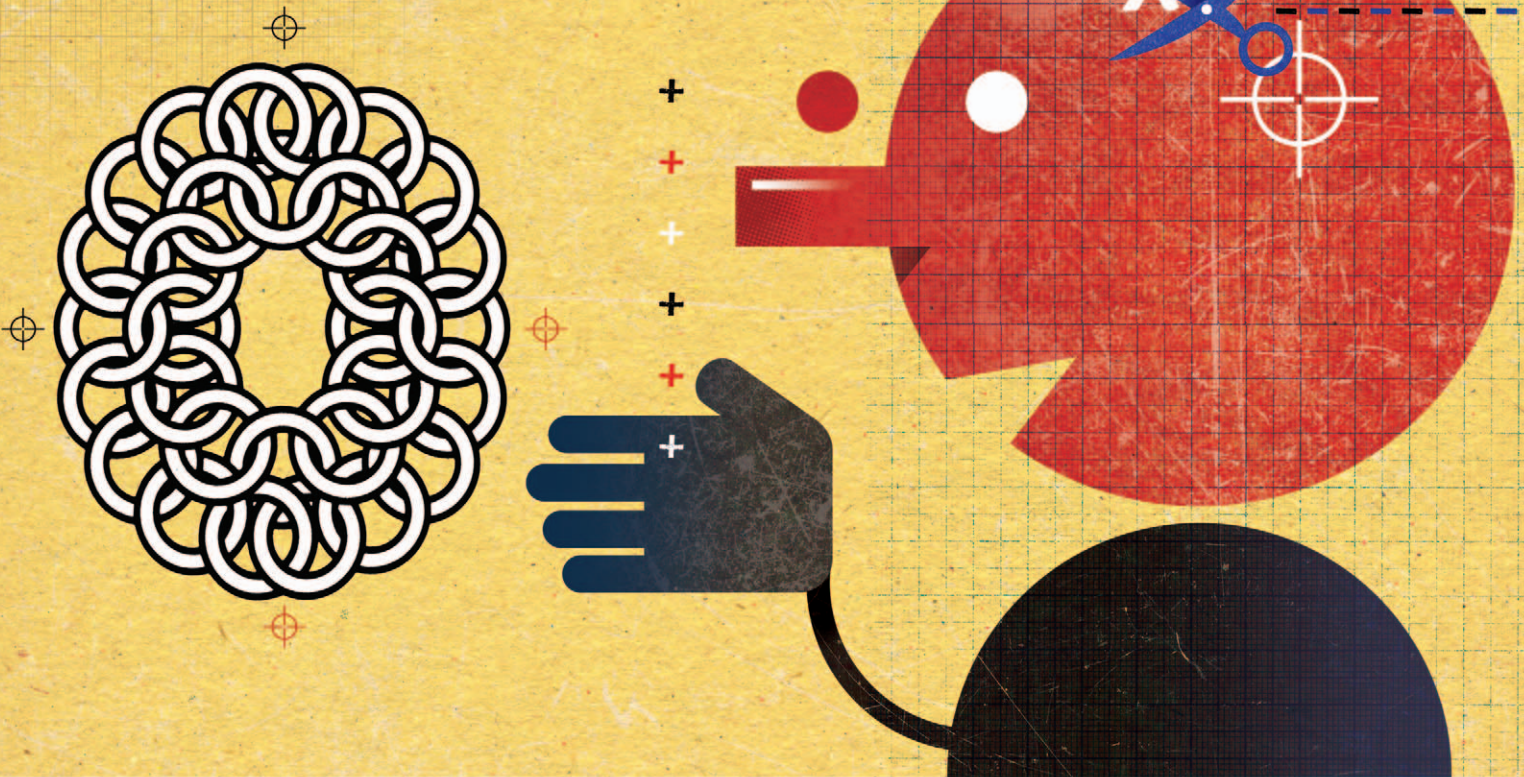


# Mergers & Acquisitions

BY PRASHANT KALE, HARBIR SINGH, AND ANAND P. RAMAN



## Don't Integrate Your Acquisitions, Partner with Them

Bucking conventional wisdom, some emerging multinationals are preserving the identity of companies they've taken over. By allowing them operational autonomy, they're reaping rewards.

**WHAT COUNTS IN** making a happy marriage is not so much how compatible two people are, wrote Leo Tolstoy, but how they deal with incompatibility. That philosophy underlies a novel approach to M&A that some emerging multinationals have adopted. Instead of rushing to integrate businesses they've bought overseas, they've allowed their acquisitions to continue operating independently, almost as if there had been no change of ownership. Each organization focuses on what it does best even as it learns to use the resources and capabilities of the other to achieve its goals.

Partnering – our term for this approach – entails keeping an acquisition structurally separate and maintaining its own identity and organization. The acquirers retain the senior executives, particularly the CEOs, of the corporations they buy and give them the same power and autonomy they used to enjoy. The new parents simply lay down their values to serve as a beacon and create a fresh sense of purpose in their acquisitions. They hunt for synergies in a few areas, carefully choosing those that aren't disruptive to their acquisitions' businesses. In a nutshell, the acquirer treats the acquired organization as it

would a partner in a strategic alliance. By doing so, emerging multinationals are able to manage acquisitions' organizational drivers in a nonthreatening way, reduce the unintended consequences of integration, and create an environment in which companies can easily share knowledge and best practices.

Big business groups from several developing countries – the AV Birla Group, the Mahindra Group, and the Tata Group in India; the Ülker Group in Turkey; Neusoft in China; and Am-Bev in Brazil, among others – are using this light-handed M&A style. Their approach was summed up in 2004 by the Tata Group's chairman Ratan Tata when his group acquired South Korea's Daewoo Commercial Vehicle Company. "Tata Motors will operate Daewoo as a Korean company in Korea, managed by Koreans," he stated, "but it will work as part of a global alliance with its Indian counterpart."

The partnering approach is becoming a hallmark of reverse takeovers, even helping emerging giants win takeover battles. For instance, Murat Ülker, the low-profile chairman of the Ülker Group, was asked by Godiva's board why he wanted to buy the company during the auction in 2007. "I have enough businesses to run," he said. "For me, Godiva is the Spoon-maker's Diamond [the 86-carat stone hanging in Istanbul's Topkapi Palace] of the chocolate market. I will polish it, make a pendant with it, and help promote it in different parts of the world." His clear intention not to manage the Belgian-American company in a hands-on fashion helped him bag Godiva. Hemant Luthra, the architect of the Mahindra Group's overseas takeovers in the automotive components business, adds: "The management teams we acquired in Europe have become our best spokespeople. If the people in a company we are trying to acquire have any concerns, I simply put them in touch with those managers."

It may be too early to tell how well the approach is working; cross-border acquisitions are notoriously tough to pull

## IDEA IN BRIEF

- **Instead of assimilating the businesses they've taken over, some companies from emerging markets have allowed acquisitions to retain their independence – and their top management teams.**
- **Although it's early, signs suggest that this approach is working. Partnering, as the authors call it, even helps emerging giants bag premier companies – as the Ülker Group did with Godiva.**
- **Some drivers of the approach are peculiar to emerging multinationals, but companies like Cisco and Renault have also experimented successfully with this hands-off technique.**

off. However, the signs are encouraging. We analyzed the financial performance of Indian corporations that bought 204 companies abroad between 2000 and 2007 and many of which have used the partnering approach, and we were surprised to find that they had created value for shareholders. After the takeovers, the buyers' stock prices registered a gain of 1.76% after adjusting for other major factors, suggesting that the acquisitions were responsible for the increase. That's exceptional; most cross-border takeovers destroy shareholder value. For instance, Daimler's \$36 billion acquisition of Chrysler, hailed as a deal "made in heaven" in 1998, ended with Daimler selling Chrysler for \$7.4 billion in 2007.

A survey we conducted of Indian acquirers' senior executives shows they're satisfied with the outcomes. On a 7-point scale (where 7 stands for "I strongly agree"), scores averaged 5.69 for the statement "You've achieved most of your objectives in executing this acquisition," and 5.47 for the statement "You're satisfied with the outcome and performance of this acquisition." When we interviewed a cross-section of employees in 10 U.S. and European companies recently acquired by Indian firms, more

than 50% of them said they were "happy" with their new owners. Again, this is surprising, considering that M&A frequently results in disgruntled employees and an exodus of top talent. Thus, emerging giants could become acquirers of choice globally.

Emerging multinationals have persisted with the partnering approach despite the economic environment of the past two years. Never have companies had to place greater emphasis on reducing costs and improving efficiencies. Yet companies from developing countries have given their overseas acquisitions a great deal of managerial freedom – and financial support – to deal with the crisis as they see fit. It's time to shine a light on this intriguing tactic, and to evaluate whether companies the world over could use this postmerger integration method.

## What's So Different About Partnering?

Companies have to make decisions about five issues after a takeover. The partnering approach differs from traditional postmerger integration practices on all of them, we find.

**Organizational structure.** Most takeovers result in two organizations becoming one. Merging goals, procedures, and reporting relationships yields economies of scale and scope, and reduces operational and overhead costs – the *raison d'être* of most M&A. In stark contrast, most emerging multinationals haven't absorbed their overseas acquisitions. They've allowed the acquisitions to remain separate organizations, and have given them almost complete operational freedom even when they are in the same or related businesses. Tetley and Corus (Tata Group acquisitions), Godiva (Ülker's purchase), and Springs Industries (which Coteminas bought) all operate as stand-alone businesses despite having had new owners for three or more years.

Independence doesn't result in dramatically lower costs, but it does allow emerging giants to avoid the mistakes that doom many takeovers. When com-

panies merge, the process disrupts operations and activities in both organizations. Creating common procedures and reporting relationships is complex and consumes significant chunks of top management's time. In the process, organizational morale dips and employee turnover soars. These hidden costs, many emerging multinationals have found, outweigh the monetary benefits of structural integration.

Reducing costs is not the only reason why emerging multinationals pursue M&A. They acquire to expand into new markets or gain control of brands and new technologies. By keeping acquisitions at a distance, they can take full advantage of overseas companies' identities and prevent their own antecedents from clouding established brands – a particular worry when it comes to growing super-premium brands such as Godiva and Jaguar or consumer icons such as Budweiser. For instance, VIP Industries, India's largest luggage producer, acquired Carlton International, the maker of high-end luggage in the UK, in 2001. The company now manufactures the Carlton line in India, but it maintains a very different organization in the UK, so that it can preserve the British essence of the brand.

**Business activities.** Emerging giants don't entirely forgo synergies; they go after them selectively and in stages. At first, they look for activities that, if coordinated, will yield cost savings or enhance revenues without disrupting either company's core business. Taking a leaf from the strategic-alliances textbook, they use managerial links – such as joint teams and boundary-spanning individuals – to identify and exploit opportunities.

Raw material purchases are usually a good place to score quick wins. In traditional postmerger integration, procurement synergies come because the organizations have merged into one. By contrast, emerging multinationals set up teams to coordinate buying with overseas acquisitions. Soon after Tata Tea acquired Tetley, managers from both companies agreed to focus on open-market

## Making a Long-Term Bet: Partnering in Action

Ülker's hands-off approach to Godiva Chocolatier – which the Turkish food and beverages group acquired in December 2007 – has been successful despite the current recession, according to Jim Goldman, Godiva's CEO. Here's what he had to say about how this novel M&A technique works in practice.

### Why did the Ülker Group become your favorite bidder?

I'd never heard of the Ülker Group initially. I did some research on the web, and I simply couldn't visualize Ülker as our new owner: It had very different positioning; it was in chocolates but not in retail; there was no geographic overlap. But when Murat Ülker and I met during the auction process, my skepticism quickly turned to interest. What sold me were his aspirations for Godiva, his ability to invest in us for the long term, and his desire to help us realize our potential. We would also become a stand-alone organization, which we yearned for.

### What was Ülker's approach to Godiva after the takeover?

We're an important investment for the Ülker Group. Its executives attend board meetings and participate in decision making, but we're expected to make decisions. For instance, when two senior executives left Godiva in 2008, I wanted to move quickly to hire two highly qualified people. The Ülker Group's senior executives met the candidates, but they respected the fact that I needed to own key decisions like those. That's typical: We've had no interference from Ülker, yet the level of support is very strong. That approach is brilliant because I feel committed to justify the trust in me. I tell our people that we're lucky we have a parent willing to invest in us even in

this economy. We have a huge obligation to deliver.

### How important was it to retain Godiva's top management?

One of the best things Ülker did after the takeover was to make it clear that they believed in Godiva's management. They wouldn't have bought Godiva if they hadn't liked what they saw in my team and our strategies. That created a foundation of trust and respect, which is critical for postmerger success.

### What can a developed-economy company like Godiva learn from a developing-country company like Ülker?

A lot. Ülker has capabilities and technologies we don't have. Its people are great at negotiations, so that's something we're learning. Ülker is extremely entrepreneurial for a \$10 billion group, and Godiva can learn from that, too. Ülker thinks globally and is pushing us to think more globally. They have more ideas about where Godiva should invest than we can handle.

### How will Ülker evaluate the success of its postmerger approach?

Mr. Ülker is a smart business builder. He wants a return on his investment, but he's not looking for that to happen in an unreasonable time period. I believe the group wants to be able to say, "We took a great brand and made it better." They want to walk into a Godiva store and feel it's really working; they want to see our products and know that we're innovating; they want to see us in new countries and know we're growing globally. They have a burning desire to grow Godiva in a quality way. That's it. And then, Ülker knows, the returns will come.

tea purchases – an area where they could reduce procurement and logistics costs just by acting in unison. They set up a buying team consisting of an equal number of managers from each company, so that each would become aware of the other's quality standards. Similarly, Ülker and Godiva coordinate cocoa and hazelnut purchases, and Tata Steel and Corus now purchase all their zinc and scrap metal together.

Sharing operational know-how is often the next step. The key word is *sharing*. Knowledge usually flows from the acquirer to the acquired. However, emerging multinationals make decisions using a best-in-class philosophy: Teams consider best practices, processes, and ideas

from both companies before choosing which ones to follow. To ensure that ideas travel both ways, Tata Steel and Corus created several forums in which employees could discuss and share technical know-how and best practices. As a result, Tata Steel implemented some Corus technologies – reducing the heating time of its coke ovens, for example, from 24 days to nine – and Corus picked up some Tata Steel technologies – reducing consumption of scrap and energy in its hot metal steel-making process, for instance.

Most emerging giants give overseas acquisitions the latitude to make strategy, but they align their planning templates and budgeting calendars with their own.

By synchronizing the strategy planning process, they're better able to coordinate and communicate about plans. India's M&M Group pushed the companies it bought in Europe and China to move to the Mahindra Annual Planning Cycle quickly. "We encourage our overseas acquisitions to move to the MAPC as fast as possible," explains Anand Mahindra, the group's vice chairman, "so that we are in step with each other and speak a common language."

It's tempting to leave the quest for synergy to middle managers, but senior executives are better placed to spot opportunities. For instance, a few executives from the Tata Group have joined their acquisitions' boards and vice versa.

## How Tata Chemicals Uses the Partnering Approach

**IN DECEMBER 2005**, Tata Chemicals – part of India's \$38 billion Tata Group – acquired Brunner Mond, a large soda ash manufacturer in the UK, and its Kenyan subsidiary, Magadi Soda, for \$170 million. Here's how Tata Chemicals has implemented the partnering approach.

### IMMEDIATE STEPS

Soon after the acquisition, senior Tata Chemicals executives held one-on-one meetings with key Brunner Mond and Magadi Soda managers and assured them that:

- They would retain all senior executives and employees.
- They would not change the companies' names, identities, or reporting setups.
- Tata would seriously consider issues related to Brunner Mond's pension plan liabilities – then a major concern of the acquired company's employees.
- Postacquisition decisions would be guided by a "best of three" evaluation philosophy, taking into account best practices, processes, and ideas from all three companies.

### THE FIRST 100 DAYS

In February 2006, senior executives from the three companies met in Mumbai to develop a 100-day plan. Teams made up of managers from all three companies identified 35 primary tasks, including:

- harmonizing the strategic planning process
- developing plans for servicing top global accounts
- aligning HR best practices and policies
- establishing communication and PR protocols

Before the meeting, Tata Chemicals issued communications guidelines for its executives:

- Talk about the Tata Code of Conduct and Business Excellence Model at every opportunity.
- Convey the group's core business values and commitment to society.
- Do not interact solely with Tata Chemicals people; make sure you mingle with your new colleagues.
- Avoid terms like "acquisition" and "ownership"; speak of "coming together" and "parentage."
- Avoid terms like "you" and "us"; say "we."

This has led to a greater flow of ideas and information and created natural opportunities for the acquirer and the acquired to work together.

**Top management.** Companies usually replace their acquisitions' top management teams as one of the first steps of integration. Beyond signaling the buyer's intent to change things, these actions also are a way of aligning the vision, strategy, and operating routines of the two companies. In fact, many experts believe that companies can create value from takeovers merely by replacing incumbent management teams with their own, more skilled managers.

Most emerging multinationals instead do everything they can to keep top

teams intact. That, they believe, shows the buyer's confidence in the company, its strategy, and the quality of its talent. It also dispels any notion that poor performance in some way led to the takeover. As a result, the acquirers don't lose human and social capital or the team's industry- and company-specific knowledge; in fact, they can harness all that for the benefit of both parties. Debu Bhattacharya, the CEO of India's Hindalco, which bought Novelis, admits: "We paid for Novelis's assets as well as its talent. Many of them are institutions in their areas of expertise." Familiar faces reduce postmerger uncertainty among customers, suppliers, and employees; indeed, this approach has the added benefit of creating a positive organizational climate after a takeover.

Is this a feasible strategy? Judging by the number of emerging giants that have been successful in retaining CEOs, it is. Brunner Mond's John Kerrigan, Godiva Chocolatier's Jim Goldman, Novelis's Martha Finn Brooks, NatSteel Singapore's Oo Soon Hee, Springs Industries' Tom O'Connor, and JECO Holdings'

co's acquisitions – they don't get much of a free hand. Moreover, it's clear who the buyer is – and who has been bought. By contrast, emerging multinationals rarely get involved in day-to-day decision making – even on key issues such as staffing or pricing – unless asked to do so. They assume that incumbent teams know their customers, organizations, and rivals best.

Such freedom slows the pace of change, but it has distinct advantages. Independence minimizes the likelihood of poor performance after a takeover; acquirers often make bad decisions because they don't understand the acquisition's business. It also helps prevent the decision-making paralysis that can set in when managers don't understand the acquirers' expectations. In addition, autonomy motivates executives to do better. Many of the CEOs we spoke to felt lucky to have a parent willing to invest in them, and also a tremendous responsibility to deliver results.

Some emerging multinationals have placed one or two of their senior executives in the acquired organization. The

## LONGER-TERM MEASURES

After the first 100 days, Tata Chemicals took some organizational steps:

- It set up a Global Chemicals Advisory Council, chaired by the managing director of Tata Chemicals and including eight senior members drawn from all three companies to guide strategy and policies.
- It constituted a three-member Business Heads Council, which is chaired by rotation. This group is responsible for coordinating operations, sales, and marketing strategies.
- The three companies have started sharing data, especially when they approach global customers.
- Tata Chemicals is helping Brunner Mond and Magadi Soda source equipment from Indian suppliers.
- The Tata Chemicals Innovations Center in India and Brunner Mond's new-ventures team are working together to find new business opportunities in Europe.

## Emerging multinationals assume that incumbent teams know their customers and rivals best.

Thomas Koerner all stayed on after being acquired by emerging multinationals. Jim Goldman explains, "The Ülker Group was up front. Its senior executives told me: 'We want to work with you; we believe in you; we want to know what you think we should do...Can you continue to lead Godiva?' I decided to give it a whirl. The relationship has continued to grow, and I'm still here three years down the line."

**Operational autonomy.** Most companies end up with precious little operational autonomy after they've been acquired. Even when they aren't integrated – as is the case with some of Cis-

co's acquisitions is not to oversee or second-guess CEOs but to act as bridges. They also help the acquired company's executives understand the new boss – and vice versa. Ülker placed one such executive in Godiva: "He makes sure that people at Ülker don't get in our way," explains Jim Goldman. "He'll make me understand where our chairman is coming from, and I'm sure he does the same at that end. Bringing him to New York from Istanbul was a good move."

**Vision and values.** Companies have traditionally been in no hurry to unify cultures and values following a merger.

The “soft” stuff is tough to tackle, so executives usually focus first on generating synergies. By contrast, most emerging multinationals communicate values, ethics, and business philosophies immediately after a takeover. That’s critical for this approach to work: Structural separation and operational autonomy deliver results only when an acquisition understands the parent’s values.

In the Tata Group, for example, acquired companies must immediately sign and practice the principles enshrined in the Tata Business Excellence Model and the Tata Code of Conduct. Says Satish Pradhan, the group’s executive vice president of human resources: “All the companies in the group must move ahead keeping in mind the Tata Group’s philosophy and value system.”

In the partnering approach, the corporate center acts as the custodian of values and business principles, provides support services, outlines the broad direction for major sectors, facilitates best-practice sharing between companies, and monitors performance. The center doesn’t thrust practices on the acquisitions; it works collaboratively, helping top management teams appreciate the benefits and encouraging them to implement key practices. “When we acquire a company, we do not go in like conquerors,” explains R. Gopalakrishnan, the Tata Group’s executive director. “We go in with a collaborative mind-set and seek alignment in terms of our values.”

Some companies create monetary incentives that help in achieving common goals, even when the acquisitions are structurally separate. For example, M&M initially took a majority stake in the companies it bought, keeping 51% and leaving the remaining equity for the previous owners or offering it to managers through stock options. Later, it floated a publicly traded corporation that held stakes in all the acquired companies. Shareholders, including executives of the acquired businesses, received shares in that company in lieu of those they held. Not only has there been

Respect for new ideas is critical; emerging giants resist the urge to impose their way of doing things.

greater cooperation between those companies since then, but M&M has found that senior managers are now more likely to take into account the interests of all the companies in the group before making decisions.

### Why Partnering May Be for Every Company

It’s interesting to speculate about how broadly applicable the partnering approach is. After all, some of the drivers of the approach are more characteristic of emerging multinationals. One, they often buy companies that own powerful brands or state-of-the-art technologies and have strong management teams, so

it’s natural that they would retain their acquisitions’ identities and management. Two, emerging multinationals’ resources and those of overseas acquisitions are often complementary – not substitutable. That’s why selective coordination has been enough to create value. Three, some emerging multinationals simply lack the capabilities to manage complex overseas integrations. Finally, the conglomerate management style that’s prevalent in emerging markets predisposes these acquirers to the partnering approach.

Context is critical, but before you dismiss the partnering approach as another emerging-markets curiosity, be advised

## Postmerger Approaches at a Glance

### Five Key Differences

Partnering differs from traditional postmerger integration in five important ways.

	INTEGRATION	PARTNERING
<b>Structure</b>	Absorb acquired company	Keep acquired company separate
<b>Activities</b>	Integrate core and supporting activities	Selectively coordinate a few key activities
<b>Top Executives</b>	Replace	Retain
<b>Autonomy</b>	None, or very limited	Near total
<b>Speed of Integration</b>	Rapid	Gradual

that some companies in the developed world have helped shape it. Cisco uses similar tactics to manage small entrepreneurial companies in which it invests, and Disney has done the same to get the most out of Pixar. The most striking prototype of the approach is, undoubtedly, the Renault-Nissan partnership. In 1999, when Renault acquired a 36% stake in Nissan (which it later upped to 44%), its senior executives emphasized that they weren't taking over the company. Although Renault did appoint Carlos Ghosn as Nissan's CEO then, it still saw the deal as a partnership that would maintain the two companies' distinctive practices and systems, yet allow them to capitalize on scale and synergy. Mutual respect for culture and individuality was paramount.


The two companies created several mechanisms to benefit from the union: an alliance board to decide policy issues and fashion strategy; deputations of some senior executives from each com-

pany to the other to oversee functions at which they excelled; and multitiered, cross-functional, and cross-company teams to identify areas of cooperation. Renault and Nissan shared best practices in product design, procurement, and manufacturing and, over time, consolidated chunks of their supply chain and manufacturing platforms. By 2006, both companies' sales, market share, and efficiency had shot up. Their respective market capitalizations grew by 300% between 1999 and 2006, while that of the global automobile industry rose by 27%. The global slowdown has affected Renault-Nissan, as it has all automakers, but the two companies' fate would surely have been worse had they not teamed up.

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The partnering approach does have limitations. The benefits usually associated with the coming together of two companies are slower to materialize. For instance, because of the acquirer's non-

intrusive nature, its capacity to achieve substantial cost reductions, especially by eliminating jobs and sacking employees, is limited. This approach therefore works better for companies that exhibit patience and have a relatively great willingness to take risks – a point that came up frequently in our discussions with senior executives, who noted that they are able to follow this approach because they're in it for the long run. Managers planning to use the practice should prepare stakeholders appropriately.

To conclude, some companies are better suited than others to adopt the partnering approach. Organizations with collaborative, inclusive cultures will have an easier time using the approach than companies with a hierarchical, command-and-control style. Senior executives in acquirer companies must be comfortable achieving goals through influence rather than control. The partnering approach requires leaders with a higher than average tolerance for ambiguity. Respect for new ideas is critical since executives must recognize the strengths of the acquired company and resist the urge to impose their way of doing things. These traits are encoded in the DNA of some organizations, but others will have to develop them. For instance, corporations that have experience managing strategic relationships with other businesses may have already acquired these skills. After all, the partnering approach embodies the best of both alliances and acquisitions. 

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## Who Should Partner

Some companies are more suited than others to the hands-off approach.

	INTEGRATION	PARTNERING
<b>What kind of resources does the acquired company have?</b>	The same or similar resources	Complementary, superior, or unique resources such as brands or technologies
<b>What will create value after the takeover?</b>	Reduction of costs by combining assets and activities, or gaining economies of scale	Growth in revenues by entering new markets or new products, and sharing best practices
<b>What kind of company is the acquirer?</b>	Hierarchical, with a low tolerance for ambiguity; a desire to teach; an emphasis on getting results	Collaborative, with a high tolerance for ambiguity; a willingness to learn; a long-term player

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