Making a bank marriage work: Overcoming the cultural barriers

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The continuing transfer of economic power from the developed world to Asia, the growth in Latin America and the interesting future perspectives in Africa are changing the dynamics of financial investment and acquisition in the banking sector. Increasingly, banks are more interested in 'exotic deals', looking to expand to new markets and access new customers. In KPMG's experience, though, more than two-third of those deals are failing to deliver value; when asked for the reasons, the large majority of the banks are blaming cultural issues.[1] Why do these integrations run into such problems? What does it take to make them work?

Cultural mismatches can threaten the success of any transaction. But when, for example, a Chinese or European bank makes an acquisition in an emerging market such as South America or Africa, we are dealing with a much more complex situation and the cultural differences are more difficult to reconcile against a specific set of deal objectives. The culture of a bank defines its standard set of behaviors, how banks operate and think, and the way that they view risk, judges value, incentivize its people, and their relationship and mode of communication with clients and customers; without basic alignment on these issues, no wonder value is not being delivered.

Figure 1 shows the outputs for a cultural assessment we conducted in a transaction of for a leading Eastern bank buying in the West. There were clear variances along a number of cultural axes, highlighting differences in the openness of communication, incentivization and resistance to change. Foregrounding these cultural paradigms allowed the buyer to plan clear mitigation strategies to manage the effect of a cultural mismatch and focus resources on the main deal objective – not having any impact on customers.

Do we keep management on day one or not? Do we keep management at all?

The biggest challenge is to know how far to pursue integration and how far to maintain cultural diversity as a synergy driver.

The answers to these questions at the beginning of the integration process will define the value that can be extracted from the deal and help sustain the fine balance between synergy delivery, staff happiness and customer satisfaction.

Many banks have jumped into integrating, or alternatively decided to do nothing at all, without spending enough time thinking about the strategic objectives of the deal, what they want to achieve and their vision of the future. It is easy to make the wrong decisions and trying to fix a failed integration is very difficult: in our experience, people are only open to significant change for the first six months or so.

For example, in a recent bank integration, the acquirer replaced the entire management team with some of its top talent from abroad. However, they failed to understand the local market, and were not able to deliver the planned synergies: the buyer had to leave the market after a couple of years. In another example, a buyer explicitly announced that no changes in the target should be expected, only to change its mind and launch radical changes a year after the transaction. This caught staff by surprise, destroying trust, creating resistance to further change and compromising the delivery of the planned deal objectives and synergies.

Traditional M&A planning and analysis normally focus on legal and financial aspects: tangible and intangible assets, revenue synergies, cost savings, potential for product and market reinforcement. However, companies also need to understand that cultural factors can critically affect the achievability of planned benefits. They can, for example, expose an acquiror to fundamental risks from existing practices and behaviors, a key concern in today's regulatory environment. Regulators are asking banks for more focus on mitigating the impact of a deal on levels of customer service, making it increasing important to get alignment on how both sides look at their customers. Incorporating cultural analysis into the evaluation and planning phase of a transaction is key to success.

Culture can drive value in a deal and help meet deal objectives. Rather than regard it as an incidental consequence of a transaction, acquirers need to see it as a central issue, able to mitigate risk and drive synergies. Understanding how a company makes decisions, how collaborative or competitive their teams are

1 KPMG GLOBAL SURVEY – A new dawn: good deals in challenging times, 2011

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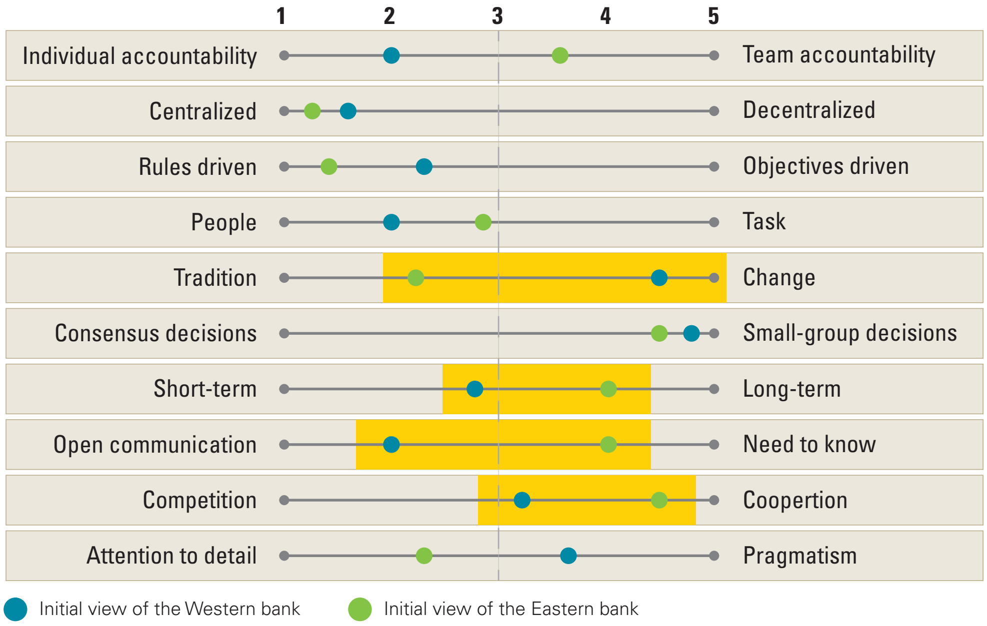
Figure 1 – Initial culture assessment of a leading Eastern Bank´s acquisition of a Western bank.



Source: KPMG International, 2013

or if they are driven by rules or objectives can actually determine whether cost synergies can be delivered, or whether a new product can be delivered into the market. Recently a Western bank acquired by an Eastern buyer mentioned to KPMG that, six months into the deal, they are still not sure who is actually in charge of making decisions.

Many respondents to KPMG's most recent global survey of M&A activity admitted with hindsight that they should have undertaken earlier and more robust integration planning, and paid more attention to human resources and cultural matters.

In short, three actions can help ensure value delivery on cross-border deals:

- upfront cultural assessment to identify and mitigate immediate cultural risks
- analysis of the potential impact of cultural issues on staff, linking it back to value, e.g. loss of key staff, followed by customers could lead to a delay in synergy delivery due to resistance to change
- use of culture difference as an explicit driver of value in the deal.