

Cos Work at Cultural Matches, Post-M&As

From lifestyles to decision-making systems, dispute redressals and corporate traditions, companies are giving employees of the acquired firm a thorough orientation



Global M&A survey by Hay Group shows:

Businesses spend only 25% of due diligence time assessing intangibles like business cultures and leadership capability of a target company. Market capitalisation of intangibles is 75% of a company's value whereas executives value it at 30%.

▶ 31% companies fail to conduct a formal review of the intangibles of their target

▶ 70% of companies that carry out an intangibles review report an increased success rate in M&A deals

▶ 66% of executives believe an increased and earlier focus on intangibles when engaging in M&A activity would have improved the chances of its success

Holi celebrations were a part of a recent cultural integration exercise at L'Oréal

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India Inc is going global. With Indian companies' appetite for mergers and acquisitions at a high, and transactions valued at more than \$43 billion taking place in 2010 alone, cultural integration has become the new buzzword at the workplace.

Mainly because with employees spread across the globe, or Indian managers based abroad handling global teams, it becomes necessary to both be aware of, and sensitive to, the cultural practices of the host country. At the same time, with a considerable number of expatriates joining Indian companies, their bosses want to make sure they know the dos and don'ts of living and working here.

There's another reason these issues are not taking centre stage. Studies have shown, time and again, that approximately nine out of 10 corporate entities fall short of their M&A objectives, one of them being cultural adaptation. "It's been documented that almost 80% of mergers and acquisitions fail due to cultural differences," says Ramesh Puri, managing director of headhunting firm, Executive Access. He adds that every organisation has its own values and processes, and if that is not at least somewhat aligned to the target/partner company it can even lead to a breakdown in operations.

Indeed, cultural adaptation is important even with two companies from the same country. HR experts have put down the failed merger between Indian Airlines and Air India, to poor cultural integration. While Air India employees felt their counterparts in Indian Airlines get a sweet deal out of the merger, the latter felt they were not being treated with enough respect. Just last week the issue flared up again with a section of Indian Airlines pilots demanding parity in pay and privilege, among other things, with the Air India staff. The civil aviation

ministry has, since then, decided to constitute an independent committee of experts to look into the matter. "Cultural problems can occur even within the same industry and geography," says Puri. Not just in trans-global situations.

In case of expansion abroad, attempts at integration must consider the cultural differences of people by virtue of their origin, the country they live in and general sociological conditions. For instance, says Puri, Americans are more pragmatic and less emotional when taking decisions, "while we Indians are tuned more into emotions than reason".

Consultancy firm Hay Group recently pointed out in a study that seven out of 10 senior executives believe it was difficult to obtain intelligence on corporate culture and human capital of target companies during an M&A. HR experts say this holds true even of setting up operations in other countries.

Hinduja Global Solutions, the BPO arm of the Hinduja group, is on an acquisition spree and has embarked on cultural integration initiatives in the last one year. It has decided to recruit senior managers who are adept at handling cultural integration, and is now looking to make this one of their key result areas (KRAs).

The move follows on the heels of Hinduja Global's realisation that without some training in this area, the cultural integration process would take much longer. "We now hope to reduce the designated integration time, of 15-18 months, by almost six months," says Hinduja Global Solutions executive vice president global (HR) Anthony Joseph. The company currently employs around 18,000 people, of which 6,000 are posted outside India. The company is also mindful of integration when recruiting. For instance, during walk-in interviews in the Philippines, there is a live band and dinner to entertain all applicants as well, since music is an integral part of the local culture. Following this, Hinduja Glob-

al has seen almost 96% of the candidates selected join the company as against the industry average of 60% in the Philippines. Similarly, at its El Paso facility in the US, where the culture is essentially Latin, Hinduja Global has ensured operations are shut on Sundays, in accordance with local norms, and critical work is shifted to other locations. This has, subsequently, helped the company manage attrition, which was otherwise high.

Cultural integration is a way of life at French cosmetics major L'Oréal. This is mainly because, at any given point, the company, which has extensive operations all over the world, has almost 700 people in transition, moving from one country to another for postings. The Indian subsidiary of L'Oréal has drafted a structured, three-week programme for crash courses in the host country's culture, including tutoring in the new language.

"When we hire, we ensure that the candidate is culturally adaptive. We invest heavily in language orientation, and also ensure that expats, who come to India, spend a few days here before formally joining, to get a feel of the country's culture first-hand," says L'Oréal India director for HR, Mohit James.

FMCG major Dabur India has undertaken cultural integration for two of its recent global acquisitions — Turkey's Hobi Kozmetik and the US-based Namaste Group — and is now doing it for its Nigeria and Egypt operations. "Even in our organic expansion, we stress cultural integration as this will ensure that the manpower in such countries can drive our business agenda there and deliver requisite results. This is becoming more important because

we are recruiting local people during overseas expansion," says A Sudhakar, executive director (HR) at Dabur India.

More and more businesses in India are recognising the value that lies in intangible assets like people. The Hay Group study also says that several business leaders during M&As expressed dissatisfaction with the post-merger climate, describing it as a "culture shock". It points out that culture is no longer just an HR matter, but evolving into a business issue. Adil Malia, president (HR) of the Essar Group, agrees. "Culture is a way of life in a company," he says. "It talks about traditions, decision-making systems, disputes redress and how resources are controlled. Hence, it is not just the HR department which has a role to play, but the entire business leadership." Essar, which has been involved with a fair amount of M&A itself, has drawn up a cultural integration programme that evaluates the culture of the target company during the due diligence phase itself, alongside its assets and liabilities, and only then goes ahead with the deal.

Mahindra & Mahindra (M&M), which in January unveiled its new brand positioning, Rise, also expects this will become a platform for cultural transformation and integration across group companies. It plans to use this platform to culturally integrate its recent acquisition, Korean SUV maker SsangYong Motor, with the operations of the parent.

"We did a thorough culture compatibility study before concluding the SsangYong deal. While we don't tinker much with the acquired company's DNA, in order to nurture its uniqueness, we do try to integrate it with the Mahindra value system and processes," says M&M executive vice president (human capital) Augustin Prince.

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