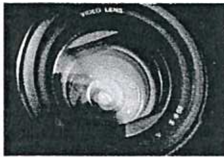
Post-acquisition integration unusually involves realizing efficiency gains, which often includes laying off some people. For example, after the merger, the company does not need two corporate headquarters, two corporate procurement offices, etc. Sometimes, some redundant business units need to be spun off as acquisitions swallow both the excellent capabilities and mediocre units of target firms.[28] Hence some acquisitions are followed by the disposal of selected business units. In this process, integration managers need to address the genuine concerns of many different stakeholders, who may fear loss of status, power or even their job, and who thus may try to undermine the efforts of the new owners. Insensitive management of these human aspects of M&As often results in low morale and key people leaving the company.[29]

In cross-border M&As, integration difficulties may be worse because clashes of organizational cultures are compounded by clashes of national cultures.[30] The French-Swiss *Lafarge-Holcim* merger almost unravelled because of conflicts of personalities and organizational culture between the boards of the two companies.[31] The French-American *Alcatel-Lucent* merger had to overcome cultural differences throughout both organizations. At a gathering at an *Alcatel-Lucent* European facility, employees threw fruit and vegetables at executives announcing another round of restructuring. The merger failed to produce the expected synergies, there were significant write-downs of *Lucent*'s assets, and eventually the episode cost both CEOs their jobs.[32] Even more difficult to manage are interfaces between Asian and American cultures, as *Nomura* painfully experienced (In Focus 14.1).



IN FOCUS 14.1

Nomura

In September 2008, *Lehman Brothers* went bankrupt. *Lehman*'s assets in Asia and Europe were purchased by *Nomura* for the bargain price of $200 million. Founded in 1925, *Nomura* is the oldest and largest securities brokerage and investment bank in Japan. Although *Nomura* had operated in 30 countries prior to 2008, it had always been known as a significant, but still primarily regional (Asian), player in the big league of the global financial services industry. The tumultuous year of 2008 became the opportunity of a lifetime for *Nomura*. Within a lightning 24 hours, CEO Kenichi Watanabe decided to acquire *Lehman*'s remnants in Asia and Europe. By cherry-picking *Lehman*'s Asia and Europe operations and adding 8000 employees, who tripled *Nomura*'s size outside Japan, Nomura transformed itself into a global heavyweight overnight. The question was: 'Does *Nomura* have what it takes to make this acquisition a success?'

The answer was a decisive 'No!' from *Nomura*'s investors, who drove its shares down by 70% by 2012. Since there was little evidence that *Nomura* had overpaid, the biggest challenge was post-acquisition integration, merging a hard-charging New York investment bank with a hierarchical Japanese firm practising lifetime employment.

Lehman's most valuable assets were its talents. To ensure that *Nomura* retained most of the talent, *Nomura* set aside a compensation pool of $1 billion and guaranteed all ex-*Lehman* employees who chose to stay not only their jobs but also their 2007 pay level (including bonuses) for three years. About 95% of them accepted *Nomura*'s offer. During the financial meltdown in 2008 and 2009 (which was triggered by *Lehman*'s collapse), many employees at other firms lost their jobs. The fact that *Nomura* guaranteed both jobs and pay levels was appreciated by ex-*Lehman* employees, who otherwise would have been devastated.

However, integrating *Lehman* introduced significant stress to *Nomura*'s long-held traditions. One key challenge was pay level. Most senior executives at *Lehman* made, on average, over $1 million in 2007. On average,

Nomura employees only received half the pay of their *Lehman* counterparts. Not surprisingly, guaranteeing ex-*Lehman* employees such an astronomical pay level (viewed from a *Nomura* perspective) created a major problem among *Nomura*'s Japanese employees. In response, *Nomura* in 2009 offered its employees in Japan higher pay and bonuses that would start to approach the level of ex-*Lehman* employees, in exchange for less job security – in other words, they could be fired more easily if they underperformed.

Another challenge was the personnel rotation system. Like many leading Japanese firms, *Nomura* periodically rotated managers to different positions. While these practices produced well-rounded generalist managers, they generated a rigid hierarchy: a manager in a later cohort year, no matter how superb his (always a male) performance was, was unlikely to supervise a manager in an earlier cohort year. *Nomura*'s conservative values and HR practices clashed with the hard-driving norms of an Anglo-American finance culture at *Lehman*: (1) key players were specialists with deep expertise but little knowledge of the organization as a whole, and (2) superstars were typically on a fast track, motivated by huge performance-related bonuses. Moreover, *Nomura* Europe was dominated by Europeans, whereas headquarters in Tokyo had an entirely Japanese top management.

Four years after the acquisition, the performance was disappointing. In 2009, *Nomura* moved its investment banking headquarters to London to demonstrate its commitment to break into the top tier. In Europe, *Nomura* became by 2011 number 13 in underwriting equities and number 15 in advising on mergers. In Asia outside of Japan and in the United States, it was a distant number 24 and number 22, respectively, in underwriting equity offerings. In contrast, *Nomura*'s dominance in Japan was strengthened by the *Lehman* deal. *Nomura*'s market share in advising Japanese acquirers that made deals overseas shot up from 10% in 2007 to 25% in 2011.

Integration continued to be *Nomura*'s headache number one. Outside Japan, *gaijin* (foreigners) were running most of the show. *Nomura* undertook a campaign to expunge the long shadows of the *Lehman* hangover. Both symbolically and comically, mentioning the 'L'-word (such as 'This is how we did it at *Lehman*') during senior executive meetings in London would cost executives £5 every time – they had to toss the money into a box as a penalty. In 2012, Jesse Bhattal, a former Asia Pacific CEO of *Lehman*, who rose to deputy president of the *Nomura* group, resigned amid heavy losses. Bhattal got frustrated about his interactions with the board, and failed to agree how to reposition the operation in view of ongoing losses. His resignation was one of many bye-byes of ex-*Lehman*ites after the pay guarantees ran out in 2010. Following massive cost cutting in the European operations in 2012, a smaller and more integrated *Nomura* Europe finally turned the corner in 2014, six years after the acquisition.

Sources: (1) *Bloomberg*, 2012, Nomura reeling from Lehman hangover, February 28; (2) E. Choi, H. Leung, J. Chan, S. Tse & W. Chu, 2009, How can Nomura be a true global financial company? Case study, University of Hong Kong; (3) *The Economist*, 2009, Numura's integration of Lehman, July 11; (4) A. Huo, E. Liu, R. Gampa and R. Liew, 2009, Nomura's bet on Lehman, case study, University of Hong Kong; (5) S. Baker & T. Hyuga, 2012, Nomura reeling from Lehman as Shibata vows not to retreat, *Bloomberg*, February 28; (6) M. Arnold & D. Schafer, 2014, Nomura's London are rises from Lehman legacy, *Financial Times*, September 14.

Acquisitions vs strategic alliances

strategic alliances Collaboration between independent firms using equity modes, non-equity contractual agreements, or both.

business unit JV A JV in which existing business units from two firms are merged.

An alternative to a full takeover of another firm is collaboration with that firm, also known as strategic alliance. We have already discussed one form of strategic alliance, namely joint ventures (JVs), as a means to enter new markets (Chapter 12). Here we look at two further forms of strategic alliances: (1) business unit joint ventures (JVs), and (2) joint production, marketing or distribution arrangements.

First, some major MNEs pool their activities in specific industry segments with a competitor or another firm offering complementary resources. For example, *Ericsson* formed a business unit JV with *Sony* to develop and market mobile phones, combining *Ericsson*'s technological expertise and *Sony*'s design competences. Similarly, *Nokia* has pooled is network operating systems with *Siemens* in *Nokia Siemens Networks*, and *Siemens* pooled its white goods business with *Bosch* in *Bosch-Siemens-Hausgeräte*, while competing with *Bosch* as an automotive supplier. Why do companies pool business units in such a JV under shared ownership?