

Overcoming Cultural Differences in Cross-Border M&A



Meet Our Presenters



Robert Yu
Partner
Beijing, China
Global PMI Partners

Robert has over 30 years of professional M&A experience in the US, EU and Asia as a board director and CEO for many Chinese companies, he has developed broad international and cultural understandings.

Robert is a prominent speaker at M&A summits, has co-authored the book 'Cross-Border Mergers and Acquisitions' and continues to provide expert advice on business strategy and acquisition integration for Fortune 500 multinational companies.

His M&A expertise includes: growth strategy, deal management, acquisition integration planning, integration management office (IMO) setup, joint venture management, M&A trainings, culture and change management.



Robert Heaton
Senior Executive Advisor,
Australia & New Zealand
Global PMI Partners

A Technology Industry veteran, Robert has held Sales & Operations leadership positions in Europe, North America and Asia Pacific for technology leaders SAP, J.D. Edwards, and Cisco.

Prior to that, Robert worked in Production Management for Dunlop before spending 10+ years consulting on technology adoption to manufacturing and logistics businesses across Europe.

He is a specialist in M&A, helping companies prepare for sale/ divestment or integrating acquisitions to maximize synergies, efficiencies and overall ROI.



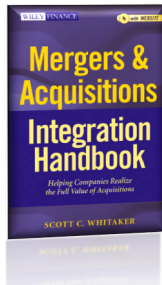
Dr. Mona Chung
Executive President,
Beijing, China
BlueMount Capital

Dr. Mona Chung is a bi-cultural expert in cross-cultural negotiations whose work addresses the cultural gaps between Westerners and Chinese in the fields of commerce and education.

Dr. Chung is on the executive board of the Victoria branch of the Australia China Business Council. Being highly experienced in a large number of industries and a frequent visitor to China, Dr Chung is a guest speaker at many public forums and author of an extensive list of publications.

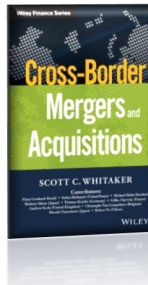


Global PMI Partners & BlueMount Capital Book Contributions



Mergers & Acquisition Integration Handbook

Proven Strategies and tactics to manage integration of acquired and/or merged companies



Cross Border Mergers & Acquisitions

The complete package for flawless execution of cross-border M&A



Cross-Border Mergers & Acquisitions – Chinese Version

Published by China Machine Press – only available in China



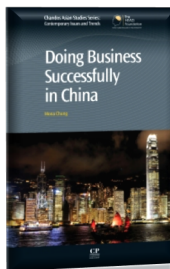
Mergers & Acquisitions – A Practitioner's Guide to Successful Deals

Contributions of integration and carve-out chapters



Euro impact and reality

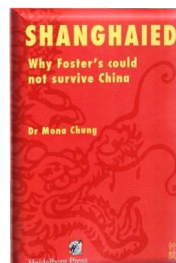
Business risks and practical responses to the challenge of the euro



Doing Business Successfully in China

Published by Chandos, a division of Elsevier. Available on Amazon.com

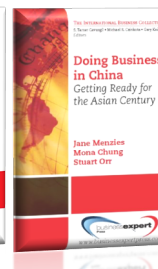
The first book presented with an understanding of both the Australian and Chinese markets, culture and more importantly the behavioral pattern of people from both.



Shanghaied: Why Foster's Could Not Survive China

Published by Heidelberg Express, only available from the publisher

The argument about whether or not we should be doing business with China. Dr Chung's main message – we can't treat China in the same way we would any other foreign market.



Dancing with the Dragon

Published by BEP Available on Amazon.com

This book looks at a number of contemporary issues in relation to the current role China plays in trade investments, especially outward investments,

About Global PMI Partners

The post-merger integration specialists with worldwide expertise.



- ✓ 375+ M&A projects
- ✓ 35+ Countries
- ✓ 70+ Dedicated professionals

Our expert teams provide an optimal blend of skills, localization, and industry experience to meet the needs of our clients.



Insights Shared Today Based On Learnings from over 375+ M&A Projects of Differing Industries, Location and Deal Size



About Global PMI Partners M&A Services

GPMP integration, divestitures/carve-outs, post-close transformation, and internal M&A solutions activate value and enable rigorous execution to deliver transaction objectives.

Integration & Divestitures Services

Integration/Carve-out Planning & Execution:

IMO & CMO MobilizationSM

Business Workstream Management

Organizational Design

Target Operating Model Design

Culture and Change Management

Transition Service Agreements (TSA)

M&A Program Healthcheck

**Our
Focus
Today**

Post-close Transformation:

IMO to PMO Transition

Business Process Optimization

Operating Model Optimization

Operational Restructuring

M&A Capability Development

Training & Internal Capabilities Development:

Essentials for Executives

Integration Planning for M&A Success

IMO Training & Functional Lead Training

M&A Integration Framework Development

Integration & Carve-out Playbook Development

M&A Transaction Playbook Development

About BlueMount Capital

Providing Capital & Management Solutions for Private & Public Companies and Sophisticated Investors



BlueMount Capital is a capital markets group with a global network of highly skilled professionals covering every continent. Our valuable relationships give us the capacity to deliver comprehensive solutions for the most sophisticated business requirements across all asset classes.

BlueMount Capital™ services clients by providing a unique mix of advisory services and long-term support.

- Equity and Debt Capital Raisings
- Stock Exchange Listings
- Mergers, Acquisitions and Divestments
- Management Buy Outs and Buy Ins
- Cross Border International Transactions
- Strategic Partnerships and Joint Ventures
- Technology Commercialization
- ASX listings for Chinese Companies

For more, visit:

bluemountcapital.com



Key Learning Objectives & Topics

What will you learn

- Understand how and why cultural issues raise their head in M&A transactions
- Recognize the key signals that indicate cultural challenges in your organization
- Gain insights on how to deal with culture challenges with proper culture assessment and communication strategy

Key Messages

- Cultural differences can completely destroy the value in a Merger or Acquisition
- Culture assessment MUST be high on the priority list during Pre-Deal Due Diligence
- Culture MUST be addressed from Day 1 and must be a key factor in your post deal communication strategy

Answer Questions

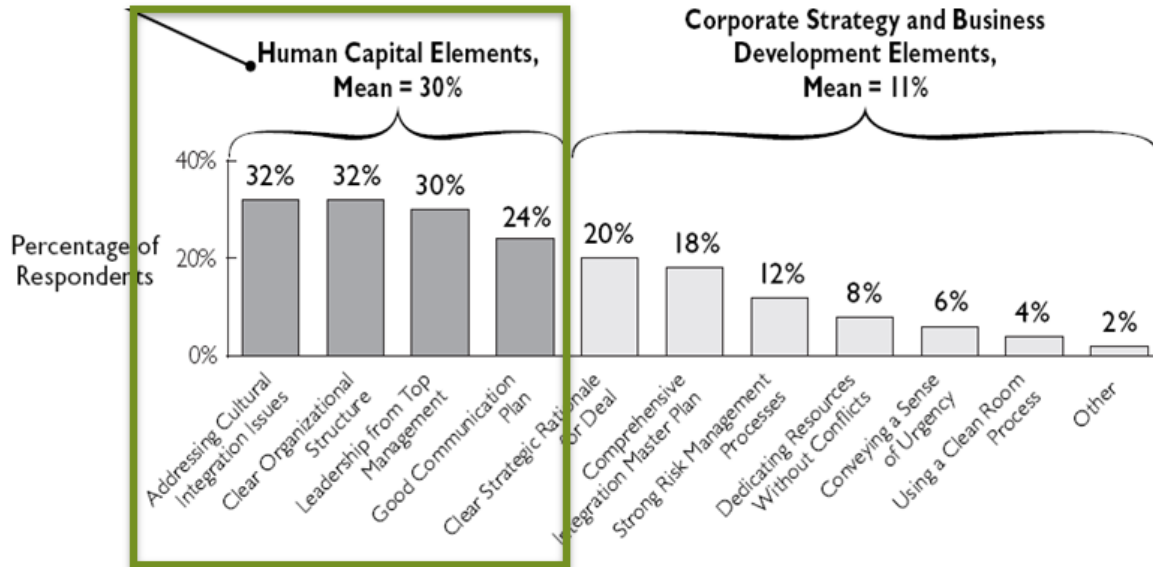
- Participant Q&A

Overcoming Cultural Differences

– in Cross-Border M&A –

Culture is Critical to Mergers & Acquisitions (M&A) Success

Culture and human capital elements in integration is significantly higher than other areas:



Source: Accenture/Economist Intelligence Unit 2006 Global M&A Study; Corporate Strategy Board: Increasing the Certainty of M&A Value Capture (2006); Corporate Leadership Council research.

What We Mean by Culture?

“The way we do things around here”

What is culture?

- National/regional culture, organizational culture, group/functional subculture, and individual style, etc.
- Value, belief, behavior

Corporate culture

- “The way we do things around here”, “the rule of game for getting along” (explicitly and implicitly)
- Practices that determine how a company's employees and management deal with business transactions
- It drives organizational effectiveness: decision making process, flexibility, attitude to change, teamwork, customer satisfaction, quality, innovation and creativity

Culture issues need to be addressed early in cross-border M&A

- It needs to be understood as early as possible as it impacts many M&A activities such as deal negotiation, communications, team building, and project executions, etc.
- Culture assessment (or culture due diligence) early in the M&A process mitigate risks and positively impact integration

Culture Due Diligence and Integration Approach

Culture Assessment

- Assessment of current cultures of both the target and the acquirer
 - One-on-one interviews or focus groups
 - Quantitative online survey
 - Document and artifact research
- Side-by-side cultural profile analysis to identify differences, risks and opportunities

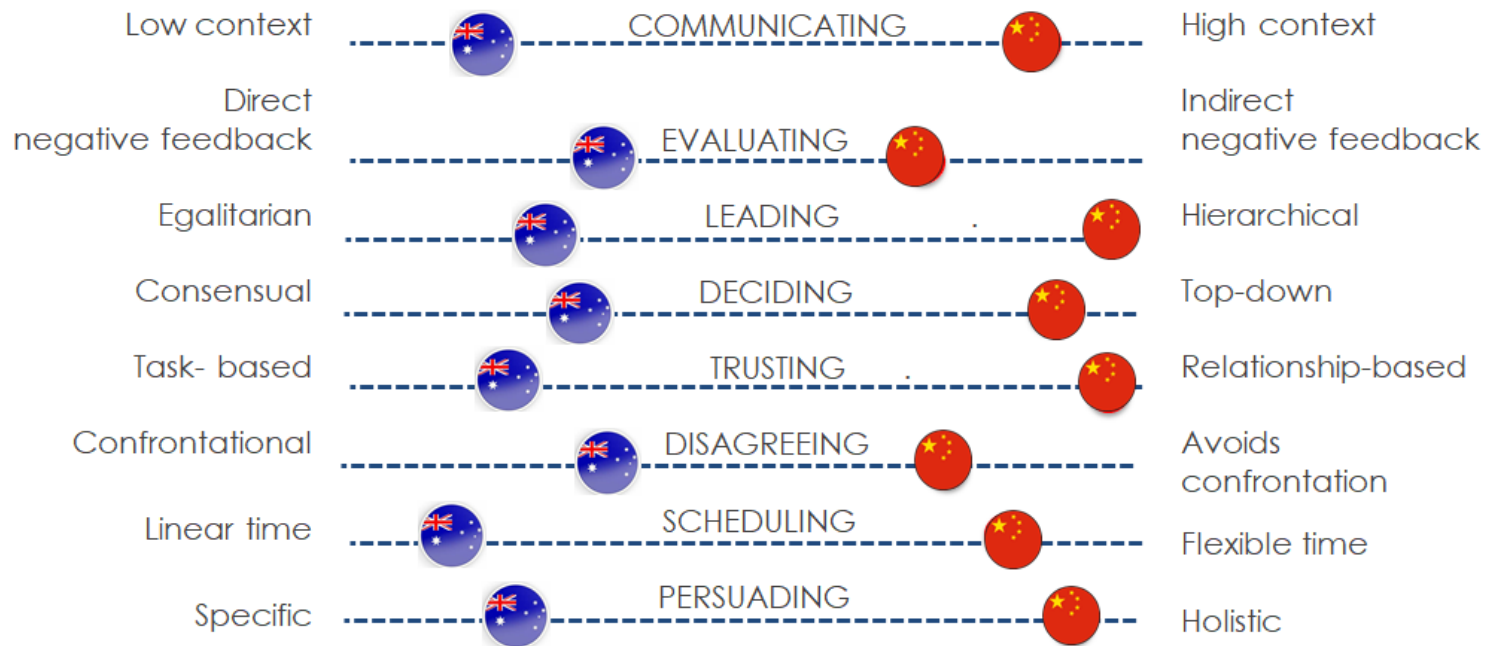
Integration Planning

- Set desired future culture and practices aligned with the business strategy and the deal rationale
- Executive alignment on the desired state

Implementation

- New mission statement, vision and values
- Culture gap analysis between current and desired state
- Impact assessment of integration recommendations
- Identify enablers to drive the change needed

Culture Mapping



Understanding the Chinese business culture or the price of ignorance

“The Butterfly Effect”

- Cultural gaps between Chinese and Australians are large!
- One doesn't know what one doesn't know!
- The butterfly effect can have a huge impact!
- Opportunity costs may be huge!

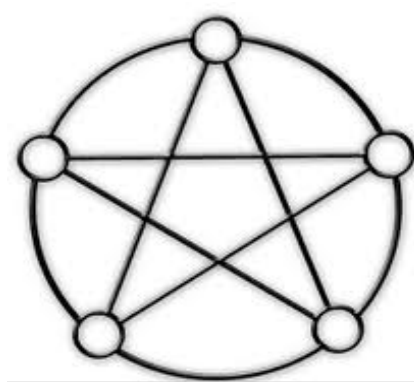
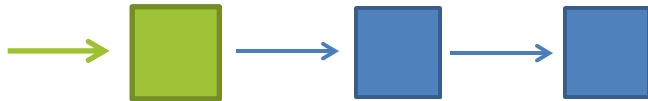
Hence unless you are aware of the differences, you will be struggling!

Relationships and Trust

- Chinese do all of their business based on relationships
- Australians are disadvantaged, need time to build relationships
- Trust (*Australians, overseas Chinese, mainland Chinese*)

The Chinese logic and thinking process

- **A Chinese mind and an Australian mind:** start model v. liner model



Cross-cultural Negotiations skills

- Chinese are skilled negotiators, tough and experienced
- The importance of moral gain
- Invest in preparation and research
- Only inexperienced negotiators do not prepare
- Avoid getting into a negotiation with one person
- Bi-cultural negotiator – crucial !!!

Understand the different value systems between Chinese and Australians

- Value of personal relationship
 - trust instead of commercial value
- Brand value
 - Australian tourism, land space v. architecturally constructed gardens, hotels
- Consumer behaviour
 - Food security and safety, clean v. dirty
- Value of practitioners
 - Order in seeking advice differ between Chinese and Australians

Bi-cultural personnel

- To overcome the boundary barriers utilising bicultural personnel – personnel who is capable to conduct business in either cultures interchangeable – speaking the language or looking Chinese is not a bicultural personnel
- As people with extensive knowledge of both cultures
- Capable of behaving, thinking, following a logic appropriately in either culture when required
- Only when the cultural differences are understood, one is able to take the advantage getting the transactions over the line!

Real World Examples & Resolution of Cultural challenges in M&A

Cross Border – China Acquisition of Australian Business: 5 Common Mistakes



Relationships Guanxi

Business relationships require extended social interaction to develop trust.

9 months of effort was destroyed on a major deal when new (local) legal people were introduced in an effort to save on airfares.

The deal collapsed but the negative memory lingered.



Red Tape

Many business processes are still paper based and plagued by varied application of Regulations.

This business made the mistake of assuming all business approvals could be managed by two in-country admin people in a matter of weeks.



Communications

Communication in English went well at first then disintegrated as the process became more complex.

This caused significant delay & misunderstanding that ultimately Impacted deal Price and post-deal value.



Business Culture

Australia leadership did not pay respect to Chinese business culture steeped in tradition. They expected Chinese business to conform to Western ideas of business models.

Realizing their mistake, They quickly showed humility and a willingness to learn the complexities of Chinese business.



Human Resources

Chinese employees are used to hierarchy for decision making and often clash with western managers who delegate responsibility.

Chinese focus is on small teams with clear team leaders and reward for strong performance & discipline for under-performance.

Real World Examples & Resolution of Cultural challenges in M&A

2015 Cross Border Acquisition: Korean Cyber-Security business by Singapore technology business

- National/regional culture, organizational culture, group/functional subculture, and individual style, etc.
- Value, belief, behavior
- \$1Bn Singapore based Technology business made \$60M acquisition of Korean based Cyber Security business
- Objective: acquire cyber security skills and increase portfolio of products and services in the APAC region and leverage \$30-\$50M of cross-sell / up-sell opportunity over 3 years
- Immediate language / cross culture challenges
- Polarized differences in customer relationships (kill & run vs acquire and nurture)
- Significant differences towards 'legality' of customer contracts
- Similar differences in how management were remunerated and thus how decision making was influenced
- Overall, significant challenges to the cross-sell & up-sell opportunities across the region



Resolution

- Immediate & difficult re-negotiation of several high value contracts
- Immediate product / services re-brand
- Remove entire Korean leadership and majority of sales team
- Change remuneration model to drive 'customer care' behavior

Real World Examples & Resolution of Cultural challenges in M&A

2018 Australian Cultural Challenges:

Small strategic acquisition by a large corporate

- \$5 Bn Global Industrial Corporate made \$30M acquisition of technology business.
- Global business was becoming commoditized and suffering from declining margins and intense global competition.
- Intention was to provide value add solutions to customers by incorporating the acquisitions advanced technologies into their existing product range.
- There was immediate '700 lbs. gorilla' behavior by corporate sales & marketing towards the much smaller tech company. **Not only did this create internal frictions, it started to play out in front of important customers and resulted in loss of some significant business.**
- Cultural challenges further exacerbated by internal M&A integration team who were generally inexperienced in managing culture (recent graduates).



Resolution

- Early intervention by Exec Leadership
- Reinforce expectations
- Internal workshops with both parties present
- Commence relocation of tech company into corporate locations
- Challenges are on-going

Concluding Comments

Key Take-aways

- Culture is the hidden danger that must be considered as a key component of any post deal value creation
- Culture challenges are just as likely in local deals as they are in cross border deals
- Cultural challenges can destroy a deal despite there being strong value opportunity in other areas
- On the contrary, proper attention and respect to culture can, and will drive significant post deal value

Recommendations

1. Engage experienced bi-cultural resources
2. Make sure culture is addressed as part of pre deal due diligence
3. Carry out a cultural assessment as early as possible
4. Ensure culture is a key part of post deal implementation plans
5. Invest time in helping pre and post deal teams understand and respect cultural differences
6. Implement culturally appropriate and consistent communication across the whole deal life-cycle
7. Encourage and reward cultural improvements

More Webinars on gpmip.com:

M&A Programme Healthcheck

IMO MobilizationSM

M&A Playbooks



gpmip.com/connect



twitter.com/GPMIP



linkedin.com/company/global-pmi-partners