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GLOBAL

Cross-Border Mergers and Acquisitions:

MAKING THEM WORK

The global recession has fueled mergers and acquisitions (M&A) at home and abroad. Prices are down, technology and innovation are on the rise, and conducting business without borders increases the number of potential customers for every business. Also, from a seller's perspective, this tough business climate encourages many owners (especially the ones nearing retirement age) to surrender. They don't have the time, energy or drive to "fight the good fight." Secondly, from a buyer's perspective, the monetary values and business opportunities are very appealing. Manufacturers are especially incentivized with access to lower wages, raw materials, new markets and better distribution channels.

Global M&A is no longer just an option to ponder – it is the new reality. U.S. businesses are being acquired by foreign investors, and that brings global competition to your doorstep. It's buy or be bought. Engage or be engaged. U.S. business leaders can't ignore opportunities abroad any more than foreign investors can ignore the opportunities here on U.S. soil. But the long-term success of M&A depends on a forward-thinking mindset, superior due diligence, actionable data, skilled negotiators and a well-planned business integration process. Every step is critical to getting it right the first time.

Advantages of Global M&A

Launching into the global market through M&A offers many advantages. Compared with other global expansion possibilities, M&A can be a relatively safe and economical strategy. Through M&A, a business can rapidly acquire key technology, gain complementary products, remove a competitor, exert control over the supply chain and improve distribution channels – all while accessing a skilled workforce.

Another significant advantage is the built-in customer base that flows naturally with the purchase of a popular brand. For some domestic businesses, M&A abroad may represent the only tangible option for growing market share in a slumped domestic economy.

When contrasted to building a business abroad from scratch, M&A benefits look even more attractive. Consider these benefits:

> An existing, successful business is already functioning and properly set up and may require only minor changes to continue successfully.
> The workforce of the business will already be in place and well organized. The buyer just needs to develop a relationship with the workforce and discover what motivates them.
> Marketing initiatives and contacts will be firmly established.
> The customer base and revenue stream will also be set up.
> A well-developed company can ease access to capital if it has a sound business plan and available cash flow.

Challenges to Global M&A

Still, M&A deals are not without challenges. Too often, however, the real difficulties and challenges surface months after the deal is signed. Then, the tough questions that should have been addressed in the due diligence phase start flowing. For example:

> How will this newly acquired enterprise be integrated into the existing company?
> Will it operate independently or as a department?

THE LONG-TERM SUCCESS OF M&A DEPENDS ON A FORWARD-THINKING MINDSET, SUPERIOR DUE DILIGENCE, ACTIONABLE DATA, SKILLED NEGOTIATORS AND A WELL-PLANNED BUSINESS INTEGRATION PROCESS. EVERY STEP IS CRITICAL TO GETTING IT RIGHT THE FIRST TIME.

> How will the integration be made smooth and seamless?
> How will the acquiring company deal with duplicate departments, systems, and vendors?
> How will the new business be operated on day one?
> Will this organization structure produce loyalty?
> Will the employees and managers stay?
> What will the local reaction be to any proposed changes?
> What is the new competitive landscape the business is facing?

Unfortunately, the majority of due diligence, fact-finding and investigative resources are focused solely on fundamental "hard" challenges such as infrastructure, EBIDTA and ROI. However, more than 80 percent of the real risks associated with international M&A are derived from "soft" challenges. Soft challenges originate from cultural differences, corporate transparency and systems of doing business in a new country such as legal, labor, accounting and integration issues. Understanding the corporate culture along with the culture of the country or region plays a crucial role in securing the long-term success of any M&A deal.

Although profits, EBIDTA and ROI are important matters, these considerations represent just the tip of the iceberg – the visible tip. Underneath the water, and hidden from view, lurk the real dangers

someone must expose through research and due diligence.

International due diligence requires a company to go beyond traditional M&A work and consider variables that are unfamiliar to most companies and most business people who lack cross-border experience. Because "you don't know what you don't know," unintentional mistakes are made and rarely corrected in time. Avoid this by identifying the right team of experienced people – people who can obtain and interpret actionable data concerning the political, national, corporate and human culture of the targeted company as it relates to the ongoing business operation. Ignoring or misunderstanding these issues will jeopardize a company's M&A initiative.

Companies can prevent late-stage cultural problems from derailing an otherwise sound international expansion by following these additional guidelines:

/ **1.** / Practice cultural due diligence. Determine how the target company operates in a broader, human-capital sense. How will customers and employees view a foreign company moving onto their turf? What's the work ethic of its employees? How is productivity viewed, measured and maintained? What's the management style of its executives? Who are the company's main competitors? How stable is the political environment? Are there any conflicts with the U.S. Foreign Corrupt Practices Act?

/ **2.** / Make a strong commitment. Peter Drucker once said, "Unless commitment is made, there are only promises and hopes ... but no plans." Management has to be on board 100 percent – on both sides! Developing an international market requires enormous energy, knowledge, managerial buy-in and an understanding of business practices in other countries. Few, if any, companies have the resources to go it alone. They'll need a non-U.S. view of the world and the assistance of people experienced in global business transactions.

/ **3.** / Be humble. The brash, pushy approach of the rugged American businessperson doesn't cut it in the global arena. Successful international business leaders possess a quiet, respectful humility combined with a passion for learning, understanding and practicing how people in other cultures live, work and like to be rewarded. Customers in different countries have unique ways of relating to products and services. Their lifestyles vary greatly, along with their values, priorities and buying habits. Savvy international businesspeople blend in and adapt to the cultural norms of whatever market they're serving.

In this respect, cross-cultural or intercultural diversity as a corporate principle is an absolute requirement for business survival and long-term profitability.

/ **4.** / Educate your team on cross-cultural communication. Research shows that communication between culturally different organizations is often plagued by prejudice and stereotyping on the part of the acquiring company's managers. Poor or insensitive communication between managers and the target company's employees can absolutely derail an international venture's chance for success. On the other hand, with proper cross-cultural training, these problems can be minimized or prevented altogether.

/ 5. / Ask for help. Seek guidance from an experienced, "hands-on" international business expert – someone who thoroughly understands how to do business internationally and in that specific region. Such a professional is sensitive to the national and corporate cultures of both the client and target countries and will be able to guide you and put some of the essential policies in place.

For example, what does it mean when foreign business executives become quiet at a key meeting? Are they in agreement? Disagreement? Insulted? Trying to hide their laughter from you? How does the country's ethical system differ from that of the United States? Is corruption rampant? Will the U.S. entity be competing with businesses owned by relatives of the country's president? (If so, good luck!) While there are no guarantees in any business venture, the right international business expert can make a dramatic difference and increase the chances for ultimate success.

Start Early – Think Integration

Sixty-five percent of cross-border M&As fail. Some deals never emerge from the initial phase of negotiations and due diligence, while others fall apart in the latter stage when the acquisition is being integrated into the mission, vision and values of the acquiring organization. For these latter failures, the cause is a lack of foresight. Too often, dealmakers are so consumed by making the numbers work that they fail to establish a front-end strategic integration plan that details how the business will operate post-M&A.

A word of caution here: Do not rely on the CPA, the attorney or the investment banker to perform the strategic integration plan. First, this team of dealmakers already received its payment in full (whether a lucrative commission or a hefty fee) when the transaction was officially completed and no longer has a vested interest in the success of the transaction. Secondly, the essential questions are strategic in nature and require the foresight of a global business expert – someone who can ask the right questions, gather the requisite data and evaluate the information in a cross-border context.

Another reason why integration issues must be addressed early is that businesses operate very differently in other countries. For example, a business in Malaysia cannot be run the same way a business is run in the United States. In addition to cultural differences, there are environmental, political and legal differences that need to be understood and factored into an overall risk analysis. In some countries, for example, the government has tremendous influence on how, when, where and whether business can be conducted. The government may also reserve the right to retroactively institute changes that could result in land, buildings or certifications being revoked.

Without cause, some governments can simply eject a company from the country with no explanation. In one recent example, a mining company with operations in Africa was conducting business as usual on Monday. By Wednesday, it was shut down and management was told to leave the country. Their mining certificate was revoked, and they were provided with no explanation.

Risk Analysis vs. Risk Aversion

Does the mining example suggest that doing business abroad is too risky? No. It just supports the fact that, before committing to any business opportunity in a new market, it is imperative to conduct extensive due diligence and a thorough risk analysis. Assess the risk (both perceived and potential), anticipate problems and be prepared with solutions. Extensive due diligence is the only way to develop an effective strategic integration plan that addresses cultural, political and legal issues. This is particularly true in emerging markets that are still developing their policies, rules and regulations.

In some of these markets, just determining the legal ownership of a building or piece of land can prove impossible. Also, accounting records may be incomplete or inaccurate. Be aware of potential pitfalls. Balance the opportunity analysis with a thorough risk analysis, and create a risk management plan for things that could go awry. Don't turn away from global business. Rather, learn to engage the global marketplace successfully by expanding front-end due diligence.

Creating Sustainable Deals

Three out of five global deals fail to meet expectations, but it doesn't have to be that way. Savvy businesspeople can improve those odds with a more relevant distribution of due diligence and an emphasis on post-deal integration. If 80 percent of the risk comes from the "soft" issues, that's where the focus of efforts should be directed. By extending the principles of traditional due diligence, businesses can make more informed decisions. Remember, even when the numbers look good, the deal can become a disastrous failure if the soft issues are not properly addressed. Learn about the culture of doing business, learn about the legal system and how it may affect your new venture, and learn about the political environment and any implications on daily business. The understanding of these issues is the key to creating successful and sustainable ventures. **mt**

Mona Pearl's experience in international strategic development and global entrepreneurship has been vital in helping companies design and execute their global strategies. Pearl is known for her out-of-the-box thinking and developing creative solutions to tough challenges that produce bottom-line results. Pearl founded and operated three successful businesses. From operations to organization to top-line growth strategies, she initiated and executed cost-effective and creative opportunities for companies to make money while increasing global market share, enhancing leadership and engaging stakeholders along the value chain. These activities led to companies growing their business across borders, leveraging their global competitiveness and addressing cross-cultural issues in international markets. Pearl has lived on three continents and is proficient in six languages. She was quoted by Microsoft, *Crain's Chicago* and Entrepreneur.com, and interviewed by other media on global issues and strategies. She is a frequent speaker at global business-related conferences, has co-authored two published books, and is an adjunct professor at DePaul University teaching International Business. For more information, call 312-642-4647 or visit the company website at www.BeyondAStrategy.com.