage, saving itself much lost productivity and hardship.

In the second combination and integration stage cultural, communication, and employee involvement issues all played a role in the failure of IM&As. Cultural issues had to do mostly with employee tensions with foreign upper level management, in which management from the parent company country tried to institute policies and practices not amenable to the acquired company's culture (Budhwar *et al.* 2009, Schuler *et al* 2004). A good solution to this problem would be for acquiring firms to choose an integration manager whose sole purpose is to facilitate the IM&A. This person should be familiar with both acquired and acquiring company cultures, good at both negotiation and mediation, and have significant authority from the acquiring company. An integration manager would act as a liaison between the two companies during policy making decisions of other departments, troubleshooting potential areas of culture conflict

during the policy planning stages and ensuring that all implemented practices will be acceptable to both parties (Schuler *et al.* 2004, Tentenbaum 1999).

Increased employee resistance, confusion, and attrition rates were all problems identified in the second stage of international business marriages whose roots stemmed from lack of communication during the IM&A. There is one solution to all of these issues that should be the mantra adopted for every IM&A: “*It is impossible to communicate too much or in too many ways*” (Schuler *et al.* 2004). Companies should use all forms of communication available to them (email, internet and intranets, brochures, face-to-face meetings, video and phone conferences, letters etc.) in order to ensure that employees have multiple opportunities to learn about what is occurring in the integration process. They should also make sure that the information stream is constant and consistent, reaches all levels of the business, and goes both ways (both acquiring and acquired companies need to update one another). In this way, employees on both sides of the IM&A will be informed at all times and operate under the same assumptions (Schuler *et al.* 2004). Confusion and resistance to change will significantly decrease with the increase in communication, as employees feel more stable in their work environment, knowing what to expect, which will lead to a subsequent decrease in quits (Tetenbaum 1999).

Finally, in the third solidification and advancement stage the chief problems noted were failure to fix minor inefficiencies or tensions that could evolve into larger future ones and failure to learn from the IM&A. The danger in this stage is the potential for companies to operate under the false impression that all issues relating to culture, communication, and employee involvement have already been addressed. Because the IM&A is a dynamic process, things taken as given at the start of integration are likely to have changed throughout the integration process. Therefore, the major way in which the HRM function can improve the performance of an IM&A

in this post-merger stage is to assess, assess, assess. Examining how the company culture has changed as a result of the marriage, can lead to the discovery of better performance appraisal and compensation systems to suit the new firm (Schuler *et al.* 2004). Evaluating the communications patterns of employees (Are vertical communications reaching the levels that they are supposed to? What is the communication method used most frequently? Are interactions between parent and acquired company employees hostile or forthcoming?) can highlight new ways to facilitate the exchange of information and ameliorate the relations between the two companies. In these assessments, the use of employee feedback is critical, not only because management can obtain a realistic perspective of how successful the integration process has been thus far, but also because employees feel involved in the determination of improvements that may still be made.

Assessing the IM&A experience may also serve an important learning purpose for the acquiring firms. Companies that truly wish to be global do not stop at one marriage; rather they tie the knot with numerous firms annually, because they know that international competitiveness is instrumental to any good global business strategy. It is, therefore, essential that companies use their evaluations of already completed marriages, regardless of whether or not they were successful, to develop a standardized integration plan for future IM&As. Doing so will allow for better troubleshooting of cultural, communication, and employee involvement issues that can occur and streamline the overall integration process so that the acquiring firm can grow more rapidly (Tetenbaum 1999).

At this point, it should be evident that the use of the HRM function in IM&As can determine whether the union will be a success or failure. The necessity of HRM is shown by the fact that the three major causes for the inadequacy of mergers – clashing cultures, little communication, and lack of employee involvement – relate directly to employees and the

difficulty they may have in dealing with change. This paper has looked at the IM&A process in detail and the problems that may occur at each of the integration stages, and has put forth a set of targeted solutions that only the HRM function has the capacity to effectuate. Those companies that realize the importance of focusing on their people during an IM&A and that create plans to help them do so are proven to be much more successful in their performance globally (Tetenbaum 1999). By aligning a global business strategy of expanding markets, products and services, and research through IM&As with the HRM strategy, firms increase their odds of success and subsequent competitiveness by a hundredfold. Thus, HRM is the true entity that enables companies to achieve happily-ever-after in their international business marriages.

Figure 1: Chart of Hofstede Cultural Dimension Results for India and the UK

| Country | Power Distance | Individualism | Masculinity | Uncertainty Avoidance | Future Orientation |
|------------------------------|----------------|---------------|-------------|-----------------------|--------------------|
| <u>India</u> | 77 | 48 | 56 | 40 | 61 |
| <u>United Kingdom</u> | 35 | 89 | 66 | 35 | 25 |

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