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Mergers & Acquisitions: how to minimise the risc factors?

Success with Cultural Due Dilligence

Mergers and Acquisitions (M&A) ensure instant access of technology and new markets. Yet still M&A is not a risk free proposition.

Surprisingly this year saw a stable phase of economic growth and recovery after a worldwide recession and a global financial crisis. Though lot has been written and said by economic pundits on the financial crisis, one fact remains uncontested that China and India have not only emerged from the crisis unscathed but have been the driving force behind the recent robust global recovery. In the past nine months Indian outbound M&A deals have reached a staggering total of $24.8 billion, compared to $785 million in the same period last year (Economic Times - New Delhi, 08.10.2010). If the recent cash-influx is an indicator, Germany is the destination of choice for Indian manufacturing companies seeking to acquire technology. As mature global players Indian companies appreciate the importance of due diligence as a conventional risk management tool. Before concluding any M&A deal financial liabilities, legal, market and even geopolitical risks are thoroughly evaluated.

Yet a crucial factor vital to success of any merger is often neglected. Considering that over 40% of total corporate revenue goes into hiring, training and retaining the workforce, human capital factor requires due attention in every stage of deal making. This factor becomes even more crucial while acquiring technology based companies (IT, ITES, Biotech and pharmaceuticals) that are defined not only by their infrastructural assets but by the talent and the expertise their teams as well. Yet more often than not M&A deals result in plunging revenues and decreased productivity. The merger and streamlining of two differing corporate cultures does come at a human cost. Question arises, if there is a way to avoid or minimised this down side? Can a better way be found to retain the team moral and cohesion in a post-merger scenario?

The answer **is 'cultural due-diligence'**, a management tool that can be integrated in the existing due diligence process. This practical approach identifies the differing business practices, organisational structures, reward systems and HR-practises, thus locating the potential trouble spots, flash-points or even deal-breakers.
The objective of this analysis remains to help shape a more cohesive and productive post-merger organisation.

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The success factors of Post Merger integration are by the way:

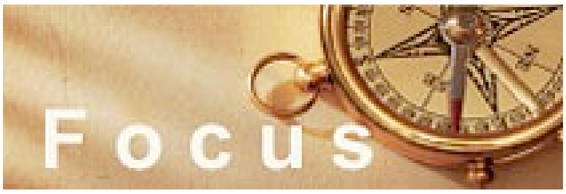
- A clear vision and meaning why to merge?
- Clear leadership responsibility
- Focus on growth synergy instead of cost reduction
- Create quick wins
- Integration of company culture, co creation of the new culture
- Communication with employees
- Efficient risk management

A transparent and comprehensive change architecture with active involvement of members of both companies, cross cultural team building workshops, interface workshops and a very good communication policy have proved to be key for a productive post merger integration.

For further reading regarding the topic M&A and its cultural impacts we recommend the following books and articles:

Dieter Hollank and Sarah Walter: Cultural Clash and Cultural Due Dilligence at Daimler Chrysler Grin Verlag 2009
- *This is especially interesting for lovers of the brand Daimler, but also for all those who wonder how German American mergers might work.*

Agatha Stachowitcz-Stanusch: Cultural Due Dilligence based on HP/Compaq merger case study Journal for Intercultural Management Vol 1 April 2009 p.64-81
– *The most interesting pieces of work are always real case studies like this one about HP and Compaq´s merger, a real learning!*
Also for further reading:



Fons Trompenaars and Charles Hampden-Turner: Managing People Across Cultures (Culture for Business) John Wiley &Sons (2004)
- *Of course the author is always a highlight to read and a real asset regarding the topic merger.*

And here you find some news from us, synetz-international:

Marion Keil: Die Reduktion von Komplexität - Hilfestellungen für den Management-Alltag, Handbuch der Aus- und Weiterbildung 208. Erg.-Lfg., August 2010 unfortunately only available in German language – sorry!

Apart from that we will offer in 2011 three programs for Managers and consultant in Systemic Organisation Development

Germany: Start of Systemische Organisationsentwicklung January 2011

Ghana: Start of Certified Systemic Organization Development Consultant Program CSODCP February 2011

India: Start of Certified Systemic Organization Development Program CSODP August 2011

Wishing you a happy holiday Season and a new year filled with peace and prosperity!

Yours Change Experts

Marion Keil
& Stefanie Neubeck

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